

Country Strategy for Development Cooperation **Indonesia**

1 January 2000 – 31 December 2004



Country Strategy for Indonesia

1. Introduction

The present country strategy aims at establishing the direction for Swedish development cooperation with Indonesia for the period 2000–2004.

2. Summary

Indonesia has a population of over 200 million and the world's largest Muslim population. From the late 1960s, the country experienced a prolonged period of dramatic economic growth accompanied by a rise in prosperity that benefited large sections of the population. Between 1965 and 1996, the proportion of Indonesians living in poverty fell from over 50 per cent to just over 11 per cent. The profound economic crisis suffered by Indonesia in 1997 revealed significant structural weaknesses in the Indonesian economy and left as much as 20 percent of the population below the poverty line. The economy has taken its first tentative steps towards recovery, which is a precondition for maintaining the progress achieved in the social welfare sector.

1999 was a watershed year for Indonesia. It saw the first free parliamentary elections in more than 4 decades and the onset of a process of political renewal. The election of President Wahid in October 1999 and the subsequent appointment of a coalition government marked the country's first critical steps towards the establishment of a democratic society. A new set of values, centred on respect for human rights, is taking root in Indonesian society.

However, the need for extensive reform remains. The country's administrative apparatus must be radically overhauled if Indonesia is to develop into a society based on the rule of law. In the absence of effective administrative and judicial systems worthy of the name, respect for existing legislation will remain limited. The new Government has given high priority to issues relating to governance and the fight against corruption. Decentralisation of political power, another important challenge for the Government, is a precondition for the resolution of regional conflicts within the country.

It is in Sweden's interests to support the ongoing reform process. Development cooperation can contribute to the impetus for reform in Indonesia. Cooperation can also help develop relations between Sweden and Indonesia and create numerous points of contact across a wide spectrum.

Specific goals for development cooperation with Indonesia in 2000–2004 – based on overall Swedish development assistance objectives – should be to support reform processes and institutional development aimed at:

- the democratic development of society now under way and respect for human rights, and
- environmentally sustainable development

During a transitional period, development cooperation can also focus on relieving the effects of the economic crisis on poorer sections of the community.

3. Assessment

3.1 Conclusions of the country analysis

Background

With just over 200 million inhabitants and more than 17,000 islands, Indonesia is the largest and most densely populated country in south-east Asia. The Suharto coup of 1967 was followed by a period of intense economic growth. In 1965, Indonesia was one of the world's poorest countries, with a per-capita income of USD 50. Over the following three decades, the Indonesian economy recorded an annual growth rate of 6 per cent, a development that helped to raise large sections of the population out of poverty. By 1996, per-capita income had topped USD 1,000 while the proportion of people living in conditions of absolute poverty fell from over 50 per cent to 11 per cent over the same period. Despite the rapid pace of development, inequality of income has not risen appreciably since 1965. The number of very rich and very poor people is not particularly large.

Throughout this period, the Government consistently promoted favourable economic and political conditions for foreign and domestic investment and focused on raising basic living standards, particularly in the fields of health and education. Population growth slowed following a successful nation-wide family planning programme and infant mortality fell sharply. In recognition of its social and economic benefits, a high premium was placed on education. Illiteracy among the younger section of the population had virtually disappeared.

On the other hand, the Suharto era, which lasted 33 years, was known for its harsh attitude to dissidents. Democracy remained a dead letter and human rights violations were common. From its inception, the Suharto regime was

rife with corruption and nepotism, from which members of the President's own family and close associates benefited extensively. Burgeoning crony capitalism paved the way for the bubble economy which was to burst in 1997.

The crisis

During the summer and fall of 1997, Indonesia was drawn into the Asian crisis with disastrous consequences for its economy, which ultimately suffered far more than those of its neighbours. In addition to an inflation rate of 80 per cent, 1998 saw an 80-per-cent drop in the value of the country's currency, a 14-per-cent fall in GDP and a dramatic rise in unemployment and poverty levels. One explanation for the severity of the crisis in Indonesia was the rapid rise in the number of unhedged short-term loans in the private sector, combined with long-recognised deficiencies in the banking system. The financial crisis was aggravated by the weakness and corruption of the government administration. The crisis now appears to have bottomed out and a tentative recovery seems to be under way. However, a number of factors continue to hamper Indonesia's development. Following the reconstruction of the banking sector, the central government debt, previously some 40 per cent of GDP, rose to over 90 per cent. Interest and repayments on the debt now amount to 5 per cent of GDP, equivalent to half of all normal government revenue. In the circumstances, Indonesia will continue to depend to a considerable extent on support from the international community.

The number of poor Indonesians has increased significantly since the economic crisis. According to the World Bank, the proportion of people living in poverty has risen from 11 to 20 per cent. The number of people living just above the poverty line is also substantial. A small upward adjustment in current poverty-defining criteria would produce a dramatic increase in the number of poor people. Worst hit in relative terms were families in the middle and high-income brackets, principally those living in urban areas, where unemployment has risen sharply. Women have been affected to a greater degree than men.

The crisis also had a direct and immediate impact on social welfare provision and community services. In the school sector, falling enrolment and attendance figures and a rising drop-out rate have been accompanied by a general decline in standards. The disparity between the numbers of boys and girls enrolling in and completing the compulsory six-year school system has widened. Surveys reveal more widespread malnutrition and higher incidences of maternal mortality. The number of patients in publicly run care institutions at local level has fallen as resources have dwindled. Economic recovery is essential if the gains achieved in the social welfare and community services sectors are to be conserved.

The crisis has also led to increased prostitution. Although the number of reported HIV cases is still comparatively small, the disease could prove a

major health problem in view of the traditional reluctance to discuss sexual issues openly.

Political reforms

Suharto's resignation following widespread popular protest led to substantive changes in the political ground rules. Under Suharto's successor, Habibie, new legislation opened the way for the first democratic parliamentary election in Indonesia since 1955. The new laws defined the framework for the country's Parliament (DPR) and the People's Consultative Assembly (MPR). The Parliament has 500 members. The People's Assembly, the country's principal decision-making body with responsibility for appointing the President and consists of the members of Parliament plus an additional 200 indirectly elected members representing the provinces and a number of 'functional groups'. In October 1999, following the parliamentary election held on 1 June, the Assembly appointed Adburrahman Wahid ('Gus Dur') president of Indonesia. Megawati Sukarnoputri, the daughter of Indonesia's first president, was appointed vice-president. The election opened the way for continued democratic development in Indonesia.

Public Administration

The government administration is for the most part overstaffed and overdimensioned. Civil servants are typically underpaid and the administration is beset by the same ingrained, pervasive corruption prevailing in the community at large. Women are consistently underrepresented in senior administrative posts. During the Suharto years, members of the President's immediate family were widely associated with corruption.

The judicial system lacks independence and is rife with corruption and susceptible to outside influences. The failure of the authorities to act in a series of widely publicised cases has not improved the credibility of the judicial system in the eyes of the public. There are some positive tendencies, however, and for the new Government the reform of the judicial system will be a priority task. However, the old system is still firmly entrenched and human rights violations continue undeterred. Far-reaching reforms within the judicial system will be necessary if Indonesia is to become a democratic state based on the rule of law with a culture free of corruption.

The new Government has underlined its determination to change the role of the armed forces and place them under democratic control. The direction of the political dialogue now in progress suggests that the military will eventually relinquish the dominant role it has long played in civil society to focus on its primary function. The transition, which will be gradual, is certain to be a source of periodic tension between the civil and military authorities.

Regional conflicts

The Indonesian armed forces stand accused of grave human rights violations in regions where demands for independence have been the most insistent –

Aceh, Irian Jaya and of course East Timor, particularly during the referendum on independence for the territory. Hundreds of people have died in riots and disturbances in these areas; in Aceh alone over 2000 people are thought to have been killed in clashes with the armed forces since 1989. Independence supporters in Irian Jaya have been subjected to similarly brutal treatment although disturbances there have been less widespread. The bloody and intractable conflict in the Moluccas can be traced back in part to the Suharto regime's 'transmigration' programme, which involved the resettlement of whole populations from densely populated Java to more sparsely inhabited areas. These mass relocations ultimately led to ethnic and religious conflicts between the new settlers and the original inhabitants. A coherent government policy is needed to deal successfully with demands for independence, human rights issues and increased autonomy accorded to areas such as Aceh and Irian Jaya. The risk of a break-up of Indonesia as a national entity is seen as a problem for the country and the region as a whole. The new Government has shown its determination to seek solutions to the country's regional conflicts by peaceful means and through reconciliation. It has also admitted that the armed forces and civil authorities were guilty of human rights infringements and has begun to investigate allegations to this effect.

In 1999, seventeen districts in Indonesia were classified by the United Nations Development Programme (UNDP) as "high-risk areas" in terms of potential social unrest. In most cases, the risk involves outbreaks of violence sparked off by underlying ethnic, religious and political antagonisms. The mass migration of people from densely populated Java to other parts of the Indonesian archipelago is one source of inter-ethnic conflict. However, the economic crisis may also be a contributing factor. There are grounds for assuming that internal strife and disturbances will continue. These will affect the country's political and economic development in many ways.

Human rights

New constitutional laws have paved the way for a transition to a system based on parliamentary democracy and decentralisation of political influence and resources. Freedom of organisation has resulted in a more vigorous civil society with a host of new organisations. National human rights organisations can operate freely and are playing an important role in public debate. The media has succeeded in retaining the freedoms it seized when Suharto resigned in 1998, and freedom of the press has been cemented by a new Press Act.

The Assembly has adopted a new human rights law, which among other things affirms the authority of the national Commission on Human Rights, and President Wahid's new Government includes a minister for human rights. Work in connection with the National Action Plan for Human Rights continues. Ratification of the Covenants on Civil, Political, Economic, Social and Cultural Rights is expected to take place in 2000.

Violence against women, particularly in the home, appears to be on the rise, partly as a result of growing social problems. Rape within marriage is not punishable by law. A national commission on violence against women was established by presidential decree in the autumn of 1998. The Commission's brief is to coordinate and enhance efforts to stop women-battering and provide support for victims.

Property rights in respect of land in Indonesia are poorly defined. No central system exists for registering property ownership and powerful interests were often licensed to acquire land for purposes approved on an *ad hoc* basis by the authorities. In systems where corruption is endemic, the poor become potential victims of arbitrary measures by people in authority and are often forced to give up land for which they receive little or no compensation.

The environment

In addition to an economic crisis, south-east Asia – and Indonesia in particular – was critically affected by the weather phenomenon *el Niño* in 1997, with widespread drought and extensive devastation from forest fires as a result. The economic crisis has heightened the strain on Indonesia's natural resources. Exports of products based on natural resources have been stepped up in an effort to boost foreign exchange inflows. The forestry sector is particularly susceptible to such trends. There is a risk that the problems besetting the country's forests will be exacerbated in the short and medium term by illegal logging and burning on a massive scale, as a result of the economic crisis combined with a weakened central administration. Furthermore, agriculture and coastal areas are under considerable stress. Air pollution in urban areas has long been a growing problem. In certain areas, pollution of both sweet and sea water is a serious problem. The environment in Indonesia had suffered extensively from rapid industrial development even before the economic crisis. The new Government has indicated its resolve to act vigorously in the forestry sector.

Whereas Indonesia's environmental legislation is inherently sound, implementation is far from adequate. Compounding the lack of requisite expertise, infrastructure and public funds is a neglected and debilitated judiciary system and the fact that any fines imposed fall far short of the profits to be made from illegal activities. For example, illegal logging is common even in the country's national parks. The Ministry of Environment has a weak position within the Government and often has to fight an uphill battle with stronger Ministries with other – often economic – interests.

Development cooperation

By far the country's biggest donors are Japan, which accounts for a third of all development assistance, the World Bank and the Asian Development Bank each of which has allocated USD 1 billion to Indonesia in 2000. The largest single EU donor countries are Germany and the United Kingdom. All UN

organisations have operations in Indonesia. A number of international NGOs are also active in the country. Support from these organisations and countries embraces economic reforms, poverty alleviation, civil society development, democracy and human rights enhancement, and sectors such as health care, the environment, forestry, etc. A new partnership initiative by the United Nations Development Programme (UNDP) and the World Bank aims to promote long-term development of institutions as part of the work of promoting democratic governance. The number of humanitarian projects in different parts of the country has risen. Donors at an international donor conference held in Djakarta in January this year pledged a total of USD 4.7 billion for 2000.

3.2 Conclusions from the statement of operations

Swedish development cooperation with Indonesia began in 1986. Total assistance for the period 1997–1999 amounted to approximately SEK 39.5 million. The figures for 1997 and 1998 were SEK 10.0 and 4.8 million respectively. Approximately SEK 24.7 million were disbursed in 1999.

Development cooperation financed by the Swedish International Development Cooperation Agency (Sida) has been guided by *Approaches to Development Cooperation with Indonesia*, a set of guidelines drawn up in 1997. These define the general aims of development cooperation as the development of democratic societies and the improvement of standards of operation in the public sector. The main forms of cooperation envisaged were contract-financed technical cooperation, courses and support for democratisation. The economic crisis and the political upheavals of 1998 prompted a sharp rise in support for democratic development. In addition, Sida extended support to civil society projects aimed primarily at alleviating poverty.

The period since 1997 has seen a gradual expansion of contract-financed technical cooperation. Projects cover a range of sectors; on the whole, results have been favourable. Transfer of Swedish know-how and technology has taken place in a number of areas, particularly in the environmental sphere. However, this type of cooperation has not always run smoothly and there have been difficulties in generating new, worthwhile projects. One problem appears to be the lack of carefully nurtured, long-lasting relations between companies and institutions in the two countries.

Support for democratisation has been extended to NGOs and through the UN, mainly in the form of assistance in connection with the first free election in Indonesia in 30 years, held in June 1999. The election, which was found to be free, fair and effectively organised, represented a significant step in the reform process. For a number of years now, support has been extended to LBH, the largest human rights organisation and a prominent and vocal advocate of human rights, even under the Suharto regime.

During 1999, in response to the economic and social crisis, substantial support for poverty alleviation was channelled through the UN to NGOs active in the community. However, it is still too early to assess the effects of these contributions.

A number of smaller projects in connection with the forest fires that devastated large parts of the country in 1997 contributed to an effective disaster management operation and helped set up a strong contingency capability for future emergencies.

During the reporting period, a series of international courses held in Sweden on a range of subjects – principally relating to the environment, industry and energy sectors, but also including democracy and human rights – were attended by approximately a hundred people. Specially tailored courses were held in Sweden and Indonesia.

3.3 Indonesia's development policy

The new Government under President Wahid has declared its intention to pursue and further develop the previous government's macro-economic reform policies in close cooperation with the World Bank and the IMF. At the same time, it is clear that a new set of values centred on respect for human rights has impressed itself on Indonesian society and the Government's undertakings. The development of Indonesia is predicated on internal reconciliation, resolution of country's regional conflicts and success in regaining the support of the international community and attracting renewed investment through continued economic reform and a radical overhaul of the Indonesian state as we know it. Improving the judicial system must be a priority objective if Indonesia is to be a society governed by the rule of law. Combating corruption in the judiciary and government administration is seen as essential not only to the Government's credibility internally, but also to the country's ability to attract foreign capital. The Government has also underlined the importance of raising living standards and reducing inequalities between rich and poor. Apart from democracy and human rights, three areas have been highlighted in connection with Indonesia's development in the medium term: macro-economic equilibrium, institutional reform and decentralisation.

Measures designed to further stimulate the economy after the crisis have merely increased the country's debt burden. Meanwhile, the Government has called attention to the need to switch from stimulation to *macro-economic balance*. The national debt at the beginning of 2000 stood at 90 per cent of GDP. Special crisis measures will be phased out. The Government has announced vigorous measures to increase its revenues, while ineffective subsidies will be abolished in an effort to cut public expenditure. The role of the central bank has been made more independent, with greater price stability as a result. Indonesia has meanwhile embarked on a comprehensive and highly expensive restructuring programme involving the entire financial

sector including the banking system. The Government has declared that maintenance of infrastructures, in particular the transport and water supply systems, and delivery of social services, primarily education and health care, have been severely affected by the economic crisis. These areas are regarded as especially important in the context of continued, long-term economic recovery. In the field of education, the Government has stressed the importance of special programmes aimed at getting children back in school. In the health care sector, preventive health care and the conservation of existing systems have been accorded special priority.

Reforming the country's institutions will prove a major challenge for the Government. That Indonesia suffered more than other economies in the region from the effects of the Asian crisis was due in no small part to the weakness of its institutions. According to the Government, good governance is crucial for two reasons: it is crucial to the Government's legitimacy and it is a condition of long-term economic health. In addition to new laws and standards, the Government has highlighted the importance of skills development in the country's judicial system. The Government concedes that standards of education and training, particularly in relation to the judicial system and authorities responsible for the administration of justice, have been neglected. Civil society and a free press are regarded as vital players in continued efforts to bring about reform. The Indonesian Government acknowledges the prevalence of corruption in the country, and the implementation of anti-corruption measures aimed at establishing a corruption-free culture is now on its agenda. A decisive step in this process is the abolition of special privileges, such as special tax concessions, subsidised credits, enjoyed by special interests with close links to the political establishment.

Decentralisation is high on the government agenda. According to the Government, newly adopted laws reflect a determination to abandon the excessive centralisation of administrative and political control. This is expected to yield potentially significant gains in terms of local ownership of the political process and enhanced efficiency. In the Government's view, increased local control over the flow of resources will lead to greater regional disparities, necessitating some form of equalisation system. The environment and transport are cited as examples of cross-border issues requiring efficient institutions and mechanisms for conflict resolution.

3.4 Strategic considerations

Its size and economic importance make Indonesia a significant player in south-east Asia. The economic and political reform process set in motion since Suharto's fall has created new opportunities for Swedish-Indonesian cooperation. According to the Swedish Strategy for Asia, Sweden's relations with Indonesia should be broadened and intensified. The Strategy emphasises the importance of promoting the Indonesian reform process through increased international cooperation between Sweden and Indonesia. Particular stress is placed on the judicial system and the environment.

International assistance to Indonesia has increased appreciably since 1998 and will continue to play a significant role in the country's development in the coming years. In relation to other donors, the level of Swedish development assistance to Indonesia is limited. Therefore strategic choices rather than volume will determine the importance that Sweden's development cooperation can play in Indonesia.

Swedish cooperation efforts should be focused on specific areas and smaller projects where Sweden can provide relevant and sought-after know-how and expertise as a complement to support from the major donors. Areas where Swedish support has produced positive results are the environment and natural resources. Swedish know-how in fields such as forestry and land surveying may also prove relevant.

Functioning institutions are crucial to Indonesia's development as a democratic society governed by the rule of law. The UNDP-World Bank Partnership to Support Governance Reform in Indonesia is one of several interesting projects. An efficient and corruption-free government administration and an independent judiciary are basic prerequisites for sustainable economic development as well as for progress in other important areas, above all the environment and human rights. The mass media and NGOs are also significant factors in Indonesia's democratic development.

The risk of continued regional conflict in Indonesia remains real. The geographical, ethnic and religious divisions in the country are potential sources of serious conflict. The need for humanitarian assistance could arise. Decentralisation of political power is a part of the reform process and may assume a special role in that process.

4. Strategy for future development cooperation

4.1 Objectives

Specific goals for development cooperation with Indonesia in 2000–2004 – based on overall Swedish development assistance objectives – should be to support reform processes and institutional development aimed at:

- the democratic development of society now under way and respect for

- human rights, and
- environmentally sustainable development

During a transitional period, development cooperation can also focus on relieving the effects of the economic crisis on poorer sections of the community.

4.2 Areas of cooperation

Cooperation should focus on support for the reform of institutions and processes of significance to Indonesia's democratic and economic development, and on activities and processes that promote the sustainable use of natural resources. To heighten the effect of reforms, support can be provided for skills and capacity development aimed at enhancing efficiency and democratic governance in different areas of government administration. Support can also be extended to players in civil society – including the mass media – capable of imparting added momentum to the reform process.

4.3 Forms of cooperation

Development cooperation should mainly consist of international courses organised by Sida, contract-financed technical cooperation and, where appropriate, credits for specific projects deemed to accord with the country strategy's intentions. These forms of cooperation can be supplemented by special efforts to promote democracy and human rights. Alternative assistance can be explored if and when conditions are appropriate.

Broad Indonesian participation in the course programme, within the subject areas addressed by the country strategy may be regarded as a contribution to the reform process and could lay the ground for continued contract-financed technical cooperation. Courses on subjects in particular demand can be held locally in Indonesia.

Sida support to the Swedish Institute includes provision for the exchange of experts between Sweden and Indonesia.

The operations of Swedish NGOs in Indonesia are not extensive. The growing civil society would benefit from greater interest on their part.

4.4 Volumes

In response to the Indonesian reform process, development assistance climbed to approximately SEK 25 million in 1999. Provided funds are available and the reform process continues, and the results of Swedish participation in that process are favourable, this figure could well increase. The maximum threshold however is SEK 50 million per year, not including credits, during the period covered by the strategy.

4.5 Administrative consequences

To date, administrative work in connection with development cooperation with Indonesia has required the services of one Sida employee working slightly less than full time. Development cooperation with Indonesia should be structured so as to preclude any appreciable increase in capacity consumption at Sida.



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