

Putting people first: A compact for regional decentralization

Faced with economic crisis, social unrest, and the daunting prospect of decentralization, Indonesia urgently needs to build a new social consensus. An important contribution to this – establishing common rights and standards for all Indonesians – could be a national compact on human development.

Indonesia's transition has multiple dimensions, social, political and economic. But underlying all these is a fundamental shift in values and perceptions. A more articulate and more assertive population is no longer willing to tolerate domination by a small political elite. A more urbanized society, informed by an ever more diverse range of national and international media, is far less willing to take political pronouncements on trust. Above all there has been an explosion of expectations as people sense the possibility for a different kind of future both for themselves and their families – and for Indonesia in the world.

Many people would see such developments as profoundly destabilizing – and in many respects they are. All the evidence points in that direction. Indonesia will be a more fluid and less predictable country for some years to come. Yet a shift in values can also be an enormous strength and open up fresh possibilities. People who are more conscious of their own rights can also discover common needs and interests – and aspire to ideals that transcend issues of class, or religion, or ethnicity.

In the past, consideration of 'human rights' in Indonesia has typically been confined to demands for political freedom or protection from oppression. These are vitally important. Many Indonesians have themselves been victims of arbitrary arrest and torture. But people can also assert other, 'economic' rights – to food, say, or to health, or to work, or more broadly they might claim a 'right to development'.

While governments are willing to guarantee political rights, they have been more reluctant to take responsibility for economic rights. Political rights, have been seen as 'negative rights' that demand that the state merely desist from infringing on human liberty. Thus they can be fulfilled fairly inexpensively. The economic and social rights, on the other hand, are more 'positive' in that they require the

state to do something – to provide health care, say, or housing, or employment – a more expensive proposition.

How could the government of Indonesia possibly make such generous provision for all its citizens? Clearly it cannot. A rich state, with a per capita income of \$20,000 or more might be able to offer extensive welfare guarantees. But Indonesia with a per capita income in terms of purchasing power parity of \$2,300, and with one-quarter of its population below the poverty line, is struggling to provide even the most basic services.

Similar doubts have arisen in poor countries all over the world, where the promotion of economic rights has foundered on the hard question of who has a duty to fulfil them. Who is supposed to provide the food, or the work, or the health care? But as UNDP's global *Human Development Report* for 2000 points out, people should not be disqualified from asserting their rights simply because these rights cannot easily be fulfilled. All rights do not have to be paired with corresponding duties. Such an attitude is doubly destructive since it denies not only the rights themselves but also all hope of ever achieving them.

A better approach is to see the assertion of rights as the first step towards fulfilment. Simply identifying such rights brings them to the forefront of public consciousness and starts to build acceptance and support. A striking example of the rhetorical value of asserting rights is the 1990 Convention on the Rights of the Child. Indonesia, along with almost every other government, has ratified this Convention, which commits the government to achieving targets on malnutrition, for example, on water supply, and maternal mortality. These are ambitious goals, and it is clear that many of the targets set in 1990 to be achieved by 2000 have not been fulfilled. But others were, and the promises as yet unfulfilled remain as clear intentions.

In many ways Indonesia's multi-faceted transition has already been driven by an assertion of rights. When people emphasize their regional or ethnic identity they are not just demanding greater autonomy or political freedom, they are also saying that some of their most basic social and economic rights have yet to be fulfilled.

Decentralization

Governments can have many different reasons for decentralizing – to increase the efficiency of public services, for example, or to allow for greater local participation. But in most countries in recent years the principal motivations seem to have been political—to try to quell regional discontent from provinces wanting greater autonomy.

In Latin America and Africa, for example, decentralization has been a part of the democratization process as military or autocratic regimes have been replaced by democracies. Similarly in the transition economies of former socialist states, the disappearance of the central government has given a much stronger say to regional administrations. In East Asia some governments have also chosen this route as a better way of delivering services to large populations.

Conventionally there are three types of decentralization:

Deconcentration - This is the weakest form and often just shifts responsibilities to field administrations or to local administrators who are closely supervised by central governments.

Delegation - This involves transferring decision-making and administration to semi-autonomous organizations. These can be regional bodies but they can also be public corporations.

Devolution - This is the strongest form and entails transferring some authority for decision-making, finance, and management. In this case local governments can elect their own leaders, raise their own revenues, and make their own investment decisions.

Indonesia's decentralization amounts to devolution. Two laws passed in 1999 – 22 and 25 – give much more autonomy and spending power to the regions. These provide for legislative assemblies at both provincial and district level. The district assemblies, the kabupaten and the kota, will then elect the district heads, respectively the bupati or the wali kota.

In future the regions will receive a much larger General Allocation Grant, which will be a minimum of 25% of domestic revenue. The government will give 10% of this to the provinces and 90% to the districts. There will also be some specific grants. In addition, the regions that are well endowed with natural resources, particularly oil and gas, will be entitled to keep a share of these revenues. The World Bank estimates that the regions will ultimately be responsible for 40% of government spending.

Some of the most difficult issues on decentralization concern the abilities of districts to raise their own taxes and to borrow. Already districts anxious about their budgets have been introducing new taxes on local businesses. And there are concerns that if districts start to borrow funds this will further hamper the central government's ability to control the money supply and inflation. There are also worries that the bupati and the wali kota may be reluctant to invest in social services, seeing these as simply adding to their costs while not producing net revenue.

On top of this there are questions of capacity – whether the districts will be able to manage their new responsibilities. There are also concerns for equity, since those regions with more natural resources can now take greater advantage of these to move further ahead of poorer regions.

All these demands are related to the two critical issues that have been raised in this report – the fate of Indonesia's democracy and the prospects for Indonesia's economy. As the previous chapters have emphasized, these are not separate issues. Without an open and transparent democracy, Indonesia is unlikely to be able to attract the kind of investment needed to lift the economy to the next level of production. And without a functioning economy that can offer adequate employment and incomes, the country is likely to suffer from social and political unrest for some years to come.

Democratic freedoms and economic progress are linked in many ways but they converge most clearly when it comes to human development. Only with higher standards of human development will Indonesia be able to weave that intricate web of institutions, attitudes and understandings upon which complex modern democracies depend. Only with higher standards of human development will Indonesia be able to create a broadly-based, productive economy.

Responsibility passes to districts

The Indonesian Government is already party to many international conventions that commit the state as a whole to certain overall development goals. So the fulfilment of rights is generally assumed to be a national issue. But the picture has been dramatically altered by Indonesia's ambitious plans for decentralization. Because even if the central government takes overall responsibility for the welfare of its citizens, in future the responsibility for organizing and delivering the services will fall on over 340 districts.

Decentralization on this scale is a mammoth logistical undertaking. It will probably take some years before the administrative and fiscal relationships between the central government and the regions are clearly established. And will take a similar period to gather at the district level sufficient people with the training and capacity to take on many new responsibilities and duties. Decentralization also poses risks. One concerns equity. Given greater fiscal

Box 5.2

Outcomes of decentralization around the world

	Participation by, and Responsiveness to, the Poor	Impact on Social and Economic Poverty
West Bengal, India	Good: improved participation and representation, improved responsiveness.	Good: positive on growth, equity, HD; evidence lacking on spatial equality.
Karnataka, India	Fairly good: improved representation, but participation of poor less effective and responsiveness low	Neutral: did little to directly help pro-poor growth, or equality; HD and spatial equality indirectly benefited from funding allocation and development programs
Colombia	Fairly good: evidence on participation/representation ambiguous, but responsiveness improved.	Fairly good: little evidence on growth or equity, but good results on HD, spatial equity.
Philippines	Mixed: representation and participation improved through people's organizations and NGOs, but evidence on responsiveness contested, local elites still dominant.	No evidence presented.
Brazil	Little evidence, but thought to be poor as spoils/patronage system run by powerful Mayors and Governors still dominant.	Good on equity, HD in exceptional areas where state or federal programmes combined with decentralization; poor generally on spatial equity.
Chile	No evidence presented.	Mixed: growth. Equity good as result of targeting, but evidence on HD, spatial equity contested, tends to show negative effects.
Cote d'Ivoire	Poor: participation and representation low, responsiveness very low. areas.	No evidence presented, but spatial equity probably improved through government allocation to rural areas.
Bangladesh	Poor: some improvement in participation, but very negative on representation of poor, responsiveness low.	Very poor on all criteria, undermined by corruption and political patronage.
Ghana	Fairly poor: participation by poor and community groups improves, limited improvement in representation, but responsiveness low.	Limited evidence shows that resources involved too insignificant to have made much impact. Spatial equity may have improved through government allocation.
Kenya	Very poor: politically-run deconcentration scheme.	Some impact on spatial equity through politically motivated redistribution.
Nigeria	Very poor: low participation and representation, very bad record of responsiveness and lack of accountability.	Poor: very bad record on equity, HD; spatial equity subject to political manipulation and urban bias.
Mexico	No evidence presented, but assumed that party-dominated patronage system remains little changed.	Poor in spite of significant central funding allocations: equity, spatial equity and HD undermined by political patronage considerations and 'basketball court' syndrome.

Sources: Crook and Suerrisson (1999)

autonomy the districts better endowed with physical and human resources could use these to pull further ahead of the rest of the country.

The international experience on decentralization offers salutary warnings and valuable lessons. One study of 12 countries, for example, found little evidence for the contention that decentralization empowers more people, reduces poverty, enhances human development or mitigates spatial equality. The results are summarized in Box 5.2. This and other studies confirmed one of the dangers of decentralization in developing countries – that far from strengthening local democracy, the process can end up reinforcing the power and influence of local elites.

Paradoxically the key to successful decentralization is

the attitude and behaviour of the central government. Is the centre ideologically committed to human development for all regional communities? Does it actively support local political initiatives to challenge the power of elites? Is it prepared to work out a detailed strategy for decentralization and to conscientiously amend this according to local needs and circumstances?

Indonesia's past success in narrowing regional inequalities are a strong basis on which to build. But this achievement may also engender complacency – an assumption that the proclamation of decentralization will on its own be sufficient to move the process in the right direction. As the international experience has shown, this is unlikely.

Applying the Human Development Index in Indonesia

Now that the Government has passed responsibility for most development activities to the districts, many local officials are faced for the first time with the task of promoting human development in their own areas. What should they do?

First, they will need to appreciate the relationship between the human development concept and the human development index. The human development concept is very broad - encompassing almost every aspect of human life - from freedom of expression, to gender equality, to employment, to child nutrition, to adult literacy. The human development index (HDI), on the other hand, has a much narrower scope. Although it does indeed try to measure the state of human development, it can do so only partially. This is mainly because many things, such as community participation, for example, or mental health, are almost impossible to measure or to collect data on, and even then it is difficult to merge data on many different issues into one overall index.

The priority for the regions therefore should be to focus less on the index and instead on the wider concept and central principles of human development. This means that in every aspect of their work local officials should be putting people first - considering them not as the means of development but as the ends. Rather than trying to educate people and keep them healthy simply to provide a better workforce, for example, or to boost economic prosperity, they should instead be helping men, women and children in their region to lead richer and more fulfilling lives. So every activity, be it investing in roads, or granting licenses for mining, or building new health facilities, should aim to enlarge the choices available to the whole population, and to do so in a way that is equitable and sustainable.

The human development index offers some guidance. This Human Development Report has calculated the HDI for each of 294 districts or municipalities across Indonesia. In each case the index is a score from 0 to 100, so the gap between the current index and 100 represents the human development 'shortfall'. This makes it possible to rank the districts from 1 to 294. As can be seen from table 1, this places South Jakarta in first position, with an index of 75 - and thus a shortfall of 25 - while Panaia in Irian Jaya occupies 294th position with an index of 44 and a shortfall of 56. What does this mean? Obviously when it comes to considerations of income, life expectancy and educational achievement - the components embodied in the HDI - the needs of Panaia are far greater than those in South Jakarta. But does it also imply that they are precisely twice as big - that the development budget per capita for Panaia should therefore be around twice that for South Jakarta?

Clearly not. In fact delivering services comparable to those in South Jakarta to remote areas of Irian Jaya would require far more than double the per capita development expenditure. The HDI offers a useful indication. Actual budgeting, resource allocations and development planning will require closer examination of data on transport infrastructure, say, health facilities, or levels of employment and unemployment to establish immediate priorities and opportunities. The HDI represents a huge advance from the previous concentration on income alone, but even so it only offers a general signpost.

It should also be emphasized that the HDI is only as good as the data that is fed into it. The current data set has been much improved by BPS, but even so more work needs to be done to refine and refresh the data. This means that one should not exaggerate minor differences in HDI. Better perhaps to consider districts or municipalities in groups or bands. The global Human Development Report presents countries in three groups - low human development (0 to 49); medium (50 to 79); and high (80 and above). On this classification, all but eight districts in Indonesia would be considered 'medium'.

To distinguish better between regions in Indonesia, one could have three different bands: 'higher' (65 and above); 'medium' (60 to 64); and 'lower' (below 60). On this basis, 125 districts or cities fall into the 'higher' band, 128 in the 'medium' and 44 into the 'lower'. The districts classified as 'lower' here are all rural but they are scattered across most of Indonesia's provinces. This indicates the need to target resources more carefully at the poorest districts. Even so, actual budget allocations, will need to take many other factors into account.

A compact on human development

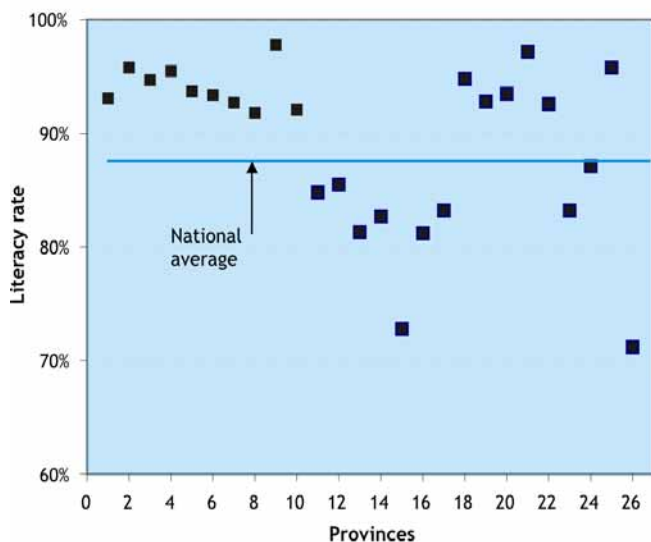
How can Indonesia ensure that decentralization does indeed cement national cohesion and deepen national commitment to human development? How can Indonesia create the momentum for public action?

One way to ensure that decentralization works in the interest of all Indonesians would be to establish a new social compact: an agreement that all Indonesians - as Indonesians - are entitled to nationally mandated standards of human development. They are entitled to be literate, for example, to be healthy, to be able to earn a decent

income, to have adequate shelter, and to live as one nation in peace and security.

These rights must apply equally across the country. This does not imply uniformity. Indonesia will remain a richly heterogeneous nation. But at the same time it should also have a nationally agreed framework of rights and standards. With these in place, regional cultural and ethnic diversity are not divisive elements but rather the building blocks of a strong and coherent nation. Such a compact could include the following key elements:

Figure 5.1
Literacy rate by province, 1999



Source : BPS

- *A mission statement* – emphasizing the primacy of human development and articulating the basis for a creative partnership between central and local governments.
- *Human development standards* – establishing the levels to be achieved across all regions.
- *Public deliberations* – reinforcing democratic norms and values and exchanging ideas and information across the country.

As well as making a contribution towards national cohesion and consolidating democracy, such a compact could also serve to galvanize policy makers and administrators at all levels, enabling them to renew their commitment to human development.

A mission statement

The mission statement would need to establish the primacy of human development as both a means and as an end in itself. And it should also include a commitment on absolute poverty – not merely on its alleviation, but on its eradication.

Indonesia's future will of course depend on the strength of its economy and of its social and political institutions. But in Indonesia as elsewhere, these are contributions to a larger process – widening the range of choices, economic and social that are available to all citizens, ensuring that they are able to participate fully in the decisions that affect their lives.

The mission statement will also need to highlight the importance of a productive partnership between central and regional governments. There are still many detailed and practical issues to be settled on decentralization – on how resources, human and financial are to be shared between central, provincial and district administrations.

But these can only be worked out through a spirit of partnership that will enable central and local governments to reach their full potential. Once this partnership has been affirmed, and the key ideas are in place, then both the financial arrangements and the necessary action will follow.

Human development standards

There are two ways of setting standards and the various intermediate targets towards achieving them. The first – a more minimalist approach – tries to establish what seems to be feasible in Indonesia at present and merely tries to ensure that this national standard is achieved across the country. The second – the internationalist approach – is based on a more universal vision, taking inspiration from international goals and standards, setting these as the targets to which Indonesia should aspire.

The minimalist approach

The aim here would be to ‘pull up’ weaker provinces and districts to the national average. So the national average becomes a *de facto* national standard. To illustrate how this might work, one could take literacy, which is one of the key components of the human development index. Figure 5.1 shows how literacy varied across the provinces in 1999 and how this distribution relates to the national rate – 88%.

This shows that 10 out of the 27 provinces fell below the national average. If these were raised to the 1999 national average of course the average would go up, so the target subsequently might be higher. This is conceptually similar to a relative poverty line, which is the type normally applied in richer countries where the proportion living in poverty are considered to be those living on less than half the median income. If they become less poor this tends to raise the poverty line. In the case of the ‘literacy line’ this too would slowly rise.

To see what kind of progress could be expected, it is simpler to fix the lines for literacy and for other social indicators at the 1999 averages. Then extrapolation from past trends will suggest how long it might take for all regions to attain these. For the purposes of demonstration this exercise has been carried out using provincial-level data, though the same principle can be applied to districts.

As Table 5.1 indicates, the number of provinces that fall below the national average vary from 9 to 17 depending on the indicator. But if previous performance is a guide, some will take a long time to catch up. West Nusa Tenggara, for example, would take 17 years to reach the 1999 literacy average.

Table 5.1

Years required for provinces to reach 1999 national averages based on past trends

	Life expectancy at birth	Literacy rate	Mean years of schooling	Proportion of households with access to safe water	Infant mortality rate	Proportion of births attended by medical personnel	Proportion of households living in dirt-floor dwellings
Aceh	–	–	–	7.7	–	–	–
North Sumatra	–	–	–	–	–	–	–
West Sumatra	1.4	–	–	5.6	2.1	–	–
Riau	–	–	–	–	–	–	–
Jambi	–	–	0.9	12.8	–	0.8	–
South Sumatera	4.9	–	2.1	–	2.3	–	–
Bengkulu	5.2	–	–	17.0	3.1	–	–
Lampung	2.1	–	3.6	1.0	0.8	2.0	14.9
Jakarta	–	–	–	–	–	–	–
West Java	5.4	–	0.7	0.2	4.7	3.5	–
Central Java	–	5.9	6.4	–	–	0.1	10.3
Yogyakarta	–	4.0	–	–	–	–	0.9
East Java	1.6	10.0	7.0	–	2.3	–	7.7
Bali	–	6.1	0.5	–	–	–	–
West Nusa Tenggara	14.4	17.3	13.3	16.9	9.4	6.3	6.3
East Nusa Tenggara	8.7	11.3	8.0	15.5	10.0	9.7	22.4
West Kalimantan	8.1	5.8	8.5	–	7.1	6.5	–
Central Kalimantan	–	–	–	11.6	–	0.2	–
South Kalimantan	28.4	–	2.7	12.6	20.8	1.8	–
East Kalimantan	–	–	–	15.5	–	–	–
North Sulawesi	–	–	–	0.9	–	–	–
Central Sulawesi	8.2	–	–	5.5	7.1	2.4	1.0
South Sulawesi	–	6.2	2.4	8.5	–	2.3	–
Southeast Sulawesi	11.1	2.4	0.6	6.2	4.6	13.8	2.0
Maluku	–	–	–	11.4	–	7.1	9.9
Irian Jaya	5.7	26.4	10.1	9.6	3.0	2.7	–

Notes:

'–' indicates that the region has already surpassed the national average for this indicator.

The time required for provinces to reach the national average was estimated using their average rate of improvement over the period 1990-99.

Source: Calculated from BPS data.

The universalist approach

The minimalist approach does highlight the plight of certain provinces, but in a sense it is arbitrary. In the case of literacy, for example, it is more reasonable to set the target as 100% rather than 88%. The minimalist approach also erodes the right to literacy since it suggests that individuals in each province only have a right to an 88% chance of being literate.

A better way is to start from universal norms and rights. Of course for each district, or province, or the nation as a whole there will be incremental progress as more people become literate, but an individual is either literate or illiterate, so the goal itself can be absolute.

In fact, many such goals have already been set. A sequence of United Nations conferences during the 1990s produced a corresponding series of goals that encompass most aspects of human development. These included:

- *Poverty* – By 2015 the proportion of people living in extreme poverty should be reduced from its 1990 level by at least 50%
- *Basic education* – By 2015 enrolment in primary education should have reached 100%.
- *Gender disparities in education* – By 2005 gender disparities should have been eliminated in both primary and secondary education.
- *Infant mortality* – By 2015 the infant mortality rate should be brought down below two-thirds of its 1990 level.
- *Maternal mortality* – By 2015 to be reduced to below three-quarters of its 1990 level.
- *Primary health care* – By 2015 there should be universal access to primary health care, including access to safe and reliable methods of family planning.

These goals were formulated as international targets, and assumed to be the responsibility of national governments. There was no consideration of how they might be applied at a sub-national level. Such goals have also been accepted at the national level in Indonesia where the government has incorporated them into national plan documents, though again without disaggregating them for use at provincial or district levels⁷⁰.

While this approach is appropriate in small, compact countries, it is less tenable in a country as extensive and diverse as Indonesia. A better approach therefore would be to 'regionalize' the international development goals, and assess the extent to which provinces and districts will be able to reach these goals by 2015. What does this imply? Table 5.2 shows the prospects for attaining a selection of these goals at the provincial level assuming that the rate of progress is similar to that of previous years.

But it would also be possible to add other, universal goals – to achieve 100% literacy, for example, 100% access to safe water, and to have no households living in dwellings with dirt floors.

Another possibility is to include Indonesia's stated intention to have all children complete nine years of school. The time that might be taken to achieve these goals is shown in Table 5.3.

These tables show that if one considered trends for the country as a whole, many of these goals would be achieved within the targeted international timeframe. Indeed as Table 5.2 suggests, Indonesia would achieve all the goals except those for universal net primary enrolment. The picture is similar for the universal goals, except that in this case extrapolation suggest that it would take Indonesia 40 years to achieve universal safe water supplies.

Table 5.2
Time required from 1993 to reach selected international development goals, based on 1993 - 1999 trends

	Poverty (1)		Education (2)		Gender (3)		Infant Mortality (4)		Maternal Mortality (4)	
	Years	Date of attainment	Years	Date of attainment	Years	Date of attainment	Years	Date of attainment	Years	Date of attainment
Aceh	150	2143	11	2004	8	2001	16	2009	6	2005
North Sumatra	122	2115	41	2034	above 100	—	14	2007	12	2011
West Sumatra	86	2079	27	2020	above 100	—	13	2006	6	2005
Riau	73	2066	23	2016	8	2001	17	2010	9	2008
Jambi	13	2006	25	2018	76	2069	16	2009	11	2010
South Sumatera	31	2024	29	2022	9	2002	14	2007	7	2006
Bengkulu	82	2075	12	2005	14	2007	15	2008	7	2006
Lampung	84	2077	14	2007	40	2033	14	2007	10	2009
Jakarta	20	2013	46	2039	above 100	—	13	2006	9	2008
West Java	17	2010	12	2005	7	2000	12	2005	15	2014
Central Java	47	2040	32	2025	13	2006	7	2000	10	2009
Yogyakarta	11	2004	30	2022	7	2000	12	2005	5	2004
East Java	13	2006	41	2034	18	2011	14	2007	10	2009
Bali	24	2017	19	2012	9	2002	11	2004	5	2004
West Nusa Tenggara	130	2123	11	2004	above 100	—	9	2002	19	2018
East Nusa Tenggara	28	2020	63	2056	above 100	—	19	2012	27	2026
West Kalimantan	60	2053	15	2008	80	2073	16	2009	20	2019
Central Kalimantan	23	2016	33	2026	12	2005	9	2001	11	2010
South Kalimantan	19	2012	21	2013	9	2002	23	2016	13	2012
East Kalimantan	13	2006	77	2070	16	2009	8	2001	13	2011
North Sulawesi	29	2022	33	2026	above 100	—	14	2007	12	2011
Central Sulawesi	15	2008	49	2042	81	2073	11	2004	14	2013
South Sulawesi	57	2050	22	2015	above 100	—	6	1999	15	2014
Southeast Sulawesi	90	2083	17	2010	above 100	—	17	2010	25	2024
Maluku	80	2073	75	2068	13	2006	6	1999	24	2023
Irian Jaya	17	2010	76	2069	20	2013	9	2002	18	2017
Indonesia	15	2008	30	2023	10	2003	10	2003	12	2011

Note:

Time required to reach selected international development goals, based on 1993-99 trend assuming that it is linear

(1) The target is to reduce income poverty by 50% between 1993 and 2015.

(2) The target is to achieve 100% primary enrolment by 2015.

(3) The target is to eliminate gender disparities in primary and secondary educational enrolment.

(4) The target is to reduce infant mortality rate by two-thirds between 1993 and 2015.

(5) The target is to reduce maternal mortality by three-quarters between 1993 and 2015.

Table 5.3

Time required in years to reach selected universal targets based on 1990 - 1999 trends

	Literacy (1)	Education (2)	Water (3)	Housing (4)
Aceh	8	11	83	16
North Sumatra	8	5	19	8
West Sumatra	10	10	72	14
Riau	6	9	78	6
Jambi	10	15	99	8
South Sumatra	14	18	115	16
Bengkulu	12	13	148	42
Lampung	17	18	27	24
Jakarta	9	-	7	1
West Java	10	13	37	6
Central Java	20	22	21	16
Yogyakarta	16	5	34	5
East Java	24	22	40	14
Bali	16	13	6	3
West Nusa Tenggara	29	30	69	18
East Nusa Tenggara	27	22	57	31
West Kalimantan	16	22	124	13
Central Kalimantan	9	12	50	10
South Kalimantan	14	19	59	11
East Kalimantan	11	6	76	12
North Sulawesi	11	10	22	15
Central Sulawesi	13	13	61	12
South Sulawesi	17	15	69	21
Southeast Sulawesi	15	12	68	19
Maluku	9	7	77	22
Irian Jaya	41	26	71	8
Indonesia	16	13	40	10

Note:

- (1) The target is a 100% literacy rate.
(2) The target is 9 years of compulsory education.
(3) The target is for all household to have access to safe water.
(4) The target is to have no households living in a dwelling with a dirt floor.

Can the regions catch up?

These tables also highlight the importance of considering these targets by region. In the case of poverty, on current trends 18 provinces will not meet the 2015 target date, and some will miss it by a long way. The picture is better for infant mortality and the elimination of gender disparities in education: just two provinces fall short.

But the implications emerges even more clearly when it comes to the universal targets in Table 5.3. Simply extrapolating national trends would suggest, for example, that nine years of compulsory education could be attained within 13 years. But clearly this cannot be achieved nationally until it has also been achieved in every province.

The slowest province is East Nusa Tenggara, so Indonesia cannot achieve the target before this province does so. In that case it is going to take 30 years. The

same reasoning would suggest that universal access to safe water will take not 40 years but rather the discouragingly long 148 years required by Bengkulu.

These figure are intended only to be illustrative, and extrapolating from past trends is a crude way of making such estimates. But this exercise does at least dramatize the importance of drawing up a human development compact with standards that will help the poorest provinces to catch up. If these are basic rights then they must be achieved by all Indonesians.

This raises serious distributional considerations. At present the resource-rich regions are reluctant to cross-subsidize their less well-endowed counterparts. But thus far the discussions have focused only financial transfers. The compact approach helps to shift the debate to the terrain of human rights – to the kind of standards that should be acceptable to all Indonesians wherever they live.

Public deliberation

Democratic values and norms can only emerge from deep and extensive consultation. A clear Constitution, and the holding of free and fair elections are of course the bedrock of a functioning democracy. Indonesia is fortunate to have both. But these are only the starting points. Citizens need many other opportunities for national debate – to establish not just the basic ground rules, but also the values that shape and colour everyday decisions. This is even more vital when the people who take such decisions are scattered across more than three hundred districts of a vast archipelago.

One way to trigger such deliberations would be to hold a National Social Summit – along the lines of the global Social Summit held in Copenhagen in 1995. The preparations for such meeting, and the event itself, could help carve out a vision for a democratic, decentralized Indonesia.

The starting point for such deliberations might be a ‘state of the regions’ survey. The central government in partnership with the provinces and kabupatens could

outline the issues and challenges facing the implementation of decentralized governance. This ‘information blueprint’ could serve as the basis for a National Summit, to be held sometime in 2002. From this could emerge a statement of agreed national standards and an assessment of what the entitlements were for each region. The next part of the Summit would consider the financial implications, the critical policy interventions, and the strategic framework for implementation.

A new consensus

The critical challenges facing Indonesia are complex and diverse – consolidating democracy, addressing regional conflicts, regenerating the economy. But this report has argued that a common thread runs through all these. Achieving a secure and prosperous Indonesia, with a thriving economy, in which each part of the country believes it has a vital stake, will demand considerable skill and commitment from leaders and communities at all levels. It can only succeed if it is based on a new consensus – a shared commitment to human development.

End Notes

- 1 For a survey of global political change in the 20th Century see Freedom House (1999), *“Democracy's Century”*.
- 2 Amartya Sen when asked to evaluate the most significant achievement of the 20th argued as follows:
“the pre-eminent development of the period is the rise of democracy. Indeed, in the distant future when people look back at what happened in this century they would find it difficult, I believe, not to accept the pre-eminence of democracy as the most striking development of this period. It is in the 20th century that the idea of democracy got established as the “normal” form of government to which any nation is entitled – whether in Europe, or America, or Asia, or Africa. We do not have to establish afresh, each time, whether such and such country is ‘ready’ for democracy (the type of question that was prominent in the discourses in the 19th century); we now take for granted.” For a detailed treatment of the subject see Sen (1999), *“Development as Freedom”*.
- 3 A phrase popularised by Huntington (1991) in his book *‘Democratization in the late 20th Century’*. The third wave refers to the spread of democratic systems of government in around 35 countries in Asia and Latin America from the 1970s onwards. The first two waves spanned 1828-1926, and 1943-1962.
- 4 Sen, 1999, p. 1
- 5 For a detailed treatment of different aspects of citizen's rights; civil, political and social see Marshall (1965), “Class, Citizenship and Social Development”. Marshall distinguished the three component of citizen's rights as follows: civil rights protecting individual freedom, political rights guaranteeing participation in the exercise of political power, and social rights, those providing access to material and cultural satisfactions. A similar classification is used to rank democratic states in the Freedom House global survey of freedom.
For a classic treatment of notions of individual freedom, see Berlin (1969), *“Four essays on liberty”*. Berlin's classification of liberty as positive and negative freedoms has now become a standard notion in the literature.
- 6 For an interesting view about the origins of different types of rights, see Tilly (1998), *“Where do rights come from?”* Tilly argues that in the context of European politics, the recognition of social rights was obtained by the exercise of political rights and the consequent struggle between different social groups. The situation in fledging democracies in developing countries with regard to the acceptance of all three types of rights described by Marshall might therefore be more favourable in so far as there is now widespread acceptance of the validity of social rights. These have a direct link with and bearing upon the policy approach to the provision of social welfare services in line with HDI.
- 7 HDR 2000, p. 2
- 8 This is both by helping to rebuild lost human capital as well as creating conditions of ‘trust’ between different social groups. The concept of social capital, attributed to James Coleman, refers to the view now widely accepted that capital today is embodied less in land, factories, tools and machines and increasingly in the knowledge and skills of human beings. The concept of social capital goes further and claims that in addition to skills and knowledge, a distinct portion of human capital has to with people's ability to associate with each other, that is critical not only to economic life but to virtually every aspect of social existence. As Francis Fukuyama shows, “the ability to associate depends on the degree to which communities share norms and values and are able to subordinate individual interests to those of larger groups. Out of such shared values comes trust, and trust has a large and demonstrable economic value.” (Fukuyama, 1995, p.10)
- 9 The social compact approach has also the merit of helping to dampen social conflict by an explicit recognition of human rights and basic capabilities. According to Fukuyama, lack of such recognition leads social instability. As he writes: “The desire for recognition (as distinct from the aim to maximise utility) is an extraordinary powerful part of the human psyche; the emotions of anger, pride and shame are the basis for most political passions and motivate much that goes on in political life” (See Fukuyama, 1995 for a detailed elaboration of this thesis.
- 10 The role of equity in increasing social cohesion and reducing political conflict is accepted by the IMF's recent analysis of the link between economic policy and equity. As the Fund points out: “To be effective most policies require broad political support, which is more likely to be forthcoming when the distribution of income is seen as fair.” (IMF, 1999,p.20). In situations of systemic transitions triggered by sharp economic declines however, public dialogue and open debates facilitated by democracy, as Sen argues, have an instrumental role. These processes help decide what is fair and not fair in a given social and political context. See Sen (1999), chapter 2 on the Ends and Means of Development.
- 11 There is of course considerable literature on different concepts of democracy (e.g. procedural or deliberative), as well as on the role that public discourse and deliberation might play in defining a national or common interest distinct from specific group interest. See for instance Habermas, (1996), *“Three normative models of democracy”*, and Benhabib's, (1996) *“Toward a deliberative model of democratic legitimacy”*. For an analysis of relative merits of different democratic institutions see Dahl (1989), *“Democracy and its Critics”*
For a set of essays on transitions to democracy see Haggard and Kaufman (1995), *“The Political Economy of Democratic Transitions.”*
For a more detailed treatment of deliberative democracy see: Elster (1999), *“The Market and the Forum: Three Varieties of Political Theory”*, and Rawls (1999), *“The Idea of Public Reason”*. For a provocative essay on the need for equality of political opportunity see Knight and Johnson (1999), *“What Sort of Political Equality does Deliberative Democracy Require?”* Rawls illustrates the link between human development, as an enabling condition for public participation in complex ethical decisions, when he notes that public reason “in democratic society is the reason of equal citizens who as a collective body,

exercise final political and coercive power over one another in enacting laws and in amending their constitution. This means that political values alone are to settle such fundamental questions as: who had the right to vote, or what religions are to be tolerated, or who is to be assured fair equality of opportunity, or to hold property.” (Ibid. p. 94)

- 12 Booth, A (2000). p. 75.
- 13 World Bank (2000), Poverty Reduction in Indonesia - constructing a new strategy, First Theme, pp 3-4.
- 14 The World Bank (1993) dubbed this phenomenon of growth and reduction in poverty and inequality as “shared growth”.
- 15 See Islam and Chowdhury (2000) for a discussion of trends in inequality in East and Southeast Asia.
- 16 World Bank, World Development Indicators, 1999, Table 1.3
- 17 BAPPENAS/UNICEF (2000, Table 6.2, p. 96)
- 18 BAPPENAS/UNICEF (2000).
- 19 BAPPENAS/UNICEF (2000, p. 41).
- 20 The Gender-related development index includes male-female differentials in life expectancy, adult literacy rate, mean years of schooling and earned income share.
- 21 Enclave districts have higher levels of resource and industrial base, and can be treated as outliers.
- 22 See Dhanani and Islam (2000, pp. 11-12) for details.
- 23 See Papanek (2000).
- 24 See Dhanani and Islam (2000).
- 25 Skoufias et al (1999)
- 26 The World Bank estimates that between 30% and 60% of households are vulnerable to poverty over a three year horizon (World Bank, 2000c, p. 11)
- 27 Nevertheless hubris is not confined to autocratic governments. What goes up need not necessarily stay up. Sen (2000) makes this point cogently. 'Perhaps the most obvious problem relates to the recognition that the heady days of unmitigated success – with things going up and up and nothing ever falling down – are over. Even though much of Asia is already well on the way to recovery from the crisis that hit it in 1997, the sense of invulnerability has not survived. It could not have. Indeed, it is clear that severe economic crises can occur and disrupt the rushing stream of unobstructed economic progress that many Asian countries took for granted. This is not a kind of "Murphy's Law", a grand claim that if things can go wrong, they will. Rather, it is a very modest claim that dangers of interruption are omnipresent, and no matter how robust things may look, they can - and sometimes will - go wrong. Belief in invulnerability is, in fact, a childish thought: like the way teenage car drivers often assume that accidents cannot happen to them in particular.
- 28 Zainu'ddin (1968) p. 251.
- 29 Ricklefs (1981). p 251.
- 30 On October 28, 1956 Soekarno made a famous speech in which he asked the Indonesian people to “bury the parties”. Two days later, on October 30, responding to accusations that he wanted absolute power for himself, in an address to the Indonesian Teacher's Association he said: “I am not a managing director of the Indonesian republic and I don't want to become a dictator because it is contrary to my conscience. I am a democrat. But I don't desire democratic liberalism. On the contrary I want a guided democracy”. Quoted from Harian Rakjat in Legge (1972), p.279.
- 31 Dahl (1996) p. 337.
- 32 Freedom House (1999)
- 33 Political observers characterise Malaysia and Singapore as semi-democracies. Although both countries have regular parliamentary elections, political and civil rights are restricted, and one party has been dominant from their inception. Democratic transitions occurred in the Philippines and Thailand in 1986 and 1991, respectively. Democratic transitions in Taiwan (China) and the Republic of Korea occurred in the mid-1980s
- 34 Macintyre (1994a)
- 35 Rajan and Zingales (1998)
- 36 This of course does not deny the importance of a policy-mix that is conducive to economic growth. As mentioned earlier, the New Order regime of President Soeharto was developmentalist and its first priority was to stabilize the economy.
- 37 The democracy index combines indices of political rights and civil liberties.
- 38 Lee (1994).
- 39 Barro (1991).
- 40 Bhalla (1994).
- 41 World Bank (1993b), ADB (1997)
- 42 Krugman (1994b).
- 43 Hill (1996), p. 158, quoting BPS data. Also see Hill (1990) for a more detailed discussion of Indonesia's changing industrial structure in the 1970s and the mid 1980s. As the author notes, (p. 90-91) the labour intensive classification included a wide range of industries with textiles, garments, furniture, non metallic mineral industries such as bricks, tiles, ceramics and miscellaneous manufacturing industries such as sporting equipment etc. were the most labour intensive industries, with labour productivity less than half that of the average of non-oil manufactures. The most important anomaly in the labour intensive classification seems to be in the case of “resource intensive” industries which in fact contain a wide range of factor intensities, from the more labour using wood and rubber to rather capital intensive basic metals and cement. United Nations Indonesia (1991) Common Country Assessment.
- 44 By the mid 1970s, five SUSENAS surveys had been carried out: 1963/64, 1964/65, 1967, 1969/70, and 1976. The same year, 1976, saw the publication of a labour force survey: the SAKERNAS. Cost of living surveys of major cities were conducted in 1968/69 and 1970/71. Finally, the Agricultural Census was published in 1973 and provided data on rural landholdings. For an analysis of the results of these various sources see Booth (1981)
- 45 Tabor (1992).
- 46 Jain (1975).
- 47 Booth and Sundrum (1981). p. 205.
- 48 Prijono, O. 1999. p. 161.

- 49 World Bank, 1990, p. 93
- 50 World Bank (1993a).
- 51 Moreover, as Hill (1996) , p. 147, writes: “The large subsidies since the 1970s, in pesticides, fertiliser, irrigation, credit and research and extension services, are also being reduced. In addition, fiscal austerity since the mid 1980s and a reluctance to consider partial or complete divestment have starved many state owned agricultural enterprises of much needed capital injections.”
- 52 For a comprehensive if somewhat selective review of agricultural modernisation in Indonesia see Hill (1996), Chapter 7. For a discussion of regional growth in agriculture see Tabor (1992). Hill summarises the different in economic performance of small and large estates as follows: “...there are various commercial relationships between larger and smaller units, particularly at the processing stages. Some of these linkages have been promoted by the government, especially in the case of state enterprises which are expected to be in their proximity. Physical yields on estates are often significantly higher, especially in the case of rubber, palm oil and tea.... The estates which are state owned, have also received a range of government subsidies”. Hill (1996), p. 140.
- 53 Hill (1996). P.158.
- 54 For much of the last decade, Indonesia had under-utilised this quota. Since the quota was set in physical terms, irrespective of quality improvements, Indonesia benefited from a guaranteed market for its textile and garment exports relative to its competitors.
- 55 Savings ratios have been revised downwards in IMF (1997) compared to IMF (1996). The latter estimated national savings, as distinct from foreign savings, to be 35.4% in 1995/96. The former estimates this to be 29.4% in 1995/96, falling marginally to 29.3% in 1996/97.
- 56 Reliance on FDI as distinct from portfolio capital is arguably one way out of this volatility problem. But this too is not without difficulties. While it is true that direct foreign investment is generally more stable than short-term portfolio capital, as neither is easy to predict over any given length of time. The former is undertaken for many different reasons, including the desire to take advantage of tax and grant incentives, to gain first entry into a growing market, and to benefit from entry into a regional trading bloc. Many countries including those in the OECD area have discontinued the policy of offering special incentives to foreign investors, on the grounds that this merely leads to a loss of revenue without guaranteeing higher volumes of FDI. Moreover, longer-term investment decisions are also affected by volatility in the short-term capital market if this leads to exchange rate instability or a rise in inflation, both of which are likely to make the returns from longer-term investment more uncertain.
- 57 In Indonesia as elsewhere there is an ongoing debate over the policy towards interest rates. Typically the Central Bank has argued in favour of a tight monetary policy and high interest rates to keep inflation in check while the Ministry of Finance argues for a lowering of interest rates. See the Economist Intelligence Unit Report, Indonesia, (1997) 2nd Quarter.
- 58 Despite this, the problem of rising capital inflows and the inflationary threat that these pose has led the Indonesian Central Bank to widen its intervention bands used to support the rupiah. However, wider bands also carry a cost in terms of greater exchange-rate volatility, and the impact on export competitiveness
- 59 For a good overview of the tools available to handle the capital inflows problem see Lee (1996), IMF. As Lee, p. 34, concludes: “The recent experiences of many developing countries reveal that the monetary authorities often lack suitable instruments that can sterilise fully or for long, persistently large capital inflows. In the context of a liberalising environment, their traditional tools of monetary control typically lose effectiveness; at the same time, they cannot fully rely on more advanced instruments of market-based monetary control because various elements of the supporting institutional infrastructure have yet fully to be developed.”
- 60 Mishra (1997) summarised the picture as follows: “The late 1990s Indonesia is therefore confronted with a quite different set of initial conditions with respect to an equitable development programme. The foundations of economic growth are less certain raising questions about sustainability. Economic policy is beset with new problems which it only vaguely knows how to solve. The changing structure of production threatens Indonesia's historically relatively favourable distribution of income and consumption. This in turn reduces the poverty elasticity of economic growth. As a result, similar magnitudes of economic growth as in the past will contribute less to the decline in poverty. At the same time, public expenditure levels are under due to the decline of oil and gas revenues and because of the need to maintain outside investor confidence”.
- 61 Irawan, P., Ahmed, I., Islam, I., (2000).
- 62 World Bank (2000f).
- 63 Stalker (2000). p. 10.
- 64 Frankenberg, E. Thomas, D. and Beegle, K. (1999). p. 21, Table 2.1
- 65 Helen Keller International (1999), cited in UNSFIR (2000a), p. 14)
- 66 McLeod (200) p.13.
- 67 UNIDO (2000).
- 68 Islam, I. (2000).
- 69 In fact the Indonesian government has used the Copenhagen initiative to revisit national commitments to poverty eradication and human development and has reflected them in national plan documents. However, the province-level dimensions have not been explored. See Department of Foreign Affairs, Government of Indonesia (2000). See also UNICEF (2000, Appendix B) which explores the attainment of the 'World Summit on Children's Goals and Progress in Indonesia' at a national level

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