

INDONESIA

Environment

Within one year the Indonesian economic situation has changed dramatically. Broader implications of the economic crisis include: (a) recession is deep and widespread, despite some pockets of success in exportable resources-based commodities; (b) regional disparities will likely increase between resource/export-rich provinces and the resource-poor provinces, the latter mainly in the east; and (c) imbalances and breakdowns in economic activity among interdependent sectors (for example, agriculture and fertiliser or manufacturing industries dependent on imports) will impede recovery and growth. In any case, the basic results of the economic crisis are clear: unemployment and poverty have increased significantly over the past 18 months.

The crisis has had the negative impacts on Indonesia's economic performance as presented in Table 1 on page 54. Economic growth, which was previously stable, has dropped drastically from 4.6 per cent in 1997 to minus 13.6 per cent in 1998. The first casualties of the currency crisis were among the real estate and related property and construction businesses. The next in line was manufacturing, which is heavily dependent on imported inputs. In the meantime the service sector too started to suffer from declining demand. Agriculture, on the other hand, was adversely affected by the crisis as prices of agricultural inputs, including imported fertiliser and seeds, soared. On the other hand, some export-oriented agricultural products, especially plantation commodities, seem to be profitable. The tourism industry has also suffered in line with political unrest and other events such as forest fires.

The contraction of the economy is expected to slow during 1999 to less than minus 5.0 per cent. By the first quarter of year 2000, the Government expects the start of recovery. It is expected that it will take around five years to bring the economy back to its pre-crisis level. Some local businessmen are gearing up to start investing again by next year in preparation for the expected turnaround the following year. Foreign investment will grow in line with the improving political situation and return of international trust.

Indonesia's labour force is characterised by its relative youthfulness, as depicted in Table 2 on page 54. It is seen that the labour force is steadily increasing. Between 1994 and 1998, the labour force grew by 2.7 per cent per year, increasing from 83.7 million to 92.7 million, of which in 1998 some 60 per cent were below 39 years old. However, future growth will be slower because government intervention through the family planning programme has lowered the fertility rate.

The quality of the labour force remains very low with predominantly junior high school graduates and below. The crisis has brought additional youths into the labour force as the number of students leaving school to seek work has increased due to the financial constraints.

There was also a substantial increase in the number of females in the labour force between 1994 and 1998. However, males are still dominant with a ratio of 63 females to 100 males.

Because of the economic crisis many sectors are experiencing drastically reduced labour demand. Lay-offs have been mostly in the construction, manufacturing and

service sectors, commonly concentrated in urban areas (see Table 3). These workers are mostly migrants and not residents of the cities surrounding the industrial areas. A recent study has shown that a substantial and disproportionate number of women workers have been affected by retrenchments, as the high rate of inflation and the unavailability of raw materials accompanied the drastic demand decline.

The sectoral distribution of the labour force indicates sex segregation, whereby women tend to cluster in the jobs and sectors with the lower levels of wages. Women constitute 46 per cent of the total labour force above age 15, and the overall female labour participation rate is 44.1 per cent, compared to 72.3 per cent for men. The unemployment rate is slightly higher among female workers at 5.6 per cent (4.1 per cent for men), while among the educated youth the rate is much higher at 27.4 per cent (21.2 per cent for men). This indicates a big problem for the Indonesian human resource planners, especially for the Ministry of Manpower.

Policies in Place

The prognosis for the short to medium term is for zero growth in 1999 and slow recovery in 2000 and 2001. This situation has dictated the need for dramatic shifts in policy with regard to the short-term labour market. The focus of policy development will need to shift to protecting the livelihood and sustaining the incomes of those members of society who are most in need of assistance. An important part of this process will include a renewed emphasis on agriculture and informal sector activity. Structural economic policy changes, including the disassembly of commodity monopolies will create an economic environment conducive to renewed development and growth in the agricultural sector.

Social Safety Net Programmes

In the meantime, the government's attention is understandably focussed on the social safety nets due to resource constraints. Sector-based programmes have been designed using external financial assistance. Two programmes have been provided to alleviate unemployment, particularly among retrenched workers. These are designed to improve the purchasing power of unskilled workers and to assist those terminated skilled workers wishing to open new businesses. In coordination with productive economic institutions, they are expected to be able to manage their own businesses, creating jobs for new entrants. In-kind assistance is being given in the form of training in management skills and initial capital to run a small business. This is a more appropriate response to the changed economic circumstances than assisting large enterprises. Training priorities are limited to those included in this programme.

Recently, the Government of Indonesia has devised and implemented a number of social safety net policies and programmes designed to ameliorate problems caused by the crisis. The Government of Indonesia has attempted to choose and design these programmes based on considerations of state-of-the-art principles and local conditions. The impact of the crisis in Indonesia has been widely but differently felt and, as examples from the rest of the world suggest, Indonesia has employed different kinds of responses for different kinds of impacts. Thus, Indonesia has, for example, developed: food subsidy and transfer programmes for the most vulnerable and severely affected parts of the population, in both rural and urban areas; basic nutritional assistance and support for continuing education of those negatively impacted families with small children; public works programmes for the rural landless, small holders, and the urban poor (especially) who have lost their main

sources of income due to the crisis; and micro-finance schemes for small and medium sized businesses which have temporarily lost access to standard credit facilities, while the banking system undergoes a major restructuring.

Indonesia is a large and heterogeneous economy in the midst of far-reaching political and economic transition and, as a result, the government has stressed the importance of “covering” as much of the affected population by social safety net efforts. Overall, the “participation rates” of the poor in the programmes are therefore quite high.

The social safety net programmes that Indonesia has designed and implemented fall into four broad categories: food security, public health and education, employment and income generation, and the promotion of small- and medium-scale enterprises. Food security programmes attempt to provide an ample level of security upon the provision of basic necessity goods at reachable prices. Social protection activities help ensure the supply of important services in the area of public health and education, particularly for women and children, to protect further deterioration of the following generation. Employment and income generation efforts provide extensive support for the recently unemployed through the implementation of labour intensive works. And small and medium enterprise support focuses on engendering a productive environment for community-based economic activities through the use of co-operative principles.

Present Activities

Food Security. This programme is implemented through four schemes: food reserves, the food assistance programme of Special Market Operations, a crash programme on food production intensification, and fertiliser and capital subsidies. The food reserve scheme consists of (a) essential food price subsidies and (b) food procured with assistance from the World Food Programme and bilateral programmes.

Social Protection (education and health and nutrition). Social safety net programmes in the field of education are based on three principles: (i) maintaining the level of student enrolment and preventing dropouts; (ii) maintaining the continuation rate; and (iii) maintaining the quality of teaching and learning. The general objective of the health and nutrition sectors programmes is to maintain or improve the status of health and nutrition among poor families through: (i) providing financial support for basic health and referral services; (ii) nursery referral services free of charge for pregnant mothers, delivering mothers, and nursing-mothers; (iii) providing supplementary food for pregnant mothers, nursing mothers, babies (6–11 months) and children (12–23 months); and (iv) consolidating food and nutrition watch systems.

New Activities

Employment Generation: *Padat Karya 2 (PK2)*. *Padat Karya (PK)*, or labour intensive, projects have long been part of Government efforts to stimulate employment and income during tough economic times. Traditionally, PK was administrated by the Ministry of Manpower and applied to socially useful projects with intensive use of labour inputs at wages not exceeding the market rates for unskilled labour. In 1994 the central government ended all its PK efforts. The Government has re-introduced and substantially expanded its PK programmes which are aimed at maintaining or upgrading existing infrastructure such as tertiary irrigation networks, local schools, drainage systems, and local roads in both rural and urban areas as well as encouraging small businesses to start-up and (re-) hire as many of the newly unemployed as possible. Special concern is being placed on

environmental rehabilitation to support food security (for example, labour intensive programme in forestry), the development of local “people economies” in both urban and rural areas, and re-training of recently unemployed skilled workers; in addition to the traditional labour intensive efforts in public works (for human settlements, roads, and irrigation).

Small and Medium-Scale Enterprises. In the area of development of small and medium enterprise development, the Government has initiated various activities to ensure the creation of a fair and productive business environment. This programme is far more complicated than others, especially given that the role of SME’s had been systematically overlooked for quite sometime. Moreover, it also touches on very critical issues related to the enhancement of basic micro-economic principles.

Kecamatan (sub-district) Development Programme. This programme has concentrated on addressing the needs of rural communities in combating poverty. It has developed approaches for providing support to both private sector economic activities as well as public infrastructure development. It was among the first efforts to directly finance activities of local communities and incorporate the participation of the poor themselves. It was initiated before the crisis and programmed to mitigate impacts of the crisis in rural areas.

Urban Poverty Programme. The project’s objective, broadly speaking, is to empower local communities to help residents overcome poverty in urban areas. The project will provide capital to revolve within the community for sustainable income generation by groups within the jurisdictions and the individual urban poor. It will also fund development of community-selected basic infrastructure and related employment generation activities in low-income urban areas.

Community Recovery Programme (CRP). The CRP is an innovative civil society-led mechanism aimed at strengthening the coping capacities of vulnerable segments of the population, especially those most severely affected in the recent crisis. It will do this by channelling resources to support local community-based organisations implementing assistance activities. Programmes funded under the CRP primarily focus on enabling and empowering local communities and beneficiaries to help themselves. The objective of the CPR is to establish an effective non-government mechanism, which can in a rapid, transparent and inclusive manner respond to the needs as identified by the poor communities themselves. The CRP will work across a variety of substantive areas: food security, basic and social services, and jobs creation and income generation.

Implementation

The Future of Social Safety Net Programmes

In the future, Indonesia would like to synthesise its approaches to social safety net programme development. One possible way of synthesising various approaches might be PDM-DKE (*Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi*—EROIC—the Empowerment of Regions to Overcome the Impact of Economic Crisis). A programme would use the community-based approach, that is, transferring community funds directly to the people affected by the crisis. The main goal of the EROIC programme is to alleviate the negative impacts of the economic crisis. More specifically, the programme seeks to: generate employment and income among those hardest hit by the crisis and improve the overall functioning of social and economic infrastructure with a view to reinvigorating local economies across the

entire economy. This programme may well serve as the model for the vast bulk of Indonesia's future social safety net programmes. Its potential as a model for the future rests on five basic principles: (i) targeting accuracy; (ii) speed in disbursement of funds and project implementation; (iii) sustainability; (iv) accountability; and (v) transparency.

Table 1: Annual Growth Rate of Gross Domestic Product at Constant 1993 Market Prices by Industrial Origin (Rp. billion)

Main Industry	1994	1995	1996	1997	1998
Agriculture	0.6	4.4	3.0	0.6	0.3
Mining and Quarrying	5.6	6.7	5.8	1.6	-6.9
Manufacturing Industries	12.4	10.9	11.6	6.2	-12.0
Electricity, Gas and Water	12.5	15.9	12.8	11.9	-2.2
Construction	14.9	12.9	12.8	6.4	-35.4
Trade, Hotel and Restaurant	7.6	7.9	8.0	5.5	-21.4
Transportation and Communication	8.3	8.5	8.7	8.4	-11.6
Financial, Ownership and Business Service	10.2	11.0	9.0	4.8	-18.6
Other Services	2.8	3.3	3.4	3.0	-5.2
Total	2.8	8.2	8.0	4.6	-13.1

Table 2: Indonesia: Characteristics of the Labour Force, 1994 and 1998

	1994 (mill.)	%	1998 (mill.)	%
AGE GROUP				
15-24	19.23	23.0	19.73	21.3
25-39	33.51	40.0	36.34	39.2
40-54	20.98	25.1	24.66	26.6
55-64	7.11	8.5	8.24	8.9
65+	2.87	3.4	3.76	4.1
LEVEL OF EDUCATION				
Primary and Less	58.60	70.0	58.62	63.2
Junior High	9.95	11.9	13.18	14.2
Senior High	12.63	15.1	17.02	18.4
Dip I/II/III	1.36	1.6	1.83	2.0
University	1.16	1.4	2.08	2.2
SEX				
Male	51.12	61.1	56.76	61.2
Female	32.58	38.9	35.97	38.8
URBAN-RURAL				
Urban	26.19	31.3	33.41	36.0
Rural	57.51	68.7	59.33	64.0
Total	83.70	100.0	92.73	100.0

Table 3: Indonesia: Characteristics of Employment, 1997 and 1998

	1997 (mill.)	%	1998 (mill.)	%	% change 1997-98
AGE GROUP					
15-24	16.26	19.0	16.35	18.7	0.6
25-39	34.25	40.1	34.92	39.8	2.0
40-54	23.45	27.5	24.44	27.9	4.2
55-64	7.88	9.2	8.20	9.4	4.1
65+	3.56	4.2	3.76	4.3	5.6
LEVEL OF EDUCATION					
Primary and less	56.49	66.1	57.45	65.5	1.7
Junior High School	11.57	13.5	12.20	13.9	5.4
Senior High School	14.09	16.5	14.54	16.6	3.2
Dip I/II/III	1.49	1.7	1.65	1.9	11.1
University	1.77	2.1	1.83	2.1	3.0
MAIN INDUSTRY					
Agriculture	35.17	41.2	39.41	45.0	12.1
Mining and Quarrying	0.88	1.0	0.67	0.8	-23.3
Manufacturing Industries	11.00	12.9	9.93	11.3	-9.7
Electricity, Gas and Water	0.23	0.3	0.15	0.2	-35.4
Construction	4.12	4.8	3.52	4.0	-14.5
Trade	16.90	19.8	16.81	19.2	-0.5
Transportation	4.06	4.8	4.15	4.7	2.3
Finance	0.64	0.8	0.62	0.7	-4.1
Social Service	12.40	14.5	12.39	14.1	0.0
EMPLOYMENT STATUS					
Self Employed	19.60	23.0	20.52	23.4	4.7
Self Employed assisted by family member	17.71	20.7	19.69	22.5	11.2
Employer	1.45	1.7	1.53	1.7	5.1
Employee	29.91	35.0	28.81	32.9	-3.7
Family Worker	16.73	19.6	17.13	19.5	2.4
SEX					
Male	52.95	62.0	53.90	61.5	1.8
Female	32.45	38.0	33.77	38.5	4.1
URBAN-RURAL					
Urban	29.02	34.0	30.30	34.6	4.4
Rural	56.40	66.0	57.37	65.4	1.7
Total	85.41	100.0	87.67	100.0	2.7