



PRESIDEN  
REPUBLIK INDONESIA

## APPENDICES

# REGULATION OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA NUMBER 5 OF 2010 REGARDING THE NATIONAL MEDIUM-TERM DEVELOPMENT PLAN (RPJMN) 2010—2014

## BOOK I NATIONAL PRIORITIES

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## CHAPTER I INTRODUCTION

The 2010-2014 National Medium-Term Development Plan (RPJMN 2010-2014) is the second phase of implementation of the 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025) promulgated through Law 17/2007. The RPJMN 2010-2014 forms the basis for ministries and government agencies in formulating their respective Strategic Plans (Renstra-KL). Regional governments must also take into account the RPJMN 2010-2014 when formulating or adjusting their respective regional development plans to reach national development targets. For the implementation of the 2005-2025 National Long-Term Development Plan, the RPJMN is to be further elaborated into the Annual Government Work Plan (RKP) that will then become the basis for formulating the Draft Government Budget (RAPBN).

Article 4 of Law 25/2004 on the National Development Planning System states the following:

The National Medium-Term Plan (RPJMN), which **elaborates the Vision, Mission, and Program of the President**, the formulation of which is based on the National Long-Term Development Plan (RPJPN), and contains the national development strategy, general policies, programs of ministries/agencies and cross-ministries/agencies programs, regional and cross-regional programs, as well as the macroeconomic framework, which covers the overall economic situation - including the direction of fiscal policy - in a work plan comprising regulatory and indicative funding frameworks.

In order to comply with this stipulation, the 2010-2014 RPJMN is divided into three books:

### **Book I:**

Contains the strategy, general policies and macroeconomic framework, which articulate how President Susilo Bambang Yudhoyono and Vice President Boediono will achieve their Vision of a “**just, prosperous and democratic Indonesia**” as well as their Mission, Action Program and eleven national development priorities.

### **Book II:**

Contains the development plan for fields of social life highlighted in the RPJPN 2005-2025, : “**Strengthening Synergy Among Development Fields**”, to achieve the national development vision described in Book I.



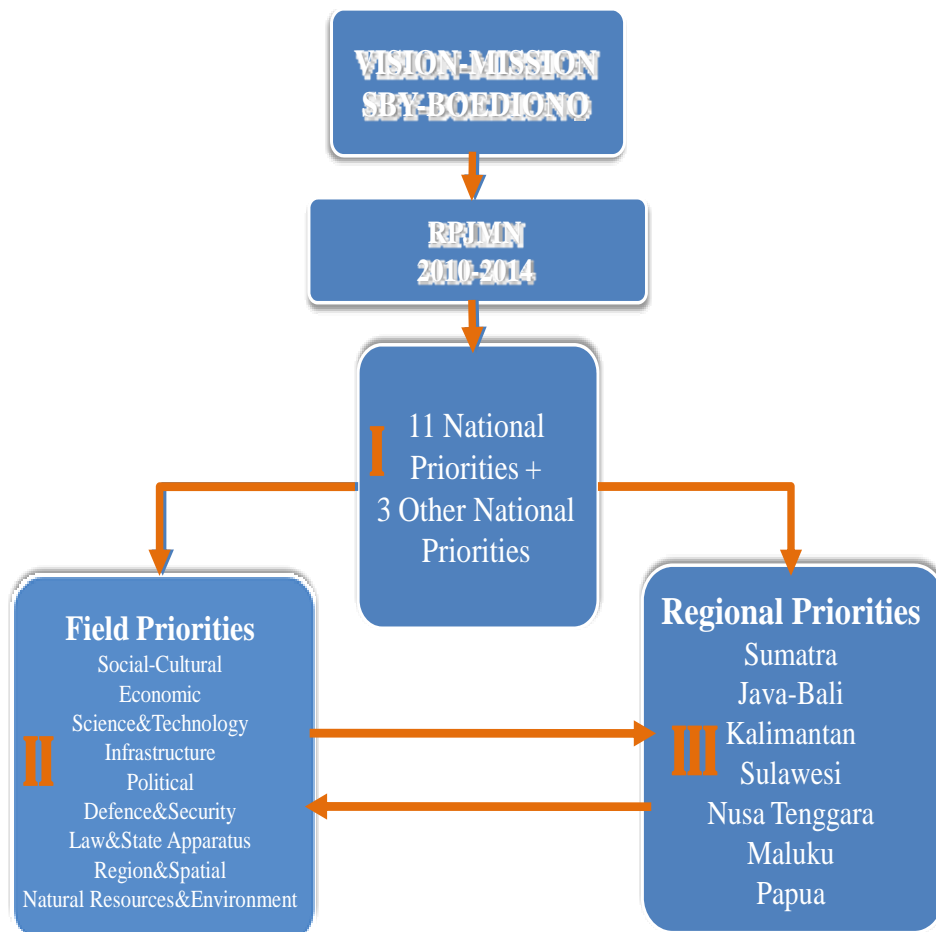
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**Book III:**

Contains the regional development plan, under the theme: “Realizing Synergy Between the Central and Regional Government and Among Regional Governments” to achieve the national development vision described in Book I.

Therefore, the RPJMN 2010-2014 is the guideline that central and regional governments, society, and the business community should follow in order to achieve the goals of the nation contained in the Preamble of the 1945 Constitution of the Republic of Indonesia.

**DIAGRAM 1  
RELATION OF BOOK I, II, AND III**





## CHAPTER II OVERALL CONDITION

### 2.1. Background

The 2010-2014 National Medium-Term Development Plan (RPJMN 2010-2014) is the elaboration of the Vision, Mission, and Program of the President, the formulation of which is guided by 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025). The Vision, Mission, and Programs of President Susilo Bambang Yudhoyono and Vice President Boediono explicitly state their aspiration and conviction for realizing an Indonesia that is more advanced and prosperous, more self-reliant, more secure and peaceful, and more democratic and just.

Indonesia is a grand nation that is in the midst of carving out a new history in order to continue to grow and progress. To become a grand and advanced nation is the common ideal of the people of Indonesia. It is the ideal for becoming a nation that is prosperous, self-reliant, democratic, and just. It is the noble ideal of all Indonesians, from Sabang to Merauke, from Mianggas to Rote Island. All people of Indonesia aspire to a better future for Indonesia. History has shown that the nation has successfully passed a number of trials, challenges, and obstacles. The Indonesian people succeeded in remaining steadfast, to continue in resolute steps, and made it through a long historical process safely.

Ten years ago, the Indonesian people decided to pursue a new path in history, the path of democracy. After being adversely affected by a multidimensional crisis, which had shaken the foundation of national life, Indonesian people had been able to recover. Indonesia had become capable to develop again, and even to develop more soundly, so that the dignity and honor of the nation became recognized and respected by the world again.

A decade ago, the economy experienced a crisis with economic growth contracting by over 13%, the rupiah exchange rate collapsed, the inflation rate reached 70%, government debt skyrocket above 100% of GDP, and poverty and unemployment rose significantly. All economic activities had slumped and stalled. Social disturbances and physical conflicts had been rampant. The political system had been fundamentally transformed by the implementation of democracy, decentralization, and amendment of the constitution. Social life had been drastically changed. Some of the public institutions had no longer become functional. The Indonesian people had been experiencing euphoria of freedom after the reforms. The sudden transition process had created difficulties in its management as a result of the heterogeneity and complexity of the encountered problems.



In the last five years, in the middle of the transition of the nation that had not yet fully recovered and with global challenges that had become more difficult, including the instability of crude oil prices, the increasing prices of food, and the occurrence of the global financial crisis that has resulted in the world economic crisis, Indonesia had been able to manage gradually and steadfastly, to redevelop the nation in all its fields. The economy has recovered and has reached a high economic growth rate that is accompanied by equity (growth with equity), and has in fact been able to restore the degraded natural environment. A social system that upholds noble values has been developed. Likewise, a political life that is secured, peaceful, just, upholding ethical values, and democratic has been developed. A strong and creative cultural life and the national identity have continuously been enhanced. Equality before the law has been increasingly enforced. A secure and peaceful condition has been restored and maintained in conflict regions, mainly in Aceh, Maluku, and Papua.

The implementation of development in period 2004-2009 has produced encouraging results, but still leaves tasks ahead. Onwards, Indonesia possesses a great opportunity of becoming an even more advanced nation, but the various challenges and trials will not be trivial. The global population will continue to increase, nature is increasingly taxed in meeting the needs of mankind. Energy, food, and water are commodities that will become increasingly more scarce and valuable, they must kept secured and need to be managed in the framework of environmental harmony. Technological progress and globalization will provide opportunities, but will also pose challenges and problems for Indonesia's human resources.

Indonesian people are steadfast to strategically step forward in the 2010-2014 period to jointly overcome the problems and face challenges in order to utilize all of the existing potentials and opportunities. All these are endeavored by the people of Indonesia for attaining their ideal goals, namely (i) to realize public welfare through economic development that is based on its competitive advantage, its natural resources, its human resources and national culture, which is fully supported by the mastery of science and technology, (ii) to realize a society, nation and state that is democratic, civilized, dignified, and upholds the responsibility of freedom and basic human rights, and (iii) to realize development that is just and equitable, that is carried out actively by all, and which results can be benefit by all the Indonesian people.

## **2.2. Achievements of National Development in 2004-2009**

In the period 2004-2009, through hard work and in the midst of various domestic and international challenges, the Indonesian people succeeded in creating a more secure, peaceful, just, democratic, and prosperous Indonesia. Indonesia has not only succeeded to recover from the crisis, but has also been able to develop its national resiliency, achievements, and sound reputation in the world community.

Indonesia's development success has already yielded various achievements and appreciation at a global level. Progress in economic development during the last five



years has made Indonesia able to further narrow down the gap between the progresses of developed nations. The developed nations that are part of the OECD (Organization of Economic and Cooperation Development) have recognized and appreciated the progress of development of Indonesia. Therefore, Indonesia, together with China, India, Brazil, and South Africa have been invited to join the group of 'enhanced engagement countries', nations that are increasingly involved with developed nations. Indonesia has also become part of the G-20 nations, the twenty nations that form 85% of the world's GDP, that have a very important role in the determination of global economic policies.

In the last three years much progress has already been attained in the efforts to realize the three development agendas of RPJMN 2004-2009.

The efforts to realize an Indonesia that is secure and peaceful have already produced results. Throughout Indonesia there are significant security threats. Peace attained in Nanggroe Aceh Darussalam and in various other conflict areas, such as Maluku, Central Sulawesi, and Papua, has already showed increasing security. The relatively high population mobility is one of the signs of an improved security situation in the country. Likewise, the increased domestic, as well as foreign investments are an indication of attained security improvements.

Significant improvements are also evident in the efforts to realize an Indonesia that is just and democratic. Indonesia has succeeded in a political transformation process that has changed the political system of the nation from an authoritarian nation to a nation with a democratic political system. The existing state institutions have evidently operated in a more dynamic manner in order to implement the roles and functions stipulated to them by the constitution. Independent state institutions that have been established in the reform era on the basis of the stipulations of the 1945 constitution that had been amended and on the basis of new legislation have already shown good performance.

The legislative general election has been implemented in an honest, just, secure, and unimpeded way, as many as three times since the political reform had been launched in 1997/1998. The consolidation of democracy has reached its apex with the implementation of the direct general election of the President and Vice President for the first time in 2004, followed by the direct general elections of regional heads in 2005. In 2003, all of the regional heads were still indirectly elected by the Regional Parliament (DPRD), while in 2007 two-thirds were already directly elected. Now, all of the regional heads of provinces and districts cities throughout the nation have been directly elected by the people. The implementation of the elections and all elections of regional heads has also proceeded in a democratic, honest, just, secure, and peaceful way.

Accountability at regional governmental level has continued to improve. Regional heads that have been able to perform well during their terms office have generally been re-elected. Some of the heads of districts/cities with optimal performance had in fact become elected as governor or vice governor. The government also needs to continue the process of developing all state institutions at central and regional levels. Various



independent institutions have been formed in order to strengthening the checks and balances mechanism.

In the last five years, civil liberties have been improved, which can be seen the greater guarantee of the freedom of expression, freedom from fear, freedom to engage in business, and to freedom of association.

Seeing these achievements, it can be said that Indonesia is steadily moving forwards in the process of consolidating democracy in accordance with the mandate of the 1945 constitution.

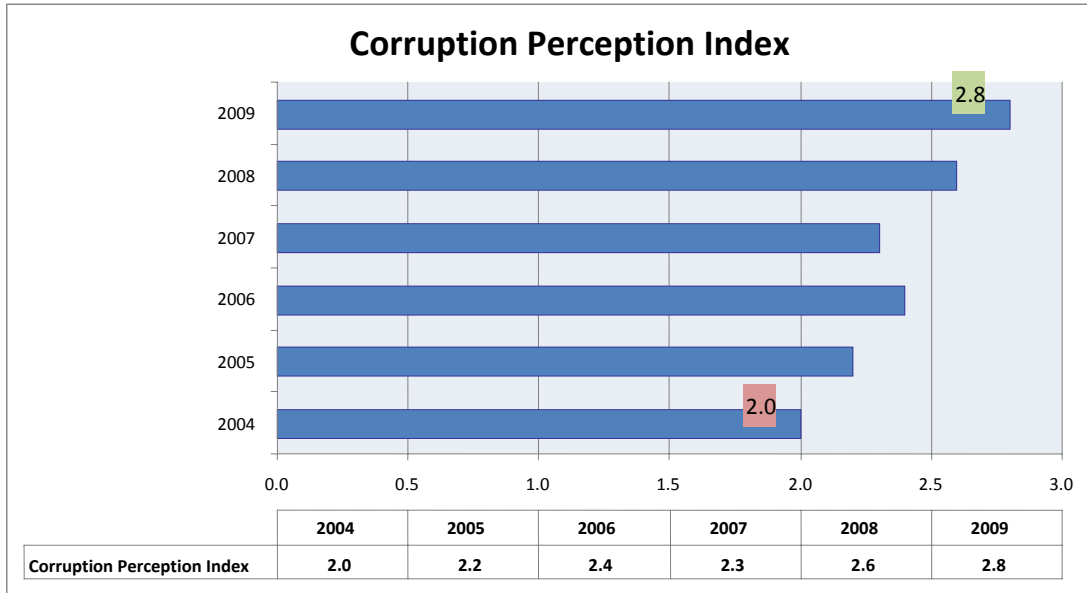
One of the important parts of the process of transformation is the agenda of realizing justice in the developed system of good governance and clean government. Indonesia has succeeded in rising from a nation that had a system of governance that was deemed poor, due to the prevalence of corruption, collusion, and nepotism (KKN), into a nation with an improved governance that has become more credible, and that has become free from various individual and group interests.

In the field of law enforcement, including the efforts to eradicate corruption, legal action against corruptors has been carried out indiscriminately. This shows that no one is above the law. This also includes law enforcement officers. The judiciary, the police force, and the Corruption Eradication Commission (KPK) have succeeded in uncovering and prosecuting criminal cases that have caused losses of state finance. The realization of an Indonesia that is clean from corruption had been supported by the compilation of effective legislation and by the implementation of law and regulations without compromise. Through these measures, Indonesia has been able to enhance its stance in the eyes of the world community.

The UNDP report entitled 'Tackling Corruption, Transforming Lives' of 2008, states that the corruption perception index (CPI) of Indonesia has shown much improvement. In a scale from 1 to 10 - with the scale of one indicating a perception of a nation being most corrupt and a scale of ten to a country indicating it being the least corrupt- the CPI of Indonesia improved from 2.0 in 2004 to 2.6 in 2008, and 2.8 in 2009.

At the same time, efforts to carry out reform of the bureaucracy in a planned, comprehensive and in a phased manner has continually been consolidated. Bureaucratic reform measures have aimed to improve public services, meaning that the bureaucracy is the servant and the protector of the public interests. Measures that have been and will be continued include efforts to pursue improvements of the work system and the national culture, to make performance measurable, and to discipline enforcement, to achieve institutional and administrative reform, and to achieve improvements in the appropriate remuneration system. This includes improving transparency and accountability in the governance process. All this is essential to implement good governance.

**DIAGRAM 2**  
**CORRUPTION PERCEPTION INDEX OF INDONESIA**



Source: UNDP

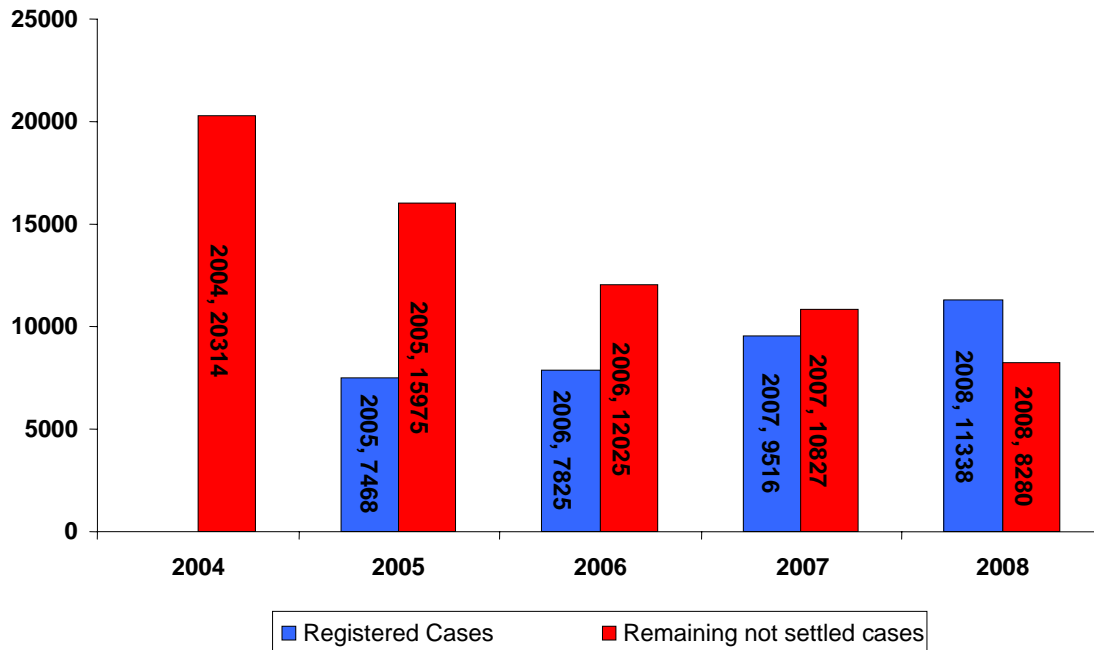
The achievements in the development of the law are not separated from the role of the judiciary institutions. The handling of legal cases at the four judiciary institutions, namely: the General Courts, the Religious Courts, the Military Courts, and the State Administration Courts, have shown an increase in performance in the last five years. From 2005 to 2008, the number of legal cases that were registered at the Supreme Court increased by 51% (see Diagram 3). In terms of cases with judicial rulings, the effectiveness of the Supreme Court had also increased, as indicated by the decrease in backlog cases. In 2004 the backlog cases were as many as 20,314, which dropped to 8,280 cases in 2008.





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**DIAGRAM 3**  
**GRAPH OF REGISTERED CASES AND OF BACKLOG CASES**



In the efforts to increase prosperity, great challenges were faced by the government in the period 2004-2009. In December 2004, the tsunami hit Aceh, followed by the natural disaster occurring in Nias Island. In addition, the global economic shock that was continued by the energy and food crises that occurred in 2006 and towards the end of 2007 created pressure on the Indonesian economy. Such pressure was continued by the financial crisis in the United States in 2008, which triggered the global economic crisis, which was reflected in slow economic growth in various nations.

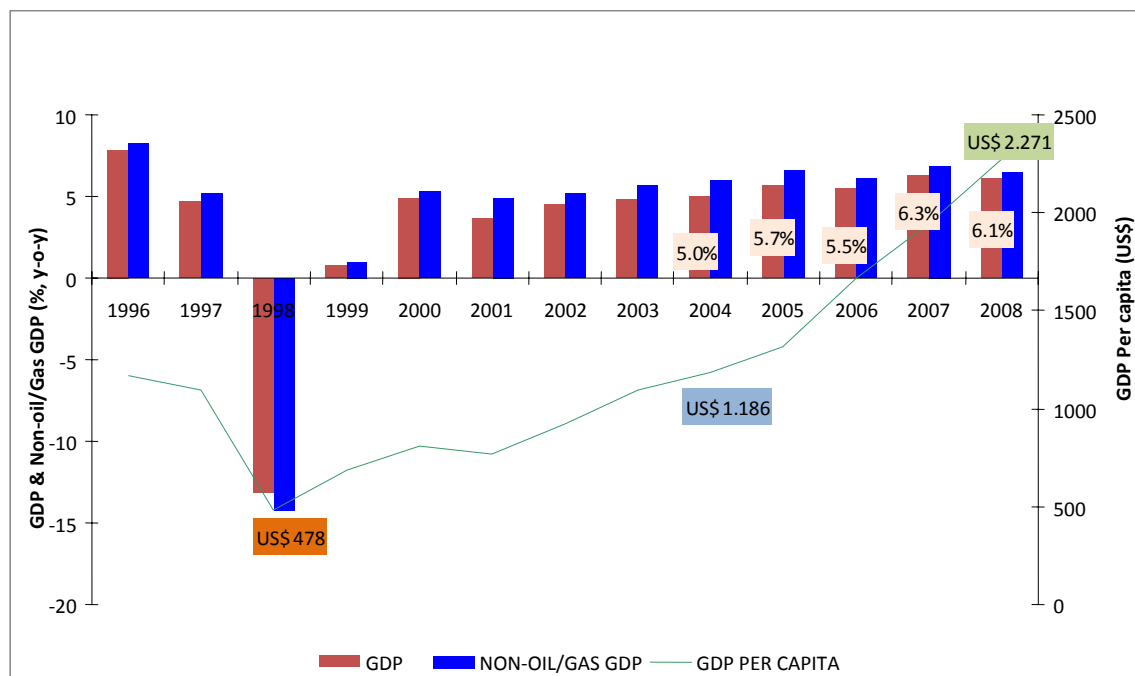
Towards 2009, such pressure continued to be alarming as the world economic situation still poses a number of uncertainties. Last year, many have predicted that the impact of the global economic crisis will continue in the coming years to affect the world's economy. Indonesia was classified as one of the few countries in the world by the opinion of various international institutions that are believed to stand strong in the global economic crisis. This was demonstrated by the fact that the Indonesian economy is still seeing positive growth, since the start of the crisis in 2008.

In the period 2004-2009 the National Medium-term Development Plan was divided into three economic development strategies, including the 'pro growth, pro job, and post poor' strategy. Through the 'pro growth' strategy economic growth had accelerated and was accompanied by the improvement of the distribution of income (growth with equity). The acceleration of economic growth has created a greater number of employment opportunities, so a larger number of Indonesian households

have been freed from poverty and have been able to strengthen their economic ability to withstand economic shocks. This shows that the 'pro growth, pro job, and post poor' strategy had provided development directions that are correct and are giving the desired results.

More specifically, in the 'pro growth' agenda, economic growth has been accelerating. In the period 1997-1999 the economic crisis resulted in an economic decrease of 2.9% per year. In the period 2000-2004 also known as the period of economic recovery, the economy again had a positive growth of 4.5%. Within the period 2005-2008 the economic growth has reached an average of 6%. In fact, by excluding the oil and gas sector, the non-oil and gas economic growth has already approached 7%. It reached 6.6% in 2005-2008, this compared with 5.4% in between 2000 and 2004. In 2009, up to the third quarter, the average economic growth reached 4.2%. For the whole of the year 2009, economic growth was about to reach an average of 4.3%. The performance of Indonesia's economic growth has made Indonesia to be deemed as having a well performing economy, compared to many nations who were experiencing negative economic growth rates.

**DIAGRAM 4**  
**ECONOMIC GROWTH AND GDP PER CAPITA**





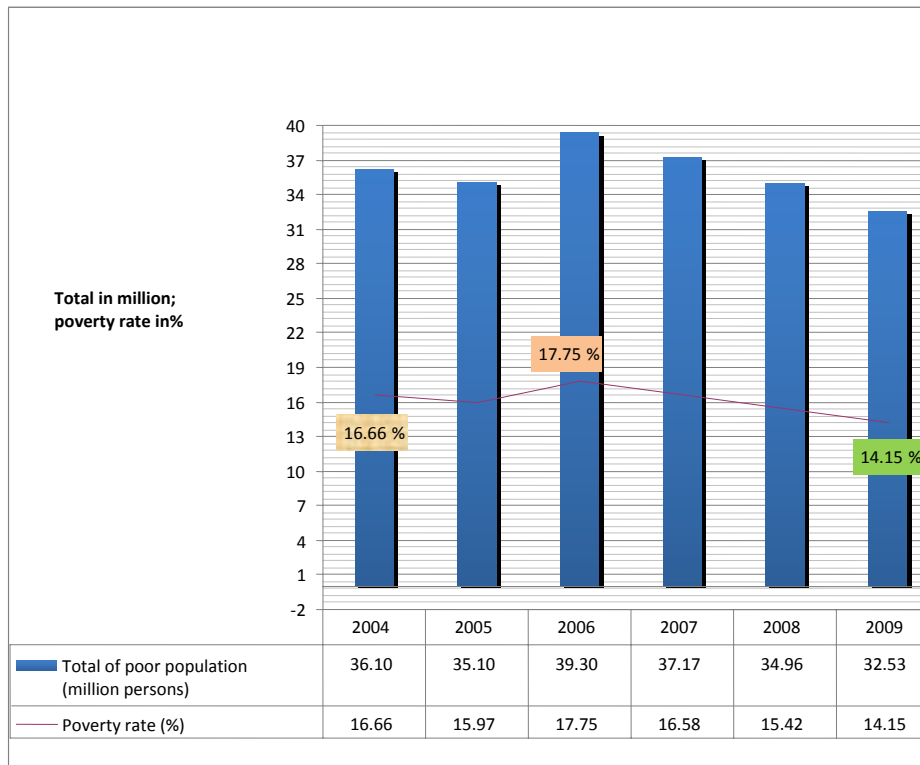
Economic growth is also reflected in the increase in income per capita. Indonesia's income per capita reached USD 2,271 at the end of 2008, almost double compared to the income per capita in 2004, when it was of USD 1,186 per capita. Because of this increasing income per capita, Indonesia became classified as a lower middle income country.

This economic growth has been able to reduce the poverty rate. Based on the poverty line, the poverty rate had declined from 16.7 per cent (36.1 million persons) in 2004 to 14.1 per cent (32.5 million persons) in March 2009. In addition, the reduced poverty rate was also partly attributed to various intervention programs, which form a part of the efforts to meet the basic rights of the people. These efforts are continually being implemented for providing wider access to low income communities in order to have them benefit from the economic growth. These measures are pursued through the following:

**First**, the provision of subsidies (such as subsidies for food, fertilizers, and program credits). This also comes in the form of social assistance, such as the program for Social Health Security (Jamkesmas), the School Operational Assistance (BOS), and the Family Hope Program (PKH). The PKH is implemented in order to meet the basic needs of households when they are not able to fulfill themselves. In addition, budget allocations have also been made in the form of the Unconditional Cash Transfer (BLT) as part of the National Program for Self-Reliant Community Empowerment (PNPM), the credit guarantee fund/financing for micro, small, and medium business entities (UMKM) and cooperatives, and through the Smallholder Credit Program (KUR).

**Second**, by facilitating and expanding business opportunities through eliminating various levies that have arisen in selected regions due to the fact of reform and decentralization. They have increased the costs of doing business for micro, small and medium enterprises. Various efforts have been pursued for improving the business climate, including the amendment of the Law on Regional Taxes and Service Charges, which aims to enforce greater discipline to regional governments in their determination of new levies without eliminating the spirit of fiscal decentralization. Other steps include the issuing of Presidential Instruction (Inpres) Number 6 of 2007 and Presidential Instruction (Inpres) Number 5 of 2008, which contains action programs to improve the business climate for micro, small, and medium enterprises.

**DIAGRAM 5**  
**TOTAL OF POOR POPULATION AND POVERTY RATE**

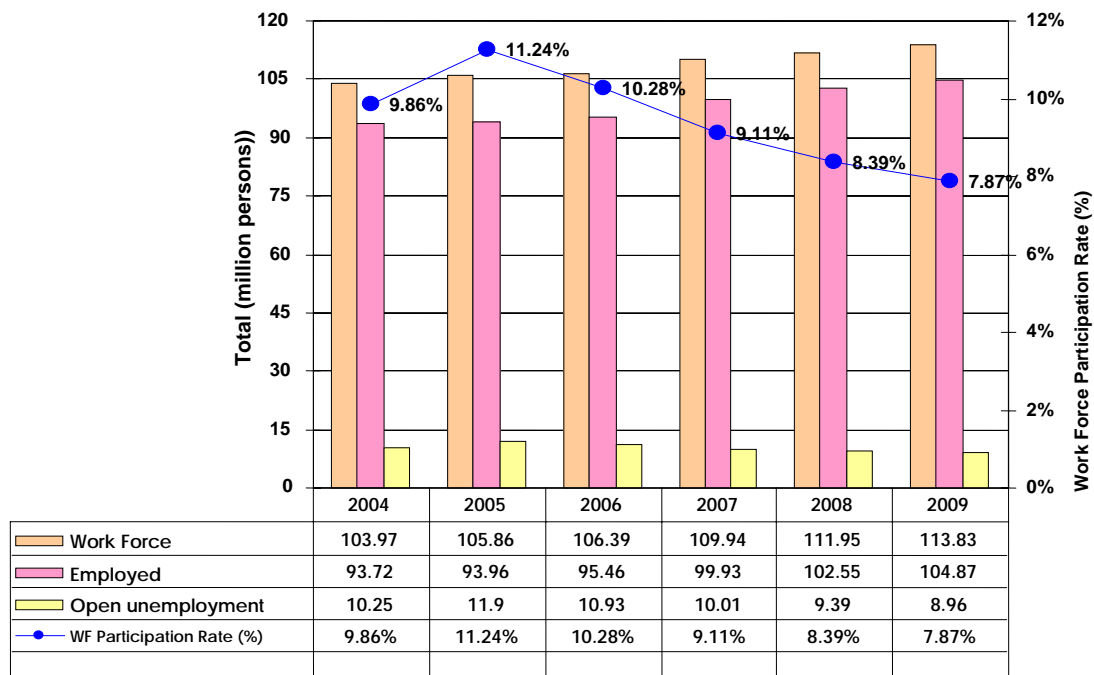


Significant improvements have been attained in the effort to reduce unemployment as an effect of the 'pro job' strategy. In the period 2001-2004 the total number of the work force increased and reached the level of 1.72 million persons per year. The total number of employment opportunities that have been created reached 970 thousand per year. In the period 2005-2009, the total work force increased by 1.99 million persons per year, while the created employment opportunities reached 2.73 million per year. Therefore, the total number of unemployment was reduced from 10.25 million persons in 2004 to 8.96 million persons in 2009, with the open unemployment rate declining from 9.89% to 7.87%. Employment opportunities have still been created, even though the occurrence of workers discharged at the end of 2008, and the total number of enterprises submitting applications for discharging had been substantial due to the fact of the coinciding ending of production contracts, especially those relating to export. The amount of formal workers rose by 3.26 million persons and the total amount of informal workers rose by 7.65 million persons. The migration of 'surplus labor' from informal employment to formal employment with more productive and higher wages is the main aim of development, economic growth, and the efforts to reduce poverty.



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**DIAGRAM 6**  
**TOTAL OF THE LABOUR FORCE, EMPLOYED WORKERS, AND OPEN UNEMPLOYMENT**



With regard to the development of infrastructure, various strategic infrastructures have been completed, among others development of the Hasanuddin Makassar Airport, development of the Suramadu Bridge, and the further development of 11 full container terminals for supporting export and import activities in, the harbors of: Tanjung Priok, Tanjung Perak, Belawan, Tanjung Emas, Panjang, Makassar, Banjarmasin, Pontianak, Bitung, Samarinda, and Palembang. In addition, 11 dams have been constructed that can contain approximately 79 million cubic meters of water in order to meet the needs of water for irrigation, households, industries, and for electricity generating stations. The program for increasing the construction of the 10,000 MW Coal Fired Electricity Generating Stations has significantly increased the electrification ratio for around 66.3%. The ratio of villages with electricity was around 96.8%, with the loss rate of around 11.5%. The program aimed to reduce the dependence on oil fuels and to improve the energy mix of electricity generating stations. Meanwhile, the development of information and communications infrastructure has increased the tendency of fixed lines (including fixed wireless access/FWA) by almost 140%, namely from 4.79% to 11.49%, with the growth of cellular connections by 340%, and a growth of internet users reaching around 101%.

The government has also encouraged the participation of private companies, the general public, and regional governments in the operation of infrastructure facilities.



The scheme for the development of the infrastructure through the Public Private Partnership (PPP), as stipulated in Presidential Regulation Number 67/2005 has continually been revised. Such revisions have also been accompanied by the formulation of the technical guidelines for implementing the PPP at the central and regional levels. The government has also launched the 2008-2009 Economic Policy Package as stipulated in Presidential Instruction 5/2008 on the Focus of Economic Development in 2008-2009 as a follow-up of various preceding policies. These steps were carried out in order to overcome problems that impede investments in infrastructure, including those related to the participation of the private sector. An important element of this policy package is that framework for the PPP includes the mechanism for preparing projects, the transparent and accountable tender process, and the risk allocation between investors and the government.

Significant progress has also been attained in the production of food products. The production of all food products has significantly increased, particularly during the last two years (see Diagram 7). The production of rice reached 59.9 million ton in 2008, which was the highest attained thus far. These production increases have not only been able to free the nation from food crises but have also reduced the pressure of other nations in increasing the supply of rice in the global market. Indonesia has previously been one of the largest rice importers of the world; due to this fact, every time that Indonesia has to imported rice in large quantities, the price of rice in world markets has increased by USD 20-50/ton.

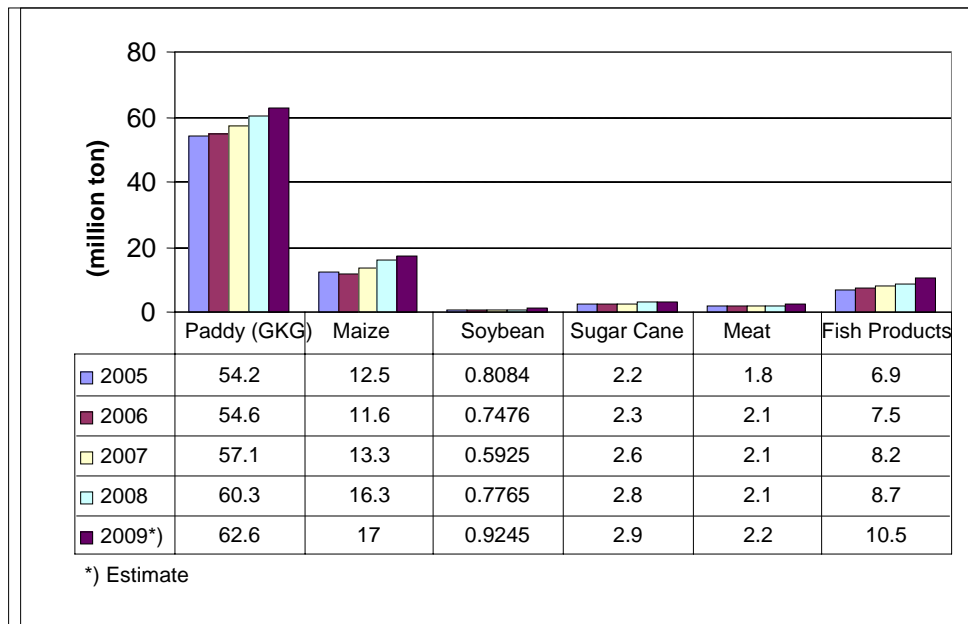
The ability to increase the production of rice, and at the same time to control its price level has made Indonesia become capable of overcoming the food crisis. This ability has been recognized and appreciated by other nations. At the Food Summit Conference in Rome in June of 2008, the Food and Agricultural Organization (FAO) praised Indonesia for this achievement. The FAO has in fact stated that this achievement should become a model for other nations in the efforts to overcome the global food crisis. This success in increasing rice production should be maintained continuously.

The increase in food production has also been attained in other commodities, including sugar, soybean, and maize. The success in attaining the increased food production will be a benefit for both producers and consumers. Producers will experience an increase in their welfare, while consumers will benefit from the attained stability of food prices. As a half of the poor households' income in rural areas relies on agricultural activities, the increased food production is a welcome benefit. This condition will in return decrease the poverty rate in rural areas, as it also did in the 1970s and 1980s.



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**DIAGRAM 7  
PRODUCTION OF FOOD**

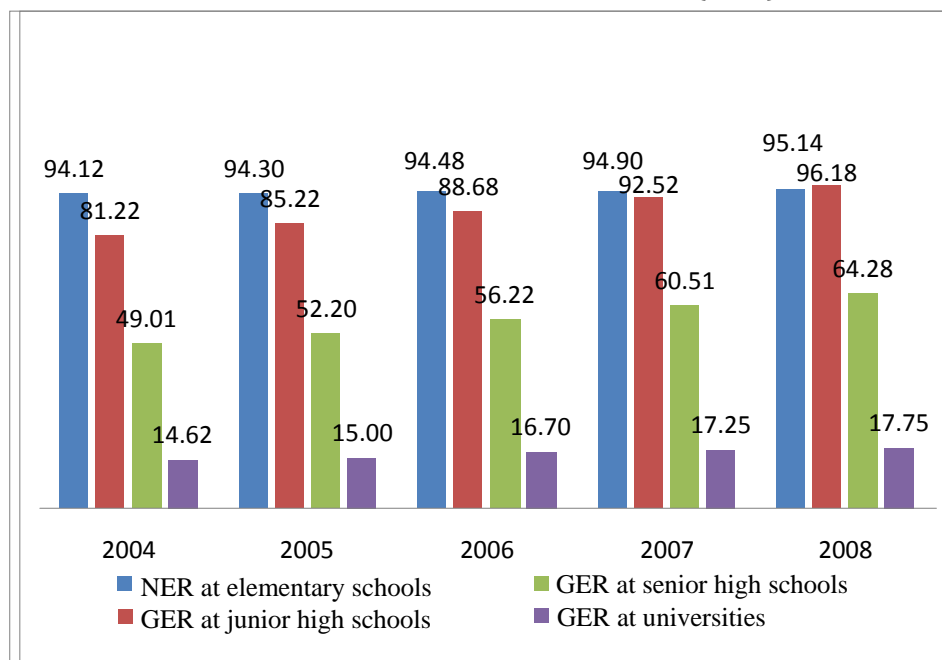


The budget allocated to the education sector has been increased dramatically. In 2005, the budget allocation was Rp 78.5 trillion. In 2008, the budget allocation for education, in accordance with the stipulation of the constitution increased two times to the amount of Rp 154.2 trillion. In 2009, by stipulation of the constitution that warranted the budget, the budget for education covered 20% of the total with Rp 207.4 trillion. The increase of the budget allocation for education can improve access to education and increase the quality of education in general.

Progress is also evident in the increased gross enrolment rate at the junior high school level (SMP/MTS/SMPLB/Package B) and senior high school level (SMA/SMK/MA/SMALB/Package C), which increased from 85.22% and 52.20% in 2005 to 99.18% and 64.28% in 2008. The increase in the gross enrolment rates is attributed to the implementation of the School Operational Assistance Program (BOS) that was initiated in 2005. This program had been able to effectively reduce the school costs that are faced by Indonesian households. With additional support from the regional government budget (APBD) more regions became able to provide free education. From the demand side, the government initiated the new incentive scheme for encouraging poor households to send their children to school through the PKH (Family Hope Program) by providing conditional cash transfer. Through the combination of the universal BOS program from the supply side and the limited PKH program, it is

expected that not only the inter-generation poverty chain-link could be cut but also the competitiveness of the people could be enhanced at a global level.

**DIAGRAM 8**  
**NET ENROLMENT RATES (NER)**  
**AND GROSS ENROLMENT RATES (GER)**



The achievements of the education programs significantly depend on the available quantity and quality of teachers and university lectures. The increase in the budget allocation for education has been used for assisting regional governments in the rehabilitation of school buildings that were built in the 1970s and 1980s – and for increasing the total number of class rooms and new schools, for the purpose of increasing the standard level of teaching and university lectures.

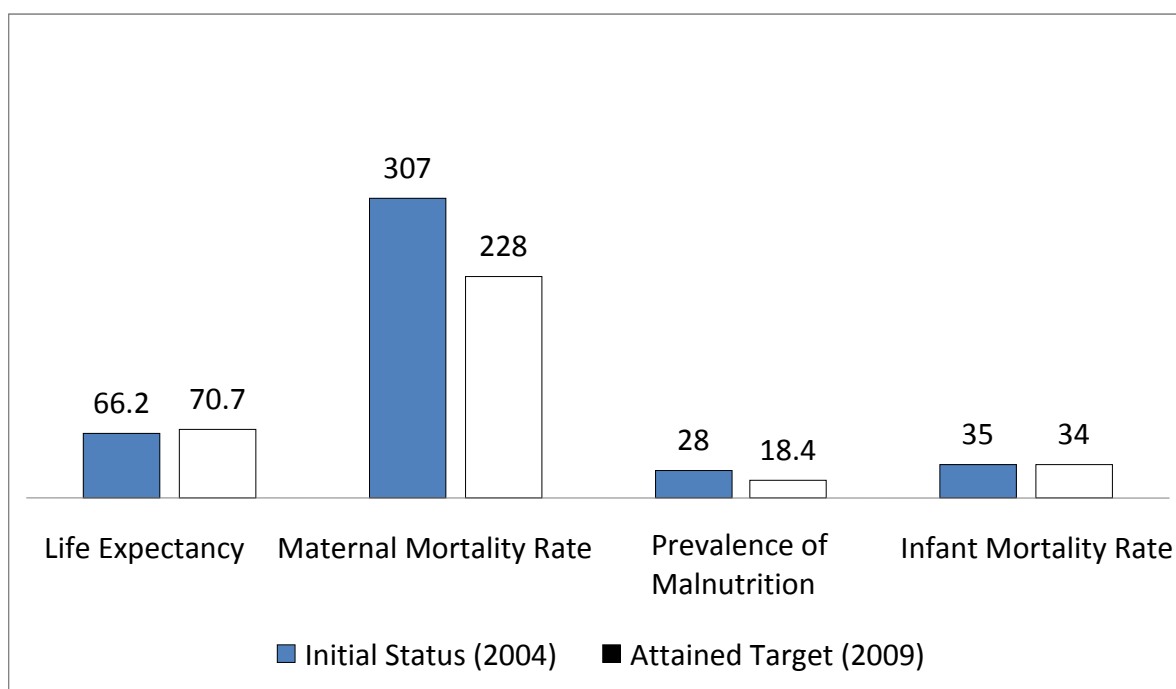
The efforts to increase the quality of education have also been endeavored by providing the widest possible opportunity for the general public to develop schools and universities of international quality. By starting at the senior high school level (SMA), the government gradually increased its quality in order to reach the international standing by implementing computers and enhancing the mastery of foreign languages that are necessary for international access.

Efforts to increase health services have also been continually increased. In 2005, the budget allocation for health was Rp 7.7 trillion while in 2008 it was Rp 17.9 trillion. Most of the additional budget allocation has been used for enhancing health services at the Public Health Centers (*Puskesmas*) and at the Integrated Services Centers



(*Posyandu*) that are financed by the Community Health Security (*Jamkesmas*), as the program aiming to serve the disadvantaged communities. In 2008, this program facilitated health services for 76.4 million people. In order to broaden the access to medication to the public, steps have been taken to significantly and continually lower the price of generic medicines. A portion of the continuously increasing health budget has been used for recruiting new doctors and paramedics, and for assisting regional governments in rehabilitating the *Puskesmas*, and for building new hospitals in various regions. A part of the budget has been used for the Program to Revitalize Family Planning, which was somewhat neglected in the initial period of the reform and decentralization. To a certain degree, the expansion of the health sector had gained various results, such as the decline of the prevalence of malnutrition in children.

**DIAGRAM 9**  
**COMMUNITY HEALTH AND NUTRITION STATUS**



In the context of efforts to face and overcome the global financial crisis, Indonesia is now relatively more prepared compared to many other nations. The financial sector is much healthier compared to the situation prior to the 1997/1998 economic crisis. Nonperforming loans at the end of September 2009 contained only 3.8%, a much lower rate than the 35% in the period towards the 1997/1998 crisis. The oversight system of the banking and financial sector has been improved. Macroeconomic risks have declined as a result of the declining ratio of government debts, this includes foreign debts. The ability to face the global financial crisis has strengthened Indonesia's position in the



world. In the past, Indonesia has invariably obtained critics regarding policies to overcome crisis, now various nations have been asking for recommendations from the Indonesian government to overcome the crisis.

The achieved progress was made possible by cooperation and hard work of the government, business community and the Indonesian people. One of the achievements is the enhanced management of tax payments. The sources of development funding currently depends more on tax revenues and on domestic funding. The fiscal consolidation carried out in the past has already shown satisfactory results, which have not only strengthened fiscal sustainability but have also created relatively greater amounts of development funding for the domestic economy.

The essence of the fiscal consolidation lies in the improved structure of state revenues, greater effectiveness of government expenditures at the central as well as regional levels, and reduced fiscal risks, practically in regard to budget deficit financing. The structure of government revenues has become healthier with the increase of revenues from non-oil and gas sources, and specifically from income tax revenues. The number of registered taxpayers having the NPWP (Tax Payer ID Number) has climbed past 10 million in 2008. The increase of tax payers had not only increased tax revenues but had also curbing the risk of fluctuation in tax revenues. The tax to GDP ratio increased from 12.5% in 2005 to 14.1% in 2008. The increase in revenues is also the result of the steps taken to comprehensively reform of the tax system that led to the improvement of the tax compliance.

Regarding the expenditure side, the need for financing expenditures for education, health, and infrastructure have continued to be increased. On the expenditures side, government spending is moving towards an optimum level of effectiveness. There is some expenditure that cannot be realized, this is partly explained by the improved procurement system following the introduction of e-procurement that has achieved up to 15% expenditure savings.

Fiscal consolidation has improved the macroeconomic risk of Indonesia. The ratio of government debt to GDP was 56.4% in 2004%, and has gradually declined to 30% in 2009. The fall in this ratio was accompanied by the fall of the total foreign debt stock. The financing of the budget deficit now relies more on the domestic industry. The decrease in Indonesia's debt ratio is better compared to the declining trend of the debt ratios of other Asian nations. Therefore, the fiscal consolidation process could become the engine for further improvements in Indonesia's investment grade.

### **2.3. Challenges to National Development**

In the next five years (2010-2014), the challenges faced by national development will not be easy. In the midst of global competition, there are a number of challenges that have to be faced in the efforts to realize an Indonesian society that is prosperous.



**First**, the realization of the economic growth rate of around 6% in the period 2004-2008 is inadequate in order to realize the goal of a prosperous Indonesia. There are still many communities in Indonesia that are left-behind and that are not yet able to benefit from the economic growth if the annual growth rate remains at 6%. Technological progress has reduced the need for manpower in production processes. In order to create inclusive development, it is necessary that development has an annual economic growth of 6.5% for the next five years.

**Second**, the desired economic growth should involve the largest possible number of Indonesia's population (inclusive growth). This is for accelerating the reduction of the population living below the poverty line and for strengthening the capacity of households to be resilient in facing shocks. The reduction of poverty cannot fully rely on economic growth, but also requires various effective intervention measures. Inclusive growth requires appropriate government intervention measures that affirmatively benefit marginalized groups. This is in order to ensure that all community groups have adequate capacity and equal access to emerging economic opportunities. Given the fact that capacity increases require time to materialize, it is necessary that for this to be done with an affirmative program that is implemented in a consistent and continuous manner with clear and accurate targets.

**Third**, in order to reduce inter-regional gaps, it is necessary that economic growth is spread-out in all regions of Indonesia, especially in regions that still have relatively high poverty rates. Growth in all regions must take into account the linkages of local participants and resources, so that more community members can become involved and benefit from the yields of economic growth and from the added value-in these regions.

**Fourth**, in order to reduce the gap among business participants, it is necessary that economic growth provides the widest possible job opportunities and that it is evenly spread within the development sectors to create large work opportunities. It is expected that through investment, economic growth could create a large number of employment opportunities. It is also to be expected that micro, small, and medium scale enterprises can grow and develop for further productivity and stronger competitiveness. The expected higher economic growth can be realized if workers are equipped with the skills, competence, and the ability to work and be prepared to face global competition in the labor market. Education alone is insufficient, as many workers are still not ready to enter the labor market.

**Fifth**, economic growth must not damage the natural environment. Environmental damage will lead to unsustainable economic growth. Ineffective management of natural resources will result in the rapid depletion of resources and could easily lead to the recurrence of a food and energy crisis, as occurred in 2007-2008. Degradation of the natural environment will result in the increase in the cost of living and a reduction of the quality of life. Degradation of the natural environment is also suspected to be one of the main causes of epidemics and respiratory diseases. Environmental aspects become more widely associated with climate change issues which are strongly linked with degradation of the natural environment and with not environmentally friendly



activities. Climate change threats do not only relate to the potential occurrence of unpredictable calamities, like natural disasters, but also threaten the productivity of natural resources. If this happens, then the food crises could recur again.

**Sixth**, the development of infrastructure becomes more important for a number of reasons. Accelerated economic growth needs additional quantity and increased quality of the nation's infrastructure. Revitalization of agriculture cannot succeed without an adequate infrastructure, and marketing cost dominates in the cost structure of the final agricultural commodities. Poor households will not be able to participate in the economic growth process if they are isolated due to the absence of infrastructure. Environmental problems, such as water, air, soil pollution, and floods in urban areas, are closely related to the absence of an inadequate infrastructure. Even though budget expenditures in infrastructure have been increased, infrastructure gaps still exist, at the national as well as inter-regional levels. Therefore, development of basic infrastructure must become a priority.

**Seventh**, the source of quality and sustainable economic growth must come from increased productivity. Increased productivity is very much determined by the increase of the quality of human resources, especially through their mastery of science and technology. Human resources are not only to be considered in terms of their role as a factor of production but also in their ability to coordinate other factors of production. Therefore, enhancing the quality of Indonesia's human resources, specifically in the mastery of science and technology, is a determining element in the efforts to attain an inclusive and sustainable development. In the next five years, the increase of human resources in Indonesia must be aimed at enhancing the skills of the Indonesian people and involving efforts to overcome the gaps in the skills of the people, considering the position of different income bracket groups and gender in the different regions. Only through government intervention can gaps in the quality of human resources be overcome.

**Eight**, the success of the economic development process depends on the quality of the bureaucracy. The currently quality of Indonesia's bureaucracy needs to be enhanced in order to be able to face global competition. The high cost economy that is currently evident is not unrelated to the low quality of the bureaucracy. Therefore, the success of bureaucracy reform is the key to enabling Indonesia to increase its national competitiveness and face competition in the global market.

**Ninth**, democracy is the basis of national life and in Indonesia, the implementation of democracy has attained much progress. It must nevertheless also be admitted that some elements are still under process. Many aspects of democracy are still inadequate. Therefore, it is necessary for democracy to be further consolidated. Furthermore, decentralization is related to democracy. The decentralization process has been implemented for almost ten years. Nevertheless, the transformation process of the governmental system has not been without problems. The consolidation of the decentralization process by the strengthening of synergy between the central and regional governments and among regions is an important aspect required to attain an



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optimal benefit from the integration with global economy. In this regard, one of the strategic steps that need to be made is enhancing the capacity of regional governments.

**Tenth**, in a democratic system, the law is supreme. Consistent law enforcement, including the eradication of corruption, can provide a sense of security, justice, and a climate of business certainty. Many efforts have addressed this in order to reform the legal system. However, the function of the law, for guiding daily behavioral of the Indonesian people, still needs further improvement.



## CHAPTER III DIRECTIONS OF RPJPN 2005-2025

### 3.1. Vision and Mission of RPJPN 2005-2025

Based on the current condition of Indonesia, the challenges to be faced in the upcoming twenty years, by taking into account the basic assets of the Indonesian nation, and the development tasks stated in the Preamble of the 1945 Constitution of the Republic of Indonesia, the National Development Vision and Mission for 2005-2025 is as follows:

#### **INDONESIA THAT IS SELF-RELIANT, ADVANCED, JUST, AND PROSPEROUS**

That is elaborated as follows:

**Self-reliant:** A nation is self-reliant if it is capable of realizing a life that is equivalent and equal to that of other nations that are already advanced by relying on the nation's own capability and strength.

**Advanced:** A nation is advanced if its human resources have a national identity, noble morals, and have high quality education.

**Just:** A just nation means that there is no discrimination in any form, among individuals, gender, nor among regions.

**Prosperous:** A prosperous nation is a nation that fulfills all necessities of life and can provide meaning and significance for other nations in the world.

**The eight National Development Missions** are the following:

1. **Realizing a society that has high morals, ethics, culture, and civilization, based on the Pancasila**, which aims to strengthen the national identity and character, through education that is aimed to form individuals who steadfastly believe in the Almighty God, who comply with the law, maintain internal harmony and harmony among adherents from different religions, who practice inter-cultural interaction, who develop their social assets, who apply noble dedication to cultural values of the nation, and who possess national pride in the sense of consolidating the spiritual, moral, and ethical foundations of the nation.
2. **Realizing a nation that is competitive**, that places a high importance on the development of quality and competitive human resources; increasing the mastery



and utilization of science and technology through research, development, and application towards sustainable innovation; development of advanced infrastructure and reforming the law and state apparatus; and strengthening the domestic economy based on the competitive advantages of each region by developing the inter-linkages among the systems of production, distribution, and services provision, including the provision of domestic services.

3. **Realizing a democratic society based on the rule of law**, that is the consolidation of stronger democratic institutions; strengthens the role of the civil society; strengthens the quality of decentralization and regional autonomy; assures the growth of the media and freedom of the media in the communication of the public interest; and reforms the structure of the law and enhances the law of culture and enforces the law in a just, consistent and in a non-discriminative way.
4. **Realizing an Indonesia that is secure, peaceful, and united**, that is developing the strength of the TNI (Armed Forces of Indonesia) so that the TNI can build and strengthen itself beyond the minimum core force and can be respected at the regional as well as international level; consolidating the capability and increasing the professionalism of *Polri* (Police Force of Indonesia) so that it is capable to protect the people; prevent crimes, and is able to fully resolve criminal cases; develops the capability of state intelligence and counter-intelligence in the creation of national security; and increases the preparedness of the reserve components, defense supporting components and contributes to the national defense industry in the overall defense system.
5. **Realizing development that is equitable and just**, that is increasing regional development; reduces overall social gaps, is pro people at large, and pro groups and regions and areas that are weak; reduces poverty and unemployment dramatically; provides equal access for the general public to various public services and economic facilities and infrastructure; and eliminates discrimination, including in gender.
6. **Realizing an Indonesia that is balanced and sustainable**, that is improving the management of development that can maintain the balance among the utilization, sustainability, availability, and uses of the natural resources and environment, while still preserving the functions, capacity, and comforts of life in the present and in the future through the utilization of space that is harmonious for use for human settlement, for social economic activities, and for conservation purposes; increases the economic use of natural resources and the environment in a sustainable manner; improves the management of natural resources and the environment for supporting the quality of life; provides beauty and comfort of life, and increases the preservation and utilization of bio-diversity as the basic asset of national development.



7. **Realizing an Indonesia as an archipelago nation that is self-reliant, advanced, strong, and that is based on the national interest**, that is enhancing a marine oriented perception of society and government so that the development of Indonesia can focus on the development of marine aspects of the nation, through the development of marine science and technology; by managing the national sea territory for defending the sovereignty and wealth of the nation; and by developing the marine economy in an integrated manner by optimizing the utilization of marine resources in a sustainable manner.
8. **Realizing an Indonesia that has an important role in the international community**, that is consolidating Indonesia's diplomacy in the strive for the national interest; continues Indonesia's commitment in the establishment of its identity and in consolidating international and regional integration; and encourages international, regional, and bilateral cooperation among nations, among groups, and among institutions in various fields.

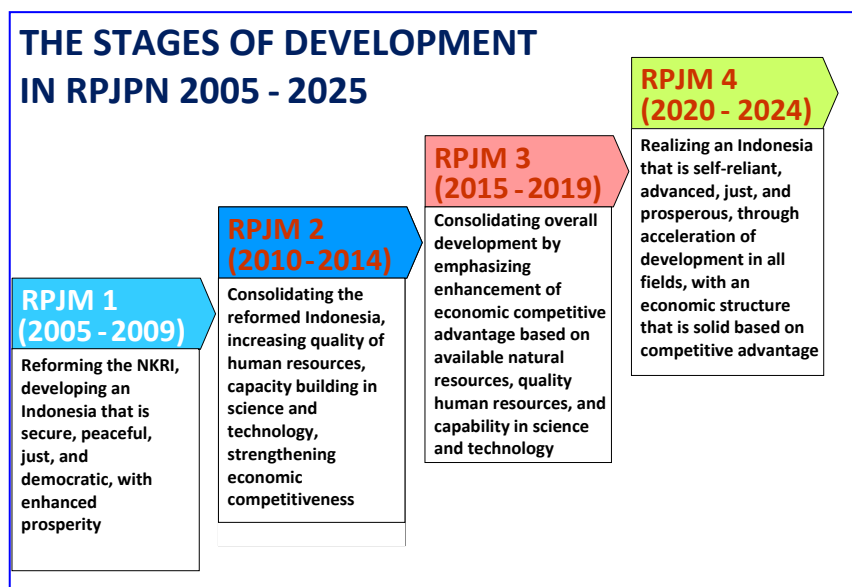
The strategy to implement the Vision and Mission is specified in five year stages into the Medium-Term Development Plans (RPJMs). Each of the stages has a scale of priorities and development strategy that constitute a continuity of scale of priorities and development strategies of preceding periods.

The basic scale of priorities and strategies of the respective RPJMNs are summarized in the following:

1. **The First RPJM (2005-2009)** is directed at reforming and developing Indonesia in all fields that are aimed at creating an Indonesia that is safe and peaceful, just and democratic, and that has an increasingly prosperous population.
2. **The Second RPJM (2010-2014)** aims at the greater consolidation of the reform of Indonesia in all fields by emphasizing endeavors for increasing the quality of human resources, including the promotion of capacity building in science and technology and the strengthening of economic competitiveness.
3. **The Third RPJM (2015-2019)** is aiming for the greater consolidation of development in a comprehensive manner in all fields by emphasizing attainment of economic competitiveness on the basis of competitiveness of natural resources and the quality of human resources and by the increasing capability to master science and technology.
4. **The Fourth RPJM (2020-2025)** aims to realize an Indonesian society that is self-reliant, advanced, just, and prosperous through the acceleration of development in various fields by emphasizing the realized economic structure that is more solid on the basis of competitive advantage in various regions, and is supported by quality and competitive human resources.



**DIAGRAM 10**  
**THE STAGES OF DEVELOPMENT IN RPJPN 2005-2025**



### 3.2. Direction of the Second Medium-Term Development Plan (2010-2014)

On the basis of the implementation, achievements, and as the continuation of the First Medium-Term Development Plan, the Second Medium-Term Development Plan is aiming for a greater consolidation of reforming Indonesia in all fields by emphasizing the efforts for enhancing the quality of human resources, including the development of capabilities in science and technology, and strengthening economic competitiveness.

The secure and peaceful condition in various regions has continued to improve with the increased basic capability of state defense and security as indicated by the enhanced posture and structure of state defense, and the increased capacity of the state security institutions.

This situation is in line with the increased awareness and enforcement of the law, the sustained consolidation of upholding the rule of law, the enforcement of basic human rights, and the continued efforts to reform the national legal system. In that respect, a national life that is increasingly democratic will be realized as indicated by the improved implementation of decentralization and regional autonomy, and the strengthened role of civil society and political parties in national life. The important position of Indonesia as a great democratic nation is increasing through successful diplomacy in international forums by efforts of maintaining national security, territorial integrity, and safeguarding the wealth of natural resources of the nation. Furthermore, the continually improved public services that are less costly, faster, more transparent



and accountable are indicated by the meeting of the minimum standard services at all government levels.

The welfare of the people continues to increase, as shown by improvements of various indicators on human resources development, such as the increased income per capita; the decline of the poverty rate and the unemployment rate in line with the quality of economic growth accompanied by the development of social security institutions; the increased education level of the people that is supported by the well established implementation of national education; enhanced gender equality; the optimal growth of the welfare and protection of children; the controlled growth rate and total number of population; the declined gap of welfare among individuals, social groups, and among regions; the accelerated growth of potential growth centers outside Java; and the increasingly consolidated new values that are positive and productive in the context of consolidating the nation's culture and character.

The competitiveness of the nation is increasing through strengthening the manufacturing industry in line with the strengthening of agricultural development and the increasing development of marine resources and other natural resources in accordance with the regional potentials in an integrated manner; the increased development of science and technology; the accelerated development of infrastructure by further enhancing cooperation between the government and the business community; the increased quality and relevance of education; and the reforming of economic institutions that induce private initiative in economic activities. These improvements are supported by the development of the transportation network, post and telecommunications; development in the utilization of renewable energy, particularly bio-energy, geothermal energy, hydropower, wind energy, and solar energy for electricity; and the development of water resources and development of housing and human settlements. In addition, the marine industry, which encompasses sea communications, the maritime industry, fishery, marine tourism, and activities related to energy and mineral resources, are being developed in a synergistic, optimal, and sustainable way.

Within the framework of attaining sustainable development, the management of natural resources and the conservation of the functions of the natural environment are continually enhanced by institutional strengthening and increasing public awareness as indicated by the growth of the process for the rehabilitation and the conservation of natural resources and the natural environment that are accompanied by the strengthened active participation of the people; the maintained biodiversity and the uniqueness of other tropical natural resources that are utilized for the realization of added value, and for the nation's competitiveness, and for increasing national development assets in the future; the consolidation of institutions and capacity are at all government levels for anticipating and overcoming disasters; and for the implemented marine development as the movement that is supported by all sectors. Such a condition is supported by the increased quality of spatial planning, increased consistency in



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spatial utilization by its integration into the related development plan documents, and the enhanced enforcement of regulations in the context of controlling spatial utilization.



## CHAPTER IV NATIONAL DEVELOPMENT POLICY IN 2010-2014

### 4.1. National Development Strategy and Policy

#### 4.1.1. Vision of Indonesia

Indonesia has an abundance of natural resources, its strategic geographical situation, its ideal demographic structure, its diverse and strong cultural resources, and its human resources contribute to an infinite potential and creativity. Indonesia has succeeded in transforming crises and challenges into opportunities. Regarding energy, Indonesia has various sources, including crude oil, natural gas, coal, and an abundance of renewable energy sources, such as geothermal and hydro power. In addition, extensive and fertile lands are available which can be planted with various food and agricultural crops. The population of Indonesia has a high potential in various fields, represented in science and technology, the arts and culture, sports, and in creative professions.

With the world economy recovering, and the conviction that new global shocks will not recur, the performance of the national economy is also expected to recover gradually. Efforts are continually being made to ensure that the performance of the Indonesian economy will continue to be able to overcome the impacts of crises by the development of the domestic economy. Recovery steps are imperative to enhance the economic stability. An average economic growth rate in the next five years can be maintained in the range of 6.3-6.8%. If the global economic recovery occurs faster and there are no new economic crises, then through the strengthening of the domestic economy and exports, the average economic growth rate can be even further increased towards the end of the five years period to a growth of 7% or more. With this economic growth rate, the poverty rate will decline to 8-10% and open unemployment will fall to 5-6%.

The experience of the last five years has shown that a high economic growth rate is a benefit for all people, only if it is accompanied by the equitable prosperity that is endeavored by economic policies that explicitly favor the weakest community. Economic policies must apply a comprehensive, balanced, consistent, and just approach. Poverty is not only the result of not being able to meet basic needs but is also due the lack of rights and access to basic needs. Access not only relates to the available supply of quality basic needs in accordance with the location of the need, but also in terms of the affordability of its price, and also in terms of the reliability of the supply at all times. Therefore, the welfare of Indonesian people will be improved if their rights and access to meet these needs are assured.



The market mechanism and the globalization cannot be relied upon to automatically enhancing the welfare of people. In fact the unfettered market mechanism has developed into a widespread global financial crisis and could bring misery to the world community. The role of a strong, smart, clean, and efficient government is paramount to protect vulnerable communities and to safeguard the interests of the state and to protect the state from the unlimited exploitation of the market. Reform of the bureaucracy and the effective role of the government that is free from conflicts are imperative for safeguarding the national and people's interests.

Economic growth in the last five years has reached almost 6%, which is the highest growth rate attained since the economic crisis of 1998. The unemployment rate and poverty rates have also declined. But, it is necessary that the unemployment and poverty rates be continually reduced in the future. There are currently many communities that are still living near and below the poverty line. They are vulnerable to shocks, especially to shocks related to the pricing of food commodities. The poverty problem is a problem that needs to be handled more in a long term and sustainable manner.

Sustainable economic development and equal distribution requires solid national governance. A process of economic growth that includes all layers of society can be realized only if the government budget allocation is truly designed for assisting the people in their efforts to get out the poverty trap. Social security must be provided not only because the fact that it is a constitutional obligation but also for strategic considerations in order to enhance the quality of Indonesia's human resources, to make them more productive, educated, skilled, and healthy. Human resources will become invaluable assets of a strong and competitive nation encountering national, regional, as well as global challenges.

Endeavors in the last five years to increase the quality of human resources have led to results. This, however, needs to be continued. Indonesia must traverse its development trajectory in a continuous and consistent way. In order to ensure the continuity of this process, it is necessary to have a democratic governmental system, which can provide ensured access to its people to meet their needs. Improvements in the welfare of people are possible only if the effective checks and balances system is in place. Policies to increase the welfare for people need to be continually verified by such a system. The objective is to ensure policies to pursue to be effective to enhance the widest possible amount of the people. Therefore, efforts to consolidate democracy must be continued. Freedom of expression must be guaranteed, and the pillars of democracy must be continually fortified and accompanied by efforts in compliance with the law.

One of the important elements of democracy is the aspect of equality. The preamble of the 1945 Constitution contains the tasks of protecting all Indonesian people and the whole Indonesian nation; to increase welfare, to enhance education, and to participate in the efforts to attain world order that is based on freedom, eternal peace, and social justice. The task contained in the Constitution requires the state to protect all citizens, without distinguishing their religion, origin, class, or gender. The



history of Indonesia shows that democracy in Indonesia cannot be founded on a monolithic framework. Indonesia's democracy has a history of diversity. Therefore, democracy guarantees this diversity. Indonesia's diversity that is symbolic stated as: *Bhineka Tunggal Ika* (Unity in Diversity), must be preserved and must become a cultural basic asset that will make Indonesia unique among other nations in the world.

Indonesia has succeeded through a political transformation process from an authoritarian nation into a nation with a more democratic political system. The efforts to consolidate democracy have proceeded satisfactorily, by the implementation of the general elections at a national as well as at local levels. Various endeavors are still required in order to improve the procedural democracy and to achieve substantive democracy. The endeavors to strengthen the pillars of democracy, which can fully ensure the implementation of the checks and balances process, this is important to ensure that the rights of the people are upheld.

Indonesia's constitution explicitly contains the principles of checks and balances among the state institutions. The constitution also explicitly contains a number of articles that state the recognition of basic human rights. A nation that is democratic, acts according to the supremacy of law, has governance that is accountable, participatory and open, and that recognizes the fact that basic human rights must be upheld.

Indonesia has now become a nation that has made progress in applying the principles of good governance, that is credible and free from personal and group interests. These efforts need to be strengthened continually in order to realize an Indonesia that is clean, credible, and free from corruption, collusion, and nepotism, and that provides public services that are excellent, efficient, and at low cost for the general public, so that Indonesia is respected by the international community.

In view of the above description and considering the challenges ahead, the Vision of Indonesia in 2004 is:

### **“The Realized Indonesia that is Prosperous, Democratic, and Just”**

This is elaborated as follows:

**Prosperous People:** An increase in the welfare of the people through economic development that is based on competitive advantage, assets of natural resources, human resources, and national culture.

**Democracy:** A society, nation and state that is democratic, cultured, that has self-respect and upholds responsibility of freedom and basic human rights.

**Just:** Development that is just and equitable, that is actively carried out by all of the people, the fruits of which all the people of Indonesia can benefit.



#### 4.1.2. Mission of Development

The success of development has already shown itself in a large number of achievements in the period 2004-2009, but needs to be maintained and further developed. The achievements obtained in 2004-2009 include basic assets that need to be enhanced and improved in the following next period (2010-2014). From 2010-2014, the Indonesian people must continue to work hard to attain enhancements in the welfare of the people, in the justice sector, in the application of good governance, in the quality of democracy, and in maintaining the national unity and security.

The Development Mission of Indonesia for the period 2010-2014 is the initial part of the process towards attaining the goals. In the implementation of its mission, Indonesia is not unaffected by regional and global conditions. The food and energy crisis and price fluctuations that occurred in 2008 and are currently not yet fully overcome have influenced the world condition. The world economy has contracted in 2009, due to the collapsing of the world's financial institutions. This had an ultimately adverse affect on the economy and international trade. As an effect this will ultimately lower the income level of the world community, and the efforts to attain the target of reducing global poverty in 2015 as contained in the Millennium Development Goals (MDGs).

At the level of global leadership, initiatives for overcoming the global crisis have been made. The initiative of the G-20 forum has shown us that obtaining economic recovery will take a long time. Reasons for this are the rehabilitation of the financial sector, revision of regulations and supervision of the financial sector and the implementation of counter-cyclical programs through the fiscal stimulus policies. Efforts for preventing protection in international trade require complicated coordination among nations, in addition to the constraints faced within each nation by going through their respective domestic political processes.

Meanwhile, the emergence of a global collective awareness on the climate change problem has its effect on the development of internal strategies of nations around the world. Each nation, developed and developing, has a common responsibility but a different role in overcoming the problems of global climate change. The increasing collective global awareness of the impact of climate change is of greater importance to the economic development strategy and places high awareness on taking care of the natural environment. Negligence of such awareness will result in more frequent occurrences of natural disasters attributed to human actions and to the impacts of industrialization. This can be a threat for humanity.

Indonesia's efforts to enhance the welfare of the people in the period 2010-2014 will still be affected by the global economic crisis and by the agenda on climate change. Indonesia has the potential to attain an average economic growth rate of 6.3-6.8% in the period 2010-2014, under the assumption that the global economy will not decline in



2010, the global financial sector has been stabilized, and food and energy prices will have gradually been adjusted and will not be subjected to undergoing sharp volatility.

Indonesia has a geographic strategic position that is supported by the possession of natural resources, a strong cultural heritage, and a large number of educated human resources that through time are continually being improved. In the next fifteen years, the productive population will increase in age; this will result in a challenge and an opportunity for Indonesia to make investments in human resources, in order to create a nation that has continually increasing competitiveness.

Indonesia has now become a role model of a democratic transition, which previously has been in doubt for its ability to improve its democratic process in the light of its complexity and heterogeneity. The decentralization process in the governmental system has already proceeded with encouraging results. Democracy and decentralization are a compatible combination and could become a tremendous force in the global economic and political system. To realize this, it is necessary to continuously develop governmental institutions that are competent, clean, and credible, through a consistent reform process.

The development mission of 2010-2014 is a formulation of the endeavors needed to be achieved according to the vision of Indonesia in 2014, towards the realization of an Indonesia that is Prosperous, Democratic, and Just, but that is not independent from the global and domestic condition and challenges in 2010-2014. The government mission in the period 2010-2014 is directed at realizing an Indonesia that is more prosperous, secure, and democratic. Efforts for realizing the 2014 vision of Indonesia will be elaborated into the following mission of the government in 2010-2014.

### **Mission 1: Continuing Development towards a Prosperous Indonesia**

The Preamble of the 1945 Constitution explicitly states that a prosperous Indonesia is the final goal of the purpose of establishing the Indonesian nation. Prosperity of the people is measured not only in materials terms, but also in spiritual terms, that will make it possible for the Indonesian people to become one in its pursuit of the ideals, and its participation in the development process in a creative, innovative, and constructive way.

Development towards an Indonesia that is prosperous implies a deep and broad meaning, encompassing a situation that is fulfilling and has the ability to survive shock from inside as well as outside the nation. The threat of the energy and food crises that occurred in the period of 2005-2008 sharply increased the prices of food and energy commodities within a short time period. This has threatened the economic security of the public, even though the government has endeavored to protect the people by providing large sums of food and energy subsidies. Therefore, developing and maintaining food and energy security in a sustainable way is one important element in achieving the mission of prosperity.





In accordance with the growing challenges of climate change, it is necessary that Indonesian's economic development mainstreams environmental problems in its strategy through adaptation and mitigation policies. Environmental damage that has already occurred should be rehabilitated by policies such as: the rehabilitation of forests and lands, enhancing the management of watershed, developing environment friendly energy and transportation, controlling the emission of greenhouse gas, and controlling the pollution and degradation of the environment.

The global financial crisis which has left the global economic foundations in shambles, the occurrence of the world food and energy crisis, and the recently increased importance of the global climate change issue, will raise demands and reactions for initiating basic changes in the world's economic order. The new global economic order must prioritize the welfare aspects of the world community collectively, equitably and in a just and sustainable manner. In this respect, the economic development model that does not take into account the important and proportional role of developing nations cannot be continually maintained. It is necessary to make amendments to the market freedom without limits, without adequate regulation and supervision, in order to maintain the aspect of justice and interests of public interest. The market needs to be protected from the irresponsible and greedy actions and decisions of market actors who act according to short-term personal business profits, disregarding the principles of being prudent and proper, and disregarding the need to practice sustainable business activities.

This situation has given Indonesia the ability to anticipate and reflecting on the determination of the country's development mission, the direction of development policies, and in the strategic role of Indonesia in the international community. This ensures Indonesia can continue to achieve ideals of independence and progress for the prosperity of its people. Indonesia's ability to face and overcome the economic crisis by experiencing the complicated democratic transition during the last decade, and improved preparedness in managing the impact of the global financial crisis will ensure the condition to increase the welfare of the people. This success has also marked Indonesia's role in international relations and in obtaining world respect because of the resurrection of the universal noble principles that Indonesia was built upon, namely the those of good governance and clean government, respect for basic human rights, pluralism, democracy, transparency and openness, accountability, and by Indonesia's participation in the responsibility of maintaining a balance in the natural environment and in preserving world security.

Regarding domestic issues, demands for having an improved welfare have entered a new phase. The created employment opportunities must also be able to provide high added value, in economic terms as well as in terms of having decent jobs. People have the right to have a proper job and to live a decent life. This can be created only if there is relatively high and sound economic growth on the basis of the principles of good governance, efficiency and justice.



Economic progress has also led to structural changes in elements of the nation. Economic development that has been concentrated in urban areas and resulted in a high rate of urbanization has led to a gap in the level of welfare between rural and urban areas. Attention is required for not only the urban areas but also rural areas by making rural areas more attractive and by linking the economic development of rural and urban areas. The development of urban areas is focused on urban public services infrastructure, taken into account the development of heterogeneous social-cultural potential, particularly in the metropolitan and large cities. In order to reduce the rural-urban welfare gap, it is necessary to develop urban areas and to take into account the development of medium cities and their surrounding small cities.

## **Mission 2: Strengthening the Pillars of Democracy**

Indonesia has grown into one of the largest democracies in the world. The process of democratization has proceeded in the last five years and shows mature development. Nevertheless, more improvements are needed to improve the political structure to emphasize the process of the democracy institutions by reforming the relation between political institutions and the security and defense institutions of the nation. The reform of the political structure must also place emphasis on enhancing the performance of government institutions by the implementation of their tasks and functions that have been entrusted by the constitution and by the laws and regulations.

In line with the implementation of decentralization (devolution) and the regional autonomy, the process of democracy in the regions had been marked by the direct election of regional heads, encompassing governors, district heads, and mayors. Democracy is on the right track. In the current era of reform and democratization, the reform of the political process that is emphasized on the allocation/representation of authority must be continued and be continually enhanced. This is required to ensure the quality of the process and mechanism of selecting public heads so that these become more open and can realize an unwavering political commitment to the importance of freedom of media and to the freedom of association, gatherings, and of opinion of each citizen on the basis of their respective political aspirations.

Development of the political culture that places the emphasis on cultivating democratic values is continually worked towards through the creation of democratic political values, especially values of respect of basic human rights, equality, anti-violence, and tolerance. This is facilitated through various discussion forums and media attention, as well as through dialogues for improving awareness on the importance of maintaining national unity.

Efforts for strengthening the pillars of a healthy democracy must be continued towards a more mature democracy. Differences in opinion and a critical stance by various parties of the government are the results of democratic life and are political



rights that must be respected. All these must, however, remain in the framework of the constitution and be based on the rules of the game and ethics that must be upheld jointly. The dynamic stability and the accommodation of various differences in aspirations can still be jointly maintained. Therefore, realizing a society that is democratic while still being based on the rule of law, must continually be developed through the further consolidation of democratic institutions, strengthening of civil society, enhancing the quality of decentralization and regional autonomy, ensuring the development of the media and freedom of the media in communicating the interests of society, by reforming the law structure and enhancing the law culture, by enforcing the law in a just, consistent and non-discriminatory way, and by protecting marginalized segments of society.

### **Mission 3: Strengthening the Dimension of Justice in All Fields**

Development that is just and equitably spread, and can be benefited by all components of the nation and will increase the active participation of the people in development activities reduce threats to security, and can eliminate potentials of social conflicts towards the goal of attaining an Indonesia that is advanced, self-reliant and just.

It is important to stimulate the development and growth of strategic and fast-growing regions in order to build up a sense of justice by developing marginalized regions in their vicinity, with synergistic systems of economic developed areas that cross administrative boundaries, and places greater emphasis on linkages in the chain-links of the industrial production and distribution processes. These efforts can be realized through the development of selected products of the regions, and by inducing coordination, synchronization, integration and cooperation among sectors, government institutions, the business community and society and in supporting the enhanced business and investment opportunities in the regions.

The development approach will have to place the emphasis on a sense of justice and equity, in addition to community empowerment, by the allocating of special funds, which includes the provision of public services and the provision of pioneer public services.

Border regions and the most outer small islands need to be developed by changing the development orientation to be inward looking instead of being more outward looking, in order to be utilized as the gates of economic activities and trade with neighboring nations. The development approach must not only apply the security approach but should also take into account prosperity, justice, and equity. Special attention needs to be given to the development of small islands in border areas, which thus far have been relatively neglected.

Justice in development must also be shown by development that is equally spread in all fields among metropolitan, large, medium, and small scale cities, to obtain a more



convergent growth rates. This can be done by referring to the development system of national cities, as well as to development in various fields that are related to efforts for increasing the welfare of people. Justice through more equitable development is important for preventing the uncontrolled growth of cities and for controlling direct migration from rural areas to big and metropolitan cities by creating employment and business opportunities in medium scale and small cities, located especially outside Java. Therefore, it is important to enhance the inter-linkages among economic activities from the start.

What is already implemented in order to accelerate development of small and medium scale cities needs to be further enhanced, especially outside Java, so their role as the engine of development of the surrounding areas and in serving the needs of the citizens can be implemented. The developed approaches that need to be carried out are among others than the provision of urban basic services, in accordance with the respective urban typologies.

At the same time, it is necessary to continually stimulate the development of rural areas through the development of labor-intensive agro-industries. Especially for agricultural and marine based regions; to increase the capacity of human resources in rural areas, particularly in the management and utilization of natural resources by the mastery of appropriate science and technology; development of the infrastructure network that supports production activities in rural areas and in adjacent small cities in the efforts for creating a mutually complementary and mutually beneficial physical, social, and economic linkages; the increase of access to information and markets, to financial institutions, job opportunities; the development of social capital and human capital for which the potentials have not yet been utilized, so that rural areas will not be solely dependent on natural resources; and through conducting price interventions and trade policies that promote agricultural products, especially with regard to prices and wages.

In the context of just development, social welfare is also developed by providing greater attention to the less fortunate groups in society, including the poor and those living in isolated, left-behind and natural disaster stricken areas. Development of social welfare, in the context of providing protection to less fortunate groups has to be enhanced through the strengthening of social security institutions that are supported by steps to improve the regulatory framework, funding mechanism, and the application of the single NIK (Population ID Number). Social security provisions are implemented by taking into account the culture and institutions that are already rooted in local communities.

In order to realize gender justice and equality, efforts are continually be made to increase access and participation of women, but the steps for increasing the quality of protection to women and children need to be continued. Various facilities that have already been built in the period 2004-2009, like the Integrated Service Centers for the Empowerment of Women and Children, the Integrated Crisis Centers, and the Special Service Rooms in a number of provinces and districts/cities, must continually be



expanded throughout the country. In order to realize the increased role of women in development, it is important to continually enhance the role of women in the public sector. In this regard, it is necessary to expand the room for enhancement of the roles, involvement and even the leadership of women outside the government in the business community, and in social organizations.

### 4.1.3. Agendas of Development

For realizing the vision and mission of national development in 2010-2014, five national development agendas have been determined for 2009-2014, namely:

- Agenda I : Economic Development and Increased Welfare of the People
- Agenda II : Enhancement of Good Governance
- Agenda III : Strengthening of the Pillars of Democracy
- Agenda IV : Enforcement of the Law and Eradication of Corruption
- Agenda V : Development that is Inclusive and Just

#### **Agenda I: Economic Development and Increase of Welfare of the People**

The agenda for increasing the welfare of the people remains the priority of the government in the next five years. The final form of enhanced welfare will be reflected in the increase of income level, the decrease of unemployment, and in the enhancement of the quality of life of the people.

Implementations of development in the period 2004-2009 have laid down the foundation in enhancing the welfare of the people, including the welfare of the poor. Some of these policy foundations include: (i) compilation of basic data (with names and addresses) of households that are very poor, poor, and near to poor, which is essential for directing social protection and assistance programs; (ii) the classification of programs for reducing poverty for facilitating and clarifying coordination; (iii) harmonization and integration of programs for community empowerment in PNPM Mandiri; (iv) regulations for coordinating steps for reducing poverty from the central to regional levels, including the joint responsibility for its implementation. This foundation is reflected in the implementation of the programs on the Jamkesmas (Social Health Security): scholarships for poor children, provision of rice for poor households, PNPM Mandiri (Community Empowerment Program) and the KUR (Credit for Smallholders). The achievements are reflected in among others the reduction of poverty and in the reduction of unemployment, and the attainments of various targets of the MDGs (Millennium Development Goals).

The 2010-2014 development programs remain consistent with the endeavor to continue various programs for enhancing the welfare of the people that have already been implemented by giving further emphasis to the need to have more effective policies in the form of mainstreaming of budget allocations and policies. Such



mainstreaming is not only confined among sectors but also between the central and regional governments. Mainstreaming must also encompass policies so that objectives can be attained with minimal resources.

The program for increasing the welfare of the people will be implemented in line with the efforts to increase the mastery of science and technology. The increased mastery of science and technology will buttress the implementation of increased quality of economic development programs, for example economic development that is based on the increase in productivity and competitiveness and on the increasingly induced creativity and innovation. The mastery of science and technology will also be accelerated into the attainment of economic development that is increasingly more self-reliant.

The efforts to increase the mastery of science and technology are directed at attaining the increased capacity and capability of the nation in combining natural resources (resource based development), knowledge (knowledge based development) and the legacy of culture of the nation (culture based development). This will result in a more broad based productive economic development, among others to achieve a creative economy, which can yield a constructive role in supporting the efforts of economic growth.

The program for increasing welfare of the people is carried out by stimulating the real sector and by encouraging growth of small, medium enterprises and cooperatives, and by maintaining macroeconomic stability. The endeavors to stimulate the real sector will be continued through various constructive and measurable government interventions, while the implementations of fiscal and monetary macroeconomic policies are carried out in line with a sustainable and healthy economy.

## **Agenda II: Enhancing Good Governance**

Enhancing good governance is an important issue on a national as well as an international level. The recent economic crisis is not unrelated to the poor state of governance, in as well the public and private spheres. The global financial crisis is also not independent of this problem. Therefore, the nations of the G-20, have agreed to place the need for improving good governance in order to overcome the financial crises on the top of the agenda. The results of the efforts to improve practices of good governance will be shown in the reduction of corruption, improvement of public services, and in the decline of the 'high cost economy' elements.

Meanwhile, the corruption perception index has continued to improve significantly. This is an indication that the hard work of the government to improve and enhance good governance in the last five years is on the right track. Nevertheless, there are more improvements to be made. Greater and more systematic endeavors are needed for further improve the practices of good governance.



Development of a strong bureaucracy is an important element for ensuring the continuity of sustainable national development. In this regard, reform of the bureaucracy will be implemented at all ministries and government agencies as well as at regional governments. Furthermore, the implementation of the budgeting process and the performance based on the budgeting system will be applied in a comprehensive way. Such reform is expected to bring positive results, particularly in the improved quality of public services, and in the enhanced effectiveness and accountability of activities of ministries and government agencies on of the efforts to eradicate corruption.

The above mentioned measures will be accelerated by consolidating and expanding the program for speeding up bureaucracy reform in combination with a number of programs on legal reform.

The endeavors to enhance the practice of good governance are not only confined to the public sector but will also encompass into the private sector, including management of the BUMNs (State-Owned Enterprises). To induce enhancements of good governance in private companies, the government will have to encourage many more enterprises to change their status into public companies. These changes will bring further public openness and accountability of corporations in Indonesia. This is also important for eradicate collusion, nepotism, and conflicts of interests, that could disturb the expedient proceedings of economic activities.

### **Agenda III: Upholding the Pillars of Democracy**

The transition into democratic life, with all of its successes and failures, into the future of an Indonesia that is more prosperous, democratic, and just, demands a more consistent upholding of the pillars of democracy. Therefore, the agenda of upholding the pillars of democracy remains an important agenda in the period 2010-2014.

A democratic Indonesia respects basic human rights, guarantees freedom of expression, has fair checks and balances, respects diversity, and protects all citizens without regards to their beliefs, origins, class, or gender.

So far, the consolidation of democracy has been endeavored by guaranteeing freedom of expression, respecting basic human rights, and by continuously maintaining the process of checks and balances. Democratic institutions are continuously strengthened by providing examples and by upholding the values of democracy, for example through the freedom of expression, press freedom, and by placing importance on the rule of law. Efforts must be made to ensure that democracy remains on the right track, to maintain a democracy that is equal and just.

In addition, in the context of consolidating democracy, general elections have been held at a national as well as at local level. The development of democracy aims to achieve a level of democracy that is substantive. Nevertheless, prior to being able to become a substantive democracy it is necessary to resolve all procedural matters first.



For example, in the general election process, there was a mistake related to the Fixed Electors List, this occurred at the regulation for the general election as well as at the presidential election and the election of the heads of the regions. Thus, various improvements must be made before stepping into the realm of substantive democracy.

#### **Agenda IV: Law Enforcement**

A democratic system must also be ensured to uphold the 'rule of law'. Therefore the agenda of law enforcement is still an important agenda for the period 2010-2014. Law enforcement is characterized by the prevalence of legal certainty for all of the people in Indonesia. Legal certainty will provide a sense of security, justice, and certainty for undertaking business activities. One of the problems that has led to the discouragement of investment in Indonesia is the weak legal business certainty. Therefore enhancing legal certainty will have a positive effect on the investment climate that in return will have a positive effect to the economy of Indonesia.

The legal agenda covers the process of law making, process of elaboration, the process of oversight, and of the law enforcement of the enacted laws. The legal agenda also places attention on ensuring free judiciary processes. This will facilitate the efforts to consolidate democracy. Law enforcement is an essential element in the process of corruption eradication.

So far, endeavors have been continued to reform the law substantially, as well as the structure and culture. Overlaps and inconsistencies of laws and regulations must be reduced; barriers to the implementation of laws and regulations must be removed. Efforts have to be made to continue to conclude extradition agreements with nations that make Indonesia a potential destination for corruptors and of other crime actors. In the efforts to eradicate corruption, legal actions have indiscriminately been taken on various cases. Law enforcement in corruption cases has been implemented without regard to the positions of the actors; as all citizens are considered equal before the law.

The problem related to the law structure will be resolved by increasing the independence and accountability of the law institutions, by enhancing the human resources in law, and by encouraging the transparent and open practice of the judicial system. Thereby, all government parties, the business community, as well the whole law enforcement apparatus, starting from the police, the state prosecutors, to judges and legal attorneys must consistently enforce the rules of the law and the legal system.

#### **Agenda V. Development that is Inclusive and Just**

Enhancement of the quality of an inclusive and just development will continue to become the priority on the agenda in the period 2010-2014. Considering that the





implementation of the agenda on justice has up to now not yet been able to fully realize its purpose, justice and widespread participation has not yet been applied.

Justice has various dimensions. In the economic field, justice is manifested in the reforms or affirmation processes for left-behind groups, the disabled, and marginalized groups. In the social-political field, justice in participation (inclusiveness) is manifested by the increased access to political activities, to gender equality in political activities and in the removal of all forms of discrimination.

Efforts to reduce income gaps have been implemented through various policies by the government in the period 2004-2009. One of the policies is the reallocation of subsidies received by higher income groups to poor communities through directly targeted programs. The reallocation of oil fuel subsidies to education and health programs in the period 2005-2008 is another example. There are three clusters prioritized by the government for reducing poverty

The process of bottom-up development has been practiced in various programs, including PNPM (National Community Empowerment Program). The communities are involved in the planning phase, project selection, and the evaluation phase. The involvement of the community in the development process becomes an essential component. Through this approach, the community will have a sense of ownership and will voluntarily cooperate with the program while at the same time benefitting from it.

In the next five years, strengthening of justice and inclusiveness will be carried out for each development activity in each program. For example, through the Family Hope Program (PKH), conditional cash transfers for the financing of education and health will be provided for very poor communities. This policy is expected to be able to provide extra income for poor families (improve the distribution of income) in the short-term, and will generate a new generation with better education and health in the long-term. In addition, the government will enhance the quality of social protection in cluster 1 to create a family based social assistance program.

Another program that will be continued to be improved is the distribution of income in the action program for strengthening micro, small and medium size enterprises. Expansion of the coverage of the PNPM program encompass all sub-districts (*kecamatan*) per 2009 which are expected to increase the involvement of the people in development activities at the village (*desa*) and sub-district (*kecamatan*) levels. It is to be expected that these kinds of social assets will increase the quality of the bottom-up planning process that will reach the district (*kabupaten*) and province levels in the following period.

#### **4.1.4 The Development Targets**

The development issues and dimensions faced by Indonesia have continued to change and have become ever more complex. The development problems and demands



will increase, while the available development capacity and resources tend to be limited. The government must optimize the utilization of the available resources in order to meet the unlimited demand. This requires prioritization. In determining choices, the government must be realistic by setting its targets from the beginning and should realize what is possible and what is not.

Indonesia's experience in the period 2004-2009 is that it was able to maintain formulating this development agenda and strategy. A number of indicators are used to measure the achievements of development. Many exogenous factors have affected these achievements. Exogenous factors can facilitate the attainment of the achievements, but can also obstruct attainment of targets, or can result in the partial attainment of the targets. For example, the increase in the price of the energy commodity can have a positive impact on the efforts for attaining the target of economic growth of Indonesia, being a producer and net exporter of energy. On the other hand, natural disasters like El Nino makes it harder; the effect of El Nino prior to the 1997 economic crisis hampered efforts for increasing the production of food and contributed to the increase in the poverty rate at that time. Even though the probability of an exogenous factor can occur, appropriate policies can be mitigated towards a favorable development.

### **Development Targets in the Economic Field to Increase Welfare**

In accordance with the main problems faced by the Indonesian nation, the government is determined to continue the process of accelerating economic development in the next five years. Within 1-2 years, the global economy should be recovered. The highest economic growth rate that Indonesia ever attained before the crisis was around 7%, this can be reached again before the end of the period 2010-2014.

Economic growth is expected to be able to reduce the open unemployment rate by around 5-6% by the end of 2014, and the total created employment opportunities rise from 9.6 million to 10.7 million units in the 2010-2014. The combination of economic growth and various government interventions are expected to be able to accelerate the reduction of the poverty rate to around 8-10% by the end of 2014.

In order to achieve accelerated economic growth, the government needs to continue with measurable and prudent macroeconomic policies in order to stabilize the inflation rate of 4-6% a year, which is at a lower level and is in proportion with nations that are equivalent to Indonesia. A stabilized inflation rate will enable the attainment of the exchange rates and interest rates that are competitive, which lead to the inducement of healthy growth in the sector.

The development target on education has increased the access of the people to education and increased the quality of education. This is indicated by the decline in the illiteracy rate of the population, the significant increase in the percentage of the population that can complete the mandatory nine-years primary education program,



and in the continuing of growth in of education and of vocational education that is indicated by the increasing in the totals of skilled manpower.

The development of health will aim at an increased access of the people to health services, increase in the life expectancy rate, decline in the infant mortality rate, and reduction in the maternal mortality rate.

Regarding the efforts made in the food sector, at the end of 2014 there should be an increase in food security for the people, improvements in the nutrition status of mother and children among communities that are vulnerable to food shortages, enhanced access of poor households to food, the maintained and continued increase in the ability to attain self-sufficiency in rice and in other main food commodities, maintained food prices that are affordable for the lower middle income communities, maintained farmer terms-of-trade so that farmers can live in reasonable prosperity, and the increased bargaining position of Indonesia's commodities and the increased comparative advantage of Indonesia's agricultural sector in the Asian region as well as in the world.

With regard to energy, efforts have to be made to develop energy security through energy diversity in order to ensure the continuity of energy supply throughout Indonesia, and for all Indonesian people with different income levels. This can be facilitated by increasing the use of renewable energy and through active participation in the use and development of global carbon trade, increased efficiency in consumption, through energy savings measures at a household level, as well as in industries, and in the transportation sector, and by producing clean and economical energy.

The target to be attained in the environment sector is the improved quality of the environment and in the management of natural resources in urban and rural areas, the stopping of the degradation rate of the environment through the increase of the capacity and accommodation capability of the environment, and the increase in the capacity of adaptation and mitigation to deal with the effects of climate change. Efforts will also be continued in reforestation and in implementing programs for reducing carbon emission.

In the context of overcoming the impact of global warming for attaining sustainable development in 2009, at the G-20 Summit in Pittsburgh and the International Convention on Climate Change in Copenhagen, Indonesia offered a commitment to mitigate the impact of climate change in the form of reducing its green house gas emissions of 26% by 2020 from the business sector and by Indonesia's own resources, and a reduction of 41% with international help. Efforts to reduce greenhouse gas emissions are mainly focused on activities related to forests, peat lands, waste and energy, that are supported by policy steps in various sectors and by fiscal policy.

The efforts to increase development in the infrastructure will be continued through the increased quantity and quality of various forms of infrastructure, like roads, railroads, sea ports, airports, electricity, irrigation, clean water and sanitation, and postal and telecommunications services.



To the development of Small and Medium Scale Enterprises, there are measures taken to increase and advance small and medium scale enterprises by expanding their access to capital, including the expansion of the Smallholder Business Credit (KUR), increasing technical assistance with regard to the development products and marketing, implementing policies for expanding business opportunities for small and medium scale business enterprises, and by preserving the functions, existence and efficiency of traditional markets.

### **Targets for the Strengthening of Democracy Development**

The target of upholding the pillars of democracy is to develop a more consolidated democratic system in Indonesia, which can create governments and legislative institutions that are credible, effective, and capable of implementing their tasks and responsibilities in a satisfactory and balanced way by enhancing the law compliance. Therefore, the checks and balances system needs to be carried out in a proper, ethical, and effective way, so that the implementation of the government is not hampered by democratic mechanisms, but can instead increase its quality and accountability. The target in this regard is ensuring a five years process of general elections that meet sound democratic principles, namely general elections that are fair, just, and ensure that all eligible citizens can practice their right to elect in a free and responsible way.

### **Targets of Law Enforcement**

Law enforcement is an element that is intertwined with the efforts of maintaining a sound democratic system and for supporting a sound business climate in order for economic activities to proceed steadfastly, securely and efficiently, in the context of attaining an increased welfare.

The targets on reform of law enforcement are to attain a sense of justice through the enforcement of the rule of law and the maintenance of public security. These targets are reflected in the perception of justice seekers having a sense of tranquility, certainty, justice and security in the interaction with and in obtaining the services from the law enforcing apparatus (police and state prosecutors). Therefore, reform of the police, state attorney and the prosecutor office of the judicial institutions must be carried out for attaining the targets in the form of the emergence and growth of trust and respect of the general public to the law enforcing apparatus and institutions, because they are believed to be ready to protect the general public on the basis of the principles of justice and the compliance with the laws and regulations without discrimination.

In addition to the above fields of development, the government will continue to develop other development sectors in a consistent, coordinated, and integrated way. Therefore, at the end of the RPJMN of 2010-2014, Indonesia will have succeeded in



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attaining the national development targets for realizing a prosperous, democratic, and just Indonesia.

**TABLE 1**  
**THE MAIN NATIONAL DEVELOPMENT TARGETS**  
**OF THE**  
**NATIONAL MEDIUM-TERM DEVELOPEMT PLAN (RPJMN) OF 2010-2014**

No.	DEVELOPMENT	TARGETS		
<b>TARGETS ON DEVELOPMENT OF WELFARE OF THE PEOPLE</b>				
<b>1.</b>	<b>Economic</b>			
	a)	Economic growth rate	Average of 6.3 – 6.8% per year Growth of 7% before 2014	
	b)	Inflation rate	Average of 4 - 6% per year	
	c)	Open unemployment rate	5 - 6% at end of 2014	
	d)	Poverty rate	8 - 10% at end of 2014	
<b>2.</b>	<b>Education</b>			
			Initial Status ( 2008)	Target in 2014
	a)	Increased average school stay of ppeople of 15 years and older (years)	7.50	8.25
	b)	Decline in illiteracy rate of population aged 15 and over (%)	5.97	4.18
	c)	Increased net enrolment rate of elementary schools (%)	95.14	96.0
	d)	Increased net enrolment rate of junior high school (%)	72.28	76.0
	e)	Increased gross enrolment rate of senior high schools (%)	64.28	85.0
	f)	Increased gross enrolment rate at universities of those in 19-23 years age bracket (%)	21.26	30.0
g)	Reduced disparity in participation and quality of education services among regions, gender, social-economic groups, and between education units that are implemented by the government and private institutions			



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No.	DEVELOPMENT		TARGETS	
3.	<b>Health</b>			
			Initial Status (2008)	Target in 2014
	a)	Increased life expectancy (years)	70.7	72.0
	b)	Decreased maternal mortality rate per 100,000 live births	228	118
	c)	Decreased infant mortality rate per 1,000 live births	34	24
	d) Decreased prevalence of nutrition deficiency (deficient nutrition and malnutrition) by infants (%)	18.4	Less than 15.0	
4.	<b>Food</b>			
	a)	Production of paddy	Growth rate of 3.22% per year	
	b)	Production of maize	Growth rate of 10.02% per year	
	c)	Production of soybean	Growth rate of 20.05% per year	
	d)	Production of sugar	Growth rate of 12.55% per year	
e)	Production of cow meat	Growth rate of 7.3% per year		
5.	<b>Energy</b>			
	a)	Increased capacity of electricity generating stations	3,000 MW per year	
	b)	Increased electrification ratio	Reaching 80% in 2014	
	c)	Increased production of crude oil	Reaching 1.01 million barrel per day in 2014	
d)	Increased utilization of geothermal power stations	Reaching 5,000 MW in 2014		
6.	<b>Infrastructure</b>			
	a)	Construction of the Trans Sumatra, Java, Kalimantan, Sulawesi, West Nusa Tenggara, East Nusa Tenggara, and Papua infrastructure	Reaching a length of 19,370 km by 2014	



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No.	DEVELOPMENT	TARGETS
	b) Construction of an integrated inter-mode and inter-island transportation network, in accordance with the National Transportation System and Multi-mode Transportation Blueprint	Completed in 2014
	c) Completing the construction of the Optic Fiber Network in Eastern Part of Indonesia	Completed before 2013
	d) Repairing the transportation system and network in 4 big cities (Jakarta, Bandung, Surabaya, and Medan)	Completed in 2014

**TARGETS OF DEVELOPMENT OF DEMOCRACY**



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No.	DEVELOPMENT	TARGETS
1.	The increased quality of democracy in Indonesia.	1) The increased conduciveness of the political climate for the growth of the quality of civil liberties and political rights of the people that balanced by the increased compliance with the law; 2) The increased performance of democratic institutions, with an average index of 70 by the end of 2014; 3) Implementing of the general election in 2014 in a just and democratic way, with a participation rate of the people of 75% and with a reduced discrimination in the right to be elected and to vote. 4) Increased services in information and communication In 2014 the: ► Index of Indonesia's Democracy: 73
<b>DEVELOPMENT TARGET ON LAW ENFORCEMENT</b>		
1	The attained atmosphere of justice through enforcement of the rule of law and the maintenance of public law and order.	1) Perception of justice seekers for having a sense of comfort, certainty, and security in their interaction and being satisfactorily served by law enforcers. 2) Increased trust and respect of the general public to the law enforcing apparatus and institutions 3) Supporting a conducive business climate in order that economic activities can be proceed securely and efficiently Corruption Perception Index (CPI) in 2014 of 5.0, and increase from 2.8 in 2009.





## 4.2. General Policy Direction of National Development

### 4.2.1. General Policy Direction

Considering the problems and challenges faced by the Indonesian people and the nation at the present as well as in the next five years ahead, the general policy directions of national development from 2010-2014 are the following:

1. The general policy direction for continuing development in attaining a prosperous Indonesia. A prosperous Indonesia is reflected in the increase of the welfare of the Indonesian people and in the form of the accelerated economic growth that is supported by the mastery of science and technology, a reduction of poverty, a reduction of the unemployment rate that is based on enhancing the quality of human resources, improvement of the basic infrastructure, and in the maintenance and preservation of the natural environment in a sustainable way.
2. The general policy direction for strengthening the pillars of democracy through institutional capacity building and directed at the upholding of law and order, elimination of all forms of discrimination, recognition and application of basic human rights and freedom with responsibility.
3. The general policy direction for strengthening the dimension of justice in all fields, including the reduction of the income gap, reduction in the development gaps among regions (including between rural and urban areas), and reduction in the gender gap. Moreover, justice can be realized only if the law system is functioning in a credible, clean, just, and indiscriminate manner. Also needed is the policy for consistently eradicating corruption so that a sense of justice and clean government can be attained.

On the basis of the achievements of the development programs in the preceding years (2004-2009), the government will continue the approach of institutional development in the efforts to realize the development vision and mission. The institutional approach is aimed at creating a balance between the importance of the process based on good, clean and just governance, and good and efficient results. Government implementation should not be oriented only to short-term results, by disregarding the principles of the compliance of justice and continuity. This approach makes it possible to achieve results in a continuous way because it is built on a more solid foundation through a process that has been jointly approved in a democratic and accountable way, and with a high sense of ownership.

Institutional development is not aimed at developing new institutional mechanisms, but will also revive old regulations that are deemed to be more sustainable for the system. To illustrate, the BOS (School Operational Assistance Program) has been implemented more by the central government, even though the Law on Regional



Autonomy had stipulated that education is the task of district and municipal governments, in order to make this program of greater importance to the activation of the role of regional governments.

#### 4.2.2. National Priorities

The government's vision and mission for 2009-2014 needs to be formulated and elaborated in a more operational way into a number of priority programs so that they can be implemented more easily and their outputs can be measured. The following eleven national priorities are aimed at addressing the challenges faced by the nation in the next coming period.

Most of the resources and policies will be prioritized to ensure the implementation of the following eleven national priorities, namely: (1) reform of the bureaucracy and administration; (2) education; (3) health; (4) reducing poverty; (5) food security; (6) infrastructure; (7) investment in the business sector; (8) energy; (9) environment and natural disasters; (10) left-behind, frontline, most outer, and post-conflict regions; and (11) culture, creativity, and technological innovation.

#### **Priority 1: Reform of the Bureaucracy and Governance**

Improving good governance is to be attained through efforts to enhance work performance in an integrated way, which ensures integrity, accountability, compliance with the law, credibility, and transparency. Increasing the quality of public services is supported by government structure that is efficient at the central and regional levels, by adequate capacity of government personnel, and by reliable population data.

Therefore, the core substance of reform of the bureaucracy and governance is the following:

1. **Structure:** Consolidation of the structure and enhancement of the capacity of ministries and government agencies that handle the state apparatus, namely the Ministry for Utilization of the State Apparatus (PAN), the State Personnel Agency (BKN), and the State Administration Institution (LAN) in 2010; restructuring of other government institutions, which handle the empowerment of micro, small, and medium enterprises, energy management, utilization of marine resources, restructuring of State Owned Enterprises, that handles the utilization of land and spatial planning for the general public, by not later than 2014.
2. **Regional autonomy:** Reforming regional autonomy through the: (1) halting/moratorium of regional multiplication; (2) increasing efficiency and effectiveness in the use of the regional balancing fund; and (3) improving the implementation of elections of regional heads.



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3. Human resources: improving the management of civil servants (PNS), covering the system of recruitment, education, placement, promotion, and transfer of civil servants in a centralized manner, no later than by the year 2011.
4. Regulations: accelerating the harmonization and synchronization of laws and regulations at the central and regional levels in order to attain a common direction in implementing development activities, including completing the assessment of 12,000 regional regulations not later than by the year 2011.
5. Synergy between the central and regional governments: determining and applying the system of Main Indicators on Public Services, that ensures synchronization between the central and regional governments.
6. Law enforcement: increasing the integration and integrity of applying and enforcing the laws by all institutions and the law apparatus.
7. Population Data: Determination of Population ID Number (NIK) and development of the Population Information and Administration System (SIK) with the first application on the population ID card not later than by the year 2011.

## **Priority 2: Education**

Increasing access to education that is of sound quality, that is affordable, relevant, and efficient, towards the enhancement of welfare of the people, self-reliance, upholding noble ethics, and attaining a strong national character. Development of education is directed at attaining economic growth that is supported by harmony between the availability of skilled manpower and competence; (1) creating employment opportunities or entrepreneurship, and (2) responding to challenges in the need for manpower.

Thereby, the core substance of the action program in education comprise is the following:

1. Access to elementary-high school education: increasing the Net Enrolment Rate of primary education from 95% in 2009 to 96% in 2014, increasing the Net Enrolment Rate of junior high education from 73% to 76%, increasing the Gross Enrolment Rate of senior high education from 69% to 85%, consolidating/rationalizing of the implementation of the BOS program, reducing the standard price of school books of elementary and high schools by 30-50% by not later than by the year 2012 and providing internet connection with education content to high schools by no later than the year 2012, which plans to continue expansion to elementary schools.
2. Access to university education: increasing the Gross Enrolment Rate of university education from 18% in 2009 to 25% in 2014.
3. Methodology: applying education methodology that is no longer in the form of education for the sake of passing ('teaching to the test'), but is oriented to a comprehensive education that takes into account social capability, character, morals, and appreciation for Indonesia's culture and language, through the adjustment of the National Final Exam system in 2011 and through improving the

curriculum of elementary and high schools before 2011 that is set at 25% of schools by the year 2012 and at 100% by the year 2014.

4. Management: empowering the role of school masters as managers of the education system, revitalizing the role of school supervisors as a quality assurance entity, encouraging the active role of the School Committee for ensuring the involvement of stakeholders in the teaching process, and increasing the role of the Education Council at the district level.
5. Curriculum: Reforming the school curriculum that is classified into the national, regional curricula, so that it can induce the creation of students who are capable of responding to the need for human resources for supporting national and regional economic growths by including entrepreneurial education (among others by developing the 'link and match' model).
6. Quality: increasing the quality of teachers, school management, and services, through: (1) programs for remediation of capability to teach the teachers; (2) applying the professional performance evaluation of teachers; (3) certification of ISO 9001:2008 at 100% of state universities, 50% of private universities; 100% of vocational high schools before 2014; (4) widely opening up cooperation of state universities and international education institutions; (5) encouraging 11 universities to enter the Top 500 THES in 2014; (6) ascertaining that the teacher-student ratio at each elementary school is 1:32 and 1:40 at each junior high school is, and (7) ascertaining the attainment of the National Standard Education for Religious and Religion Education by not later than the year 2013.

### **Priority 3: Health**

This placed the emphasis of health development on the prevention of illness. Not only on curative health, through increasing community and environmental health, but also by expanding the availability of clean water, reducing slum areas, to lead to an increase of a life expectancy rate from 70.7 years in 2009 to 72.0 in 2014, and attaining all of the targets of the Millennium Development Goals (MDGs) in 2015.

Therefore, the core substance of the action program on health comprises the following:

1. Program on public health: the implementation of the Integrated Preventive Health Program, that encompasses the provision of basic immunization to 90% of infants in 2014; providing access to clean water sources that can reach 75% of the population in 2014; reducing the maternal mortality rate from 307 per 100,000 births in 2008 to 118 in 2014, and the decline of the infant mortality rate from 34 per 1,000 births in 2008 to 24 in 2014.
2. Program on Family Planning: increasing the quality and service scope of Family Planning through 23,500 government and private clinics in 2010-2014.



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3. Health facilities: the availability and enhancement of the quality of internationally accredited hospitals in at least 5 large cities in Indonesia with the target of 3 cities in 2012 and 5 cities in 2014.
4. Medicines: the application of the National List of Essential Medicines as the basis for procurement of medicines throughout Indonesia and the limitation of prices of branded generic medicines in 2010.
5. National Health Insurance: the National Health Insurance for all poor communities with 100% coverage in 2011 and gradually expanded for other Indonesian families in the period 2012-2014.

#### **Priority 4: Reducing Poverty**

This priority aims at reducing absolute poverty from 14.1% in 2009 to 8-10% in 2014 and improving income distribution through social protection that is based on the family, community empowerment and expansion of economic opportunities of the low income population.

Therefore, the core substance of this action program on poverty reduction comprises the following:

1. Integrated Social Assistance: The family based integrated social protection program covers the program on Direct Cash Transfers (BLT), that is of an incidental nature as well as for marginal groups, food assistance, social security on health, scholarships for low income families, early age children education (PAUD), and Parenting Education starting from 2010 and the expansion of the family hope program (PKH) into a national program starting from 2011-2012.
2. PNPM Mandiri (Mandiri National Community Empowerment Program): increasing the budget allocation for PNPM Mandiri from Rp 10.3 trillion in 2009 to Rp 12.1 trillion in 2010, meeting the Community Direct Assistance (BLM) of Rp 3 billion per sub-district (kecamatan) for at least 30% of the poorest kecamatans in rural areas, and the selective integration of the supporting PNPM.
3. KUR (Smallholders Business Credit): improving the mechanism for allocating the KUR starting from 2010 and expanding the coverage of KUR starting from 2011.
4. Team for Reducing Poverty: revitalization of the National Committee for Reducing Poverty under the coordination of the Vice President, the use of the unified database for determining the program target starting from 2009-2010, and applying the accurate monitoring and evaluation system as the basis for decision making and for budget allocation.



### **Priority 5: Food Security**

This priority pertains to efforts to increase food security and continuation of the revitalization of agriculture for realizing self-reliance in food, increasing the competitiveness of agricultural products, increasing the income level of farmers, and conserving the environment and natural resources. Increasing the growth rate of the agricultural sector in the GDP to 3.7% and increasing the Farmers Terms of Trade to 115-120 in 2014.

Therefore, the core substance of the action program on food security comprises the following:

1. Land, Development of Agricultural Zones and Agricultural Spatial Planning: reforming regulations for ensuring legal certainty of agricultural lands, developing new agricultural areas of 2 million hectares, optimizing the use of neglected lands.
2. Infrastructure: construction and maintenance of infrastructure in transportation, irrigation, electricity networks, communication technology, and the national information system that serves regions that are agricultural products centers, to increase the quantity and quality of production and increase the ability to market the products.
3. Research and Development: increasing research and development activities in agriculture that can create superior seeds and other research outputs towards the enhanced quality and productivity of national agricultural products.
4. Investment, Financing, and Subsidies: encouraging investment in food, agriculture, and rural industries that are local products based on business entities and the government, providing financing that can be reached, and subsidies that can ensure the availability of tested superior seeds, fertilizers, appropriate technology and post-harvest facilities on a timely basis and in the right quantity, and which are affordable.
5. Food and Nutrition: increasing the quality of nutrition and food diversity through the enhancement of the hope food approach.
6. Adaptation to Climate Change: taking concrete steps that are related to adaptation and anticipation of the food and agricultural system to climate change.

### **Priority 6: Infrastructure**

A developed national infrastructure has a facilitating capacity and can induce greater economic growth and a just social development that emphasizes the interest of the general public throughout the Republic of Indonesia, by encouraging the participation of the people.

Therefore, the core substance of the action program on infrastructure development comprises the following:



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1. Land and spatial planning: consolidation of policies for handling and utilization of lands for the public in a comprehensive way under one roof and management of spatial planning in an integrated way.
2. Roads: completion of the construction of the Trans Sumatra, Java, Bali, Kalimantan, Sulawesi, West Nusa Tenggara, East Nusa Tenggara, and Papua, with a total length of 19,370 km in 2014.
3. Communications: construction of integrated inter-mode and inter-islands transportation infrastructure networks in accordance with the Multimode Transportation Blueprint of the national Transportation System and the reduction of transportation accidents of less than 50% of the current situation by the year 2014.
4. Housing for the general public: construction of 685,000 subsidized simple and healthy house units, 180 units of owned apartment units and 650 twin blocks including the housing premises supporting facilities that can accommodate 836,000 low income families in 2012.
5. Flood control: completion of construction of flood control infrastructure, including the Jakarta East Flood Canal before 2012 and the integrated handling of the River Basin Area of the Bengawan Solo before 2013.
6. Telecommunications: completion of the construction of the optic fiber network in the eastern part of Indonesia before 2013 and maximizing the availability of data and audio communication access for all of the Indonesian public.
7. Urban transportation: enhancement of transportation system and network in 4 large cities (Jakarta, Bandung, Surabaya, and Medan) in accordance with the Blueprint on Urban Transportation, including the completion of construction of the electric railway transportation (MRT and Monorail) by not later than the year 2014.

### **Priority 7: Investment Climate and Business Climate**

Increase investment through improvements in legal certainty, simplification of procedures, improving information systems, and the development of Special Economic Zones (KEK).

Therefore, the core substance of the action program on the development of the investment climate and business climate comprises the following:

1. Legal certainty: the gradual reform of regulations at the national and regional levels in order to achieve harmonization of laws and regulations that will avert ambiguities and inconsistencies in their implementation.
2. Procedure simplification: application of the electronic information and licensing investment services (SPSIE) at the One Roof Integrated Service Centre (PTSP) in several cities starting in Batam, cancellation of problematical regional government regulations and the reduction of costs for starting a business, such as the TDP (Company Registration Proof) and the SIUP (Trade Permit Document);

3. National logistics: development and application of the National Logistics System that ensures the speedy flow of goods and can reduce transaction costs/ high cost economy.
4. Information system: the full operation of the National Single Window (NSW) for imports (before January 2010) and for exports. Speeding up the realization of the process for settling import duties outside the port through the first phase implementation of the Customs Advanced Trade System (CATS) at the Cikarang dry port.
5. Special Economic Zones: development of five (5) Special Economic Zones through the Public Private Partnership (PPP) scheme before 2012.
6. Manpower policies: synchronization of policies on manpower and business climate in the context of expanding the creation of employment opportunities.

### **Priority 8: Energy**

Attain national energy security that ensures the continuity of national growth through institutional restructuring and optimizing the widest possible utilization of alternative energy.

Therefore the core substance of the action program on energy comprises the following:

1. Policies: placing the authority on energy policies to the Presidential Office for ascertaining that the national energy handling is integrated in accordance with the National Energy Master Plan.
2. Restructuring of State-Owned Enterprises (BUMNs): transformation and consolidation of BUMNs in energy, starting from the PLN (State Electricity Company) and Pertamina (Oil State Company) that will be completed no later than by the year 2010 and will be followed by other BUMNs
3. Supply capacity of energy: increasing the capacity of electricity generation by an average of 3,000 MW per year starting from 2010 with an electrification ratio of 62% in 2010 and 80% in 2014; and increased crude oil production to over 1.01 million barrels per day starting from 2014.
4. Alternative energy: increasing the utilization of renewable energy, including alternative energy of geothermal, to reach 2,000 MW in 2012 and 5,000 MW in 2014 and the start of the production of coal bed methane for generating electricity in 2011 accompanied by the utilization of the potential of solar power, micro-hydro, and nuclear power, in a phased way.
5. By-products and derivatives of crude oil and gas: revitalization of the industry for processing by-products and derivatives of crude oil and natural gas as raw material for textile, fertilizer, and other downstream industries.
6. Conversion towards the use of gas: expansion of the program for converting crude oil to gas so that it can reach 42 Households in 2010; the use of natural gas as fuel material for urban public transportation in Palembang, Surabaya, and Denpasar.



### **Priority 9: Environment and Management of Natural Disasters**

Conservation and utilization of the natural environment that supports sustainable economic growth and increased welfare of the people, accompanied by the control and management of disaster risks, for anticipating the impacts of climate change.

Therefore, the core substance of the action program on the environment and management of natural disasters comprises the following:

1. Climate change: increasing the management capacity in managing peat lands, increasing rehabilitation results to 500,000 hectares per year, and increasing the intensity of efforts for reducing the deforestation rate, by enhancing cooperation among the related ministries and by optimizing funding sources, like the IHPH (Forest Utilization Right Fee), the PSDH (Forest Resources Fee), and the Reforestation Fund.
2. Controlling Degradation of the Environment: reducing pollution of the environment through the supervision of controlling pollution from waste water and emissions in 680 industrial and service activities in 2010 and continued henceforth; reducing the total number of forest fire hotspots by 20% per year and reducing the overall pollution rate by 50% in 2014; halting environmental degradation in eleven River Basin Areas that are vulnerable to causing natural disasters starting from 2010 and continued henceforth.
3. Early Warning System: ensuring the operation of the Tsunami Early Warning System (TEWS) and the Weather Early Warning System (MEWS) starting from 2010 and continued henceforth; and the Climate Early Warning System (CEWS) in 2013.
4. Overcoming disasters: increasing the capacity to overcome natural disasters, through: (1) capacity building of the government apparatus and of the community in the efforts to mitigate risks and to handle forest fire disasters and hazards in 33 provinces, and (2) forming the rapid action team for handling natural disasters by providing adequate equipment and transportation means, based in two strategic locations (Jakarta and Malang) that can reach all areas of Indonesia.

### **Priority 10: Left-Behind, Frontier, Outermost, and Post-Conflict Areas**

The action program for left-behind, frontier, outermost, and post-conflict areas is aimed to ensure growth in the left-behind, frontier, outermost areas and to maintain a peaceful life in post-conflict areas, with the core substance comprising the following:

1. Policies: implementing special policies in the field of infrastructure and in other fields that support the efforts to increase the welfare of the people, which can stimulate growth in left-behind, frontier, outermost, and post-conflict areas, started not later than 2011.



2. International cooperation: establishment of cooperation with neighboring nations in the context of maintaining security of the region and of security of marine resources.
3. Territorial integrity: completing the mapping of border areas of the Republic of Indonesia with Malaysia, Papua New Guinea, Timor Leste, and the Philippines in 2010.
4. Left-behind areas: fully resolving the left-behind regions, covering at least 50 districts by not later than 2014.

### **Priority 11: Culture, Creativity, and Technological Innovation**

The development and protection of cultural diversity, art works, science, its appreciation for enriching artistic and intellectual capability for the consolidation of identity and adaptive and competitive capability of the nation that is accompanied by the development of innovation, science and technology, that is based on Indonesia's competitive advantage as a maritime and archipelago nation.

Therefore, the core substance of this action program on culture, creativity, and technological innovation comprises the following:

1. Preservation: determination and formation of the integrated management for managing cultural preservation objects, revitalization of museums and libraries throughout Indonesia, targeted before October, 2011.
2. Facilities and infrastructure: providing adequate facilities and means for the development, assessing in depth the exhibition of cultural arts in large cities and capital cities of districts by not later than October 2012.
3. Creation: development of the national capacity for conducting research, creation and innovation and facilitating access and its utilization by the public at large.
4. Policies: increasing the attention and participation of the government in culture and arts programs that have been initiated by the community and appreciation to cultural diversity is induced.
5. Technological innovation: increasing comparative advantage into competitive advantage, encompassing management of maritime resources towards security in energy, food, and anticipation of climate change impacts. This also includes enhancing skills related to technology and creativity of the youth.

These National Priorities aim for the following:

**First:** Accelerating Physical infrastructure Development (covering Priority 5 on Food Security, Priority 6 on Infrastructure, Priority 8 on Energy, and Priority 10 on Left-Behind, Frontier, Outermost, and Post-Conflict Areas).

**Second:** Improving Soft Infrastructure (Priority 1 on Reform of the Bureaucracy and Governance, and Priority 7 on Investment Climate and Business Climate).



**Third:** Strengthening of Social Infrastructure (Priority 2 on Education, Priority 3 on Health, Priority 4 on Reducing Poverty, and Priority 9 on the Environment and Managing Natural Disasters).

**Fourth:** Development of Creativity (Priority 11 on Culture, Creativity, and Technological Innovation).

## Other Priorities

In addition to the above eleven national priorities, the realization of the Vision and Mission of National Development are also to be endeavored through other national priorities in the political field, legislation, security, in the economic field, and in the field of enhancement of welfare.

In the political, law, and security field, the priorities cover: (a) implementation of coordination in the mechanism for handling terrorism; (b) implementing the program for the de-radicalization of counter-terrorism; (c) increasing the role of the Republic of Indonesia in the efforts to realize world peace; (d) increasing services to and protection of Indonesian migrant workers abroad; (e) strengthening and consolidating relations among institutions in the prevention and the eradication of corruption; (f) implementing the protection of witnesses and informants; (g) recovery of state assets; (h) increasing legal certainty; (i) strengthening protection of basic human rights; and (j) empowering of strategic defense industries.

In the economic field, the priorities cover: (a) implementation of the development of industries in accordance with Presidential Regulation Number 28 of 2008 on National Industrial Policy; (b) increasing the role and capability of the Republic of Indonesia in international trade diplomacy; (c) increasing services to and protection of Indonesian migrant workers abroad during the process of their preparation, departure, and return to Indonesia; and (d) increasing the efforts to serve and protect Indonesian migrant workers abroad.

In the field of the welfare of the people, the priorities cover: (a) implementation of the hajj pilgrimage in a orderly and uninterrupted way by not later than 2010; (b) increasing harmony among religious adherents through the formation and effective enhancement of the Forum for Harmony Among Religious Followers (FKUB); (c) increasing the total number of international and domestic tourists gradually by 20% over the five years; (d) promotion of ten (10) Indonesian tourist destinations through creative and effective marketing and advertisements; (e) improving and enhancing the quality of tourism supporting network facilities; (f) increasing the capacity of the government and stakeholders of local tourism for attaining the quality of services and hospitality management that are competitive in the Asian region; (g) formulating policies and guidelines for applying the mainstreaming of gender and children's issues by ministries and government agencies; (h) attaining an upper position at the South East Asian Games in 2011, increasing the attainment of medals at the Asian Games of



2010 and in the 2012 Olympics; (i) enhancing character building through enhanced youth movements, revitalization, and consolidation, and (j) revitalization of the scout movement.

### 4.3 Policy Directions in Development Fields

National development is carried out in a comprehensive way in various fields of people's life. In this regard, the national development plan is categorized into nine fields of development, as contained in the National Long-Term Development Plan of 2005-2025, namely as follows:

1. Social-culture and religion
2. Economics
3. Science and technology
4. Infrastructure
5. Political
6. Defense and security
7. Law and state apparatus
8. Regional and spatial planning field
9. Natural resources and the environment

The directions and policies of the respective fields of development are described in Book II.

Synergy among the development fields is essential for the smooth implementation and attainment of various targets of RPJMN 2010-2014. Basically, the successful realization of development targets in each of the development fields is not independent of one another. Given the limited funding resources, the effectiveness, efficiency, and maximal results of the development efforts must be based on the synchronization of development activities in all fields, so that all development activities become intertwined, mutually supporting and mutually enforcing.

Furthermore, the implementation of development as contained in the RPJMN, is in principle the mainstreaming of what forms the operational basis for the implementation of all development activities. This mainstreaming principle is reflected in the output of development policies, covering: (1) the mainstreaming of sustainable development; (2) the mainstreaming of good governance, and (3) the mainstreaming of gender. These principles of mainstreaming will become the spirit of development policies in each of the development fields. Under such mainstreaming principles the medium-term development will strengthen endeavors to overcome the various faced problems.

This RPJMN 2010-2014 supports a comprehensive medium-term work plan.. Problems that have a cross-field scope must be handled in a holistic and non-



fragmented way in order to solve basic problems effectively. This achievement results in a commitment of all parties, specifically government agencies in the interest of serving the interests of all people of Indonesia. Therefore, work plans that are cross-field in scope are also formulated, covering: (1) the reduction of poverty; (2) the handling of the impact of global climate change; (3) maritime development with an archipelago dimension; and (4) the protection of children. Such cross-field policies are to comprise a set of inter-field policies that are integrated, to encompass priorities, to focus on priorities and priority activities that are cross field in scope and successful results in resolving development problems that are becoming ever more complex.

#### **4.4. Regional Development Directions and Policies**

The mission of the 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025) is the realization of development that is more equitable and just as indicated by the increased development that is more equitable throughout Indonesia, and that is realized increased quality of life, and in the welfare of the people, including in the reduced disparities among regions, in the context of the Unitary State of the Republic of Indonesia. In this regard, the regional development directions and policies comprise the following:

Inducing growth of potential regions outside Java, Bali and Sumatra, while maintaining the momentum of growth in Java, Bali and Sumatra.

1. Increasing the interregional linkages by increasing inter-island trade in order to support the domestic economy.
2. Increasing the competitiveness of regions, through the development of the selected sectors of each region.
3. Encouraging the accelerated development of left-behind regions, strategic and fast-growing areas, border areas, frontier areas, outermost areas, and natural disaster prone areas.
4. Inducing the development of marine regions and marine sectors.

The regional development strategy is implemented in the context of ensuring synergy between the central and regional governments, and among regions, in the entire process starting from the planning, implementation, controlling, and evaluation, that cover policies, regulations, budgeting, institutions, and regional development. One of the important elements in the synergy between the central and regional governments is the realization of the relationships between central and regional policies in order to formulate each policy by accommodating aspirations of the regions, and by emphasizing the settlement of problems in the regions. In addition, synergy in policies is meant to ensure regional governments have the capability of understanding and implementing central government policies in an efficient and effective way and to support the implementation of these kinds of policies with the available resources.



Synergy in development policy of the central and regional governments is required for five-years as well as annual plans. They will be endeavored by optimizing the implementation of the *Musrenbang* (Development Planning Consultation at all government levels - village, sub-district, district and city, province, and national), in order to realize the synchronization among policies, programs, and activities among sectors, inter-periods, inter-regions, and between the central and regional governments. In addition, the *Musrenbang* is expected to create a greater participatory process by all actors of development and to promote transparency and accountability in the implementation of government functions and in carrying out development activities.

This synergy of regulations aims to induce the harmonization of laws and regulations, in the form of Laws (UU), Government Regulations (PP), Presidential Regulations, Ministerial Regulations, and regional regulations. This enables them to support the implementation of development programs and activities that are contained in the RPJMN 2010-2014. In addition, synergy is also directed at increasing mutual understanding and agreement in compliance in implementing laws and regulations. This is implemented in line with efforts of reforming and strengthening the financial balance between the central government and the regional governments through the restructuring of instruments which transfer funds to regions, including the DAU (General Allocation Fund), the DAK (Special Allocation Fund) and the DBH (Resource Sharing Fund). This is jointly referred to as the DP (Balancing Fund), and the Special Autonomy Fund, and has the goal of maintaining the harmonization of the national interest and the needs of the regions.

In addition, in the context of ensuring the effectiveness of the management and the utilization of the de-concentration of funding for attaining the priorities of national development, strengthening the capacity of regional governments, and enhancing the implementation of governmental tasks and of the development activities, the following steps will be pursued in the next five years: (1) affirming the organizational and personnel structure that implement the utilization of the de-concentration of funding; (2) synchronizing program planning among ministries and government agencies, and work units of regional governments; and (3) jointly determining the functional targets of programs.

The Central-Regions synergy carries out government tasks that are directed to improve the governance of the regional government institutions and to increase the capacity of the regional government apparatus. For improving regional governance, efforts will be made to accelerate reform of regional government institutions in order for them to become capable of carrying out government tasks in a more efficient and effective manner, to increase the quality and to reach their level of public services in accordance with the SPM (Minimal Services Standards) that is determined by the Central government to ensure the implementation of good governance, and increase the competitiveness of the regions. Meanwhile, the efforts of increasing the capacity of the regional apparatus are directed to make the regional apparatus more reliable,



competent, and professional in the implementation of government tasks and in carrying out development activities.

For accelerating regional development, endeavors will be made to induce reform, utilization, and control of spatial planning under the principle of the harmonization of the national interest and needs of regions to harmonize among others. In return this regional development strategy will become the guideline for ministries and government agencies in formulating their *Renstra* (Strategic Plans) of the ministries and government agencies, by taking into account the potentials and problems of the regions - this will become the basis for regional governments in formulating the Regional Medium-Term Development Plans (RPJMD).

In line with implementation of the eleven national priorities, the regional development directions and policies are aimed at realizing the targets of all the eleven national priorities in line with the strategic issues of each region.

#### 4.4.1. Regional Development of Large Islands

Regional development policies are directed at inducing the acceleration of development in the regions of Kalimantan, Sulawesi, Nusa Tenggara, Maluku, and Papua, while still maintaining the momentum of development in the Java, Bali and Sumatra regions. Acceleration of regional development is aimed to increase welfare for people, to increase the quality of human resources, and to reduce development gaps.

##### I. Development of the Sumatra Region

The Sumatra Island is one of the largest islands in Indonesia, which is playing a big role in supporting the efforts to increase the performance of national development. The Sumatra region has a relatively strategic position in the western part of Indonesia and it directly faces the East Asia regions. Sumatra becomes one of the world's largest economic centers, and has the closest interaction relation with the island of Java, where the Indonesia's economic is.

Through development, the Sumatra region is directed to become the center of the production and processing industry of agricultural food crops, fishery products, as the national energy supply centre, centre of trade and tourism. Sumatra is also one of the main regions of the ASEAN Economic Community. In accordance with the RTRWN (National and Regional Spatial Plan), development of the Sumatra regions is directed at (1) the consolidating of interaction among areas in the eastern coasts, central areas, land and sea areas, and in becoming the main air route; (2) encouraging the functioning of urban populations, as a collection and distribution center of Sumatra island; (3) developing access for isolated areas and for small islands in the western and eastern coastline of Sumatra, to become centers of production of fisheries, tourism, oil and



natural gas, to become manufacturing centers and as a cross-island and cross nation marketing center; (4) preserving the conservation areas of at least 40% of Sumatra in the context of mitigating of the impact of natural disasters that can threaten the safety of communities and of that of the social and economic assets in the form of the infrastructure in urban areas, as well as in cultivation areas; (5) developing the selected commodities of the region that has high competitiveness, by management and marketing in cross-sector and cross-province cooperation, in the context of encouraging self-reliance of access to global markets, by reducing dependence on neighboring nations; (6) averting conflicts in the utilization of lands in cross region border areas, covering the cross provinces, the cross districts and the cross cities; (7) maintaining and preserving local cultures from the negative influences of globalization and world trade liberalization; (8) consolidating the linkages among selected regions, other culture areas, including cities as with growth areas and centers among the islands in the national area, and with growth centers in the sub-regions of ASEAN, Asia Pacific region, and in other international areas.

The development centers in the Sumatra region that are forming the PKN (National Activities Centre) aim to: (1) induce the development of the urban areas of Lhokseumawe, Dumai, and Batam, in the eastern area, and the urban area of Padang as the primary servicing centre in the western area; (2) control the development of the urban areas of Medan-Banjar-Deli Serdang, Bandar Lampung and vicinity, Palembang and vicinity, as primary service centers, in accordance with the carrying capacity of these areas; and (3) encourage the development of the cities of Pekanbaru and Jambi as secondary service centers.

## **II. Development of Java-Bali Region**

The development of the Java and Bali region as the centre of national economic activities faces complex challenges. The Java-Bali region is relatively advanced and developed compared to other regions. On the other hand, in the next twenty years the Java-Bali region will encounter strategic challenges: (1) the increase of the urban population; (2) the change in economic structure with a greater share of the services sector; (3) the decline in the carrying capacity of natural resources of the environment; (4) the increased middle class that is accompanied by the increased awareness of basic rights; and (5) a shift in views, values and lifestyle, which tend to become more global. These strategic issues will have implications on the changing social system, economic system, resources, spatial allotment, culture, and the political life.

In the next five year period, the development of the Java-Bali region is directed at maintaining its functions as the national food basis, by developing the manufacturing industry in a well managed way, in strengthening trade interaction, and in increasing international standard services of tourism in the main region in the ASEAN Economic Community, while still taking into account the ecological balance and the principles of sustainable development.





In accordance with the directions of the RTRWN (National and Regional Spatial Plan), the development of the Java-Bali region is directed at: (1) maintaining the Java-Bali region as the food production area; (2) maintaining and rehabilitating conservation areas that have become increasingly pushed back by cultivation activities, so that it can reach 30% of the total area of the Java-Bali region, particularly in the southern part of Java and central part of Bali; (3) maintaining water sources and rehabilitating water catchment areas for ensuring the availability of water for the whole year; (4) controlling the growth of urban and rural population settlement centers that have the potential to hamper disaster prone areas and that can threaten conservation areas and food production areas, by the control of population matters and their social-economic activities; (5) tight control of industrial development so that no trespassing of the environment threshold for maintaining sustainable development is possible; (6) integrating industrial activities in the already determined industrial zones; (7) encouraging the growth of urban population settlement centers and distribution centers of Java-Bali; (8) developing oil and gas utilization zones for sea and offshore areas; (9) maintaining and rehabilitating cultural conservation areas.

The centers of development in the Java-Bali region that comprise the PKN (National Activities Centre) aim to : (1) control the physical development of the urban areas of *Jabodetabek* (Jakarta-Bogor-Depok-Tangerang-Bekasi), Bandung, Gerbangkertasusila, and Denpasar, as primary service centers by taking into account the carrying capacity of the environment; (2) encourage the development of the Yogyakarta urban area and its vicinity together with the urban area of Semarang, as primary services centers; and (3) encourage the development of the urban areas of Serang and its vicinity, Cilacap and its vicinity, Cirebon and its vicinity, and Surakarta and its vicinity, as secondary service centers.

### **III. Development of the Kalimantan Region**

The development of the Kalimantan region is very important for supporting the increased national development. The Kalimantan region has a relatively strategic geographical position in the central part of Indonesia, directly facing the large islands of Indonesia with northern borders shared between Indonesia and Malaysia. This position is very important in the context of inter-regional linkages.

Development of the Kalimantan area is aimed at increasing the productivity and value-added of products from estates, livestock, fisheries, and processed forest yields; and increasing the value of mining products and functions as the national energy storehouse, at the same time still taking into account ecological balance and the principles for sustainable development. In accordance with the RTRWN (National and Regional Spatial Plan), the development of the Kalimantan region is directed at: (1) maintaining areas that have a conservation function and rehabilitating environmentally degraded areas in the context of supporting the sustainability of the utilization of forest, mining, agricultural resources, marine, coastal and small islands resources, and



reducing the risks of natural disasters; (2) utilizing the geographically strategic position as being adjacent to Malaysia in Serawak and Sabah in the context of enhancing the sub-regional economic cooperation of BIM-EAGA (Brunei Darussalam-Indonesia-Malaysia-Philippines- EAST ASEAN Growth Area); (3) accelerating the handling of inter-nation border issues with Malaysia in Serawak and Sabah, as the frontier regions of the Unitary State of the Republic of Indonesia in Kalimantan; (4) increasing internal access of Kalimantan island for realizing synergy in the development of the potential of the region and for inducing greater equity among regions, through acceleration of the improved functions of the trans Kalimantan road network in an integrated way by the development of the networks of river transportation, sea transportation, railway networks and air transportation; (5) promoting the greater role of selected zones as the engines of economic growth of the Kalimantan region; (6) developing sustainable marine, agriculture, estate, mining, and forestry based processing industries, developing the tourism industry that is based on the strengthening and development of the local economy and local culture and on the conservation of the environment; (7) inducing the development of urban population settlement centers as the collection and distribution servicing centers in Kalimantan island.

The development centers in Kalimantan Island as the National Activities Centre (PKN) is directed at: (1) inducing the development of the cities of Balikpapan, Banjarmasin, and Pontianak, as primary service centers; and (2) inducing development of the cities of Palangka Raya, Samarinda, Bontang, and Tarakan, as secondary service centers. Furthermore, development of the PKS (National Strategic Activities Centre) in Kalimantan Island, especially in border areas, is directed at promoting the development of the cities of Kota Aruk, Jagoibang, Nangabadau, Entikang, Jasa, Nunukan, Simanggaris, Long Midang, and the city of Pahangai.

#### **IV. Development of the Sulawesi Region**

The development of Sulawesi region, as one of the biggest islands in Indonesia, is very important in supporting the efforts to enhance development of the national economy. The region of Sulawesi has a big potential as a growth centre of the eastern part of Indonesia and of the ASEAN sub-region. Under such conditions, the Sulawesi region has a strategic trading hub position.

The development of the Sulawesi region is directed at making it become one of the national food barns by increasing the productivity and adding value of products of agricultural food crops, of estates and fisheries; developing bio-energy; increasing and expanding trade, and international standard services and tourism. In accordance with the RTRWN (National and Regional Spatial Plan) the development of Sulawesi Region is directed at: (1) encouraging development of the role of Sulawesi Island as one of the regions that has quite potential; (2) developing selected commodities of Sulawesi Island

that have high competitiveness through cross-sector and cross-province cooperation in their management and marketing; (3) prioritizing left-behind and border areas in the context of attaining greater equity in inter-regional development, including development of small islands; (4) utilizing the potential of land and marine resources in an optimal way and for overcoming cross-province conflicts that occur in several water and land areas; (5) maintaining the existence of national food production centers, specifically for technically irrigated rice fields that are threatened by land conversions; (6) consolidating the linkage between lands for selected crops, other cultivated lands, including cities that are centers of their activities, and growth centers in the sub-regions of ASEAN, Asia Pacific, and other international areas in the context of enhancing regional competitiveness; (7) maintaining and rehabilitating conservation areas in order to reach at least 40% of the total area of Sulawesi Island, in the context of reducing risks from natural disasters that can threaten the safety of communities and socio-economic assets, in the form of infrastructure, population settlement centers, and cultural areas; (8) maintaining and rehabilitating culture conservation areas as the social cultural assets of the people that possess traditional cultural and local wisdom values; (9) developing processing industries based in the marine, agricultural, estate, mining, and forestry sectors, in a sustainable way; and (10) developing the utilization of spatial layout for accommodating the dynamics of economic, social, and cultural life.

Centers of development in Sulawesi Island which forms the PKN (National Center of Activities) aim to: (1) promote the optimizing of the zone development of the cities of Maminasata (Makassar- Maros- Sungguminasa-Takalar) and Manado-Bitung as the primary service centers, that are in accordance with the carrying capacity of the environment; and (2) trigger the development of the cities of Gorontalo, Palu, and Mamuju, as the secondary service centers.

## **V. Development of the Nusa Tenggara Region**

The development of the Nusa Tenggara region, as one of the island groups that is adjacent to Timor Leste as Indonesia's neighbor, must be carried out through accurate and integrated policies and programs in accordance with its potentials and the constraints faced. The Nusa Tenggara group of islands that is situated to the east of the Java-Bali region has not yet fully benefited from the economic interaction with the national centers of economic activities.

Development of the Nusa Tenggara Islands is directed at enhancing the productivity and value added of products from estates, cattle breeding, and fishery activities, by taking into account the linkages among the islands. In accordance with the RTRWN (National and Regional Spatial Plan), development of the Nusa Tenggara region aims to: (1) develop cities in coastal areas as the integrated centers of activities of maritime industrial activities, as the basis sector, that is supported by adequate infrastructure, particularly transportation, energy, and water resources; (2) develop land, sea, coastal, and small island areas, as an integrated unit of the Nusa Tenggara



Islands, through the utilization and control of the utilization of an integrated spatial layout, and that is supported by adequate infrastructure; (3) increase communication among coastal cities that link the Banda Aceh-Atambua axis, so as to form a strong social-economic relation; (4) increase the inter-linkages of inter-region development (Selected Zones and Marine Selected Zones) for optimizing the potentials of cultural tourist sites and natural tourist sites, including the marine tourist sites, by developing the integrated tourist belt of Bali-Lombok-Komodo-Tana Toraja; (5) determine the focus of specialization in the handling of selected commodities, including their marketing that is oriented to exports, by emphasizing the management of renewable natural resources on the basis of the principle of joint benefit, in terms of inter-region as well as inter-zones; (6) utilize the Regional Cooperation Forum and the International Economic Cooperation Forum on bilateral basis with Australia and Timor Leste as well as on multilateral basis in the context of sub-regional economic cooperation; (7) increase protection of the national conservation areas in the Nusa Tenggara Islands, particularly the marine conservation areas; and (8) manage the land area that borders Timor Leste and the sea area that borders Timor Leste and Australia, as the 'frontier zone' of the Unitary State of the Republic of Indonesia.

The development centre in the Nusa Tenggara region, as the National Centre of Activities, is directed at promoting development of the cities of Mataram and Kupang as the primary service centers that are in accordance with the carrying capacity of its environment.

## **VI. Development of the Maluku Region**

The development of the Maluku region, as one of the island groups that is situated adjacent to a neighboring nation, needs to be integrated into the policies and programs of Indonesia in accordance with its potentials as well as its constraints. Development of the Maluku region is directed at increasing productivity and by adding value to products of estates, cattle breeding, and fishery activities, and by taking into account the inter-linkages among the islands.

In accordance with the RTRWN (National and Regional Spatial Plan), development of the Maluku region aims at: (1) developing coastal cities, as the integrated centers of maritime industrial activities, as the sector basis that is supported by adequate infrastructure, particularly transportation, energy, and water resources; (2) developing the land, sea, coastal areas and small islands, as an integrated unit of the Maluku Islands, through the utilization and control of the utilization of spatial layout that is integrated with and supported by adequate infrastructure; (3) preserving the conservation areas for ensuring the optimal carrying capacity of the environment for regional development; (4) accelerating economic growth of the Maluku Islands through the development of selected sectors that are based on the local natural resources and by enhancing the inter-linkages among the growth centers on land areas, coastal areas, and small islands; (5) utilizing natural resources in a productive and efficient way based on



the principles of sustainable development; and (6) increasing the availability, quality, and scope of basic infrastructure services, particularly sea and air transportation, that are supported by the integrated and optimal inter-mode transportation, by inducing the participation of the private sector.

Development of the PKN in the Maluku Islands is directed at controlling development of the cities of Ambon and Ternate-Sofifi, as the primary service centers that are in accordance with the carrying capacity of the environment.

## **VII. Development of the Papua Region**

The development of the Papua region, as the most easterly and one of the largest islands of Indonesia, directly bordering Papua New Guinea, faces greater challenges than those of other regions. The biggest challenge is to provide equal attention to all coastal areas, mountainous areas, and low land areas, and simultaneously build up inter-linkages among the areas within an integrated spatial plan.

The development of the Papua region is directed at increasing the quality of human resources, increasing the productivity and adding value to products from estates, live stock breeding, and fishery, by taking into account the inter-linkages among the areas of the islands. In accordance with the RTRWN (National and Regional Spatial Plan), the development of the Papua region is directed at: (1) supporting endeavors to strengthen unity, cohesion and defense of the nation; (2) placing the traditional land rights in the spatial plan, as one of the efforts for maintaining the local social and cultural values; (3) utilizing natural resources and the natural environment in a productive and efficient way in order to avert waste and the reduction of carrying capacity of the environment, thereby granting the ability to yield the greatest benefits on the basis of the principles of conservation and sustainability; (4) maintaining a conservation area of at least 50% of the total area of Papua; (5) accelerating economic growth of Papua Island as a region, through the development of selected sectors, based on the local resources and by increasing the inter-linkages among the growth centers; (6) accommodating economic activities, expanding employment opportunities, and carrying out the functions as the centre of business services through the development of business zones and growth centers; (7) increasing the mutually beneficial inter-linkages between leading and left-behind areas, in the context of increasing the economic welfare of the region in the vicinity of the leading areas; (8) increasing the availability, quality, and scope of services of basic infrastructure, specifically sea transportation that is supported by the integrated and optimal inter-mode transportation by encouraging the participation of the private sector; and (9) increasing development of interior and border areas that are left-behind and isolated, by harmonizing inter-regional growth rates.



Centers of development in Papua Island that form the PKN (National Activity Centers) are directed to: (1) encourage development of the cities of Sorong and Jayapura, as the primary services centers, in accordance with the principles of sustainable development; (2) encourage the development of the cities of Manokwari and Timika as the secondary services centers, in accordance with the principles of sustainable development.

#### 4.4.2 Sea Region Development Strategy

The development of sea regions is implemented through an integrated regional approach by taking into account aspects of geology, oceanography, biology or biodiversity, habitats, mineral and energy potential, the potential for fisheries, marine tourism potential, the potential for maritime industry, transport potential, and technology. This approach is the synergy of the development of large islands in the context of regional development and equitable distribution of development. This approach views the sea areas of Indonesia as having two functions: (i) the integrating element of economic activities among regions, and (ii) the supporting element in the development the potentials of each region.

Development of sea areas is based on the dominant sector and the potential for forward and backward linkages with other sectors. Through this approach, the development of sea areas is grouped as follows: (1) development of sea areas of Sumatra; (2) development of sea areas of Maluku; (3) development of the Sunda sea areas; (4) the development of marine areas of Java; (5) development areas of the sea of Natuna; (6) development of the Makassar-Buton seas; (7) development of the Maluku Banda seas; (8) development of the Sawu seas, and (9) development of the Papua-Sulawesi seas. Of the nine sea development areas, by taking into account their strategic functions in strengthening the linkages between the regions, five priority areas have been selected for the period of 2010-2014, namely the sea development areas of Sumatra, Malaka, Java, Makassar, Buton, and Banda-Maluku.

##### **I. Sumatra Seas Development Area**

The Sumatra seas development area is located west of the Sumatra Island that stretches from Sabang, in the north, to Lampung, in the south. The fishery potentials cover ornamental fish in Breuh Island and Sibolga, snapper, grouper, shellfish, sea cucumbers, and oysters found throughout the western part of Sumatra. In addition there is the potential for seaweed in coastal areas of Painan and Lampung. Various types of coral reefs can be found in the Mentawai and Simeulue Islands. Potential oil and gas is found in the Busur Muka Basin off the coast of Bengkulu, while potential for iron sands are found along the coast of Padang. Potential marine and cultural tourism can be developed in Nias and the Mentawai Islands. This area is passed by only one national



shipping line and inter-island shipping, even though the international border area to the west is quite a busy international shipping route.

The policy for the sea area of Sumatra is directed at the development of marine based industries, particularly for the processing of sea products, by strengthening the linkage with the Java area. The strategy pursued comprise the following: (1) the education and training of human resources in marine matters; (2) development of marine and coastal transportation; (3) increasing the capacity of electricity generation; (4) developing banking financing schemes that can be easily accessed by fishermen and small scale businesses in coastal areas; and (5) facilitating development of insurance systems for risk protection.

The policy direction and strategy of this sea area is integrated with the policy and strategy of the Sumatra and Java-Bali sea areas.

## **II. Malaka Strait Seas Development Area**

Geographically, the sea development area of the Malaka Strait is stretched out from the waters of the Strait of Malaka to the Riau Island, and is bordered to the north by the waters of Aceh, to the east by the waters of Malaysia and Singapore, to the south by the seas of Natuna, and to the west by the Sumatra mainland. This area is a dense international shipping route and is an area with high risks for the occurrence of conflicts with neighboring countries. Old granite and sand deposits are found in the Riau Islands. Tin is found in Singkep Islands, while large quartz sand is found on the offshore of Riau near Rupert Island. This area has potential for aquaculture (white snapper, grouper, shellfish, sea cucumber, oyster, and seaweed). Potential of cultivated fish (aquarium/ornamental fish) is also found around Sabang Island and Bintan Island. Biodiversity in these waters is featured by the Molusca species, sea cucumbers, and sea turtle species. The habitat of coral reefs is dominated by fringing reefs. However, the density of shipping and oil and gas exploration activities in this area presents the threat from oil spills and other wastes.

Development of marine areas of the Malaka Strait is aimed at improving the security and order and at ensuring the sustainability of marine ecosystems so that the utilization of natural resources can be done optimally. In that regard, the strategy comprises the: (1) affirmation of Indonesia's territorial and jurisdictional boundaries with neighboring countries, (2) increasing surveillance of border areas to prevent smuggling, piracy, illegal fishing and illegal trade in coastal sand; (3) enforcement of regulations related to maintenance and conservation of the marine environment; (4) the use of frontier islands as leading tourist areas and as marine wildlife conservation centers.

The policy direction and strategy of this sea area are integrated with the policy and strategy of Sumatra and Java-Bali.



### **III. Java Seas Development Area**

The Java seas development area is located between the islands of Kalimantan and Java. To the east this sea area is bordered by the Makassar sea development area and to the west it is bordered by Sumatra Island. Because it is situated in deep-sea areas between the large islands, these waters are a dense national and inter-island shipping route. International shipping lines also pass to the east of these waters. The threat of environmental quality decline comes from oil pollution and from wastes that are disposed from the rivers in Java.

The development of these waters aims to strengthen the sea area function as the integrating element of economic activities among regions, specifically among islands, while maintaining the sustainability of marine ecosystems. In that regard, the strategy is to: (1) increase the sea transport system to facilitate inter-island flow of goods, particularly for the eastern parts of Indonesia; (2) enforce regulations that are related to the maintenance and conservation of the marine environment; (3) control industrial and household wastes through rivers that have their estuaries in the sea waters of Java; (4) control erosion in river basin areas (DAS) to avert the sedimentation of fish-ports and seaports; (5) develop fishery cultivation activities; and (6) minimize the risk of pollution and marine habitat degradation by oil and gas offshore exploration and exploitation activities.

The policy direction and strategy of this sea area are integrated with the policy direction and strategy of the Java-Bali and Kalimantan sea areas.

### **IV. Makassar-Buton Seas Development Area**

Geographically, the Makassar sea development area lies between Sulawesi Island to the east, and Kalimantan Island to the west. Except for the Makassar Strait, utilization of fisheries is still possible to be improved. Of the transportation system, this area is a very active national and inter-island shipping route. In addition, the Makassar Strait is quite heavily passed by international shipping lines.

The development policies for this area are aimed at optimizing the strategic role of maritime affairs in enhancing intra-island trade interactions (among provinces in Sulawesi) and in supporting the role of the Sulawesi region as the engine of the Eastern Part of Indonesia. In that respect, the strategy comprise the following: (1) to increase the marine transport system linking provinces in Sulawesi; (2) to consolidate the marine transportation system for strengthening the intermediary function of Sulawesi between the western part and eastern part of Indonesia; (3) to develop fish ports in the clusters of seafood processing industries, (4) to develop hub ports for the selected export commodities; (5) to increase supervision of international shipping lines to prevent smuggling activities; (6) to develop marine based education institutions and curriculum (fisheries, tourism, shipping); (7) to develop the marine transportation industry (shipping); and (8) to develop marine tourism.





The policy direction and strategy of this sea area are integrated with the policy direction and strategy of the Kalimantan, Sulawesi, and Nusa Tenggara sea areas.

## V. Banda-Maluku Seas Development Areas

The development region of the Banda-Maluku seas is situated in the eastern part of Indonesia that at the north borders the development region of the Papua seas, at the south borders the development region of the Sawu sea, and at the west borders the development region of the Makassar seas. This development region has the potential oil and gas resources in the *kepala burung* area, in Seram, and in Halmahera. Cement materials are also found on Misool Island. This region can, however, only be accessed by several national and inter-island shipping lines. Thereby, the threat of sea pollution is still low as evident from the relatively well conserved bio-diversity. This area is the location for laying eggs of various species, such as turtles. The potential for fisheries and sea weed cultivation is also very high while the current level of utilization is still relatively low. The unique characteristics of the island groups, such as in the Raja Ampat waters, are also provide potential attraction for natural tourism.

The policy direction for the development region of the Banda-Maluku seas is pioneering the development of marine resources and marine tourism based industries. In line with this direction, the strategy covers: (1) development (education and training) of human resources in order to become highly skilled in marine activities; (2) pearls and collection fish; (3) development of sea transportation industry (shipping); (4) empowerment and organizing coastal communities for strengthening their social capital; (5) increasing access to capital for fishermen; and (6) developing marine tourism.

The policy direction and strategy for the sea region are integrated with the policy direction and strategy for development of the Sulawesi, Nusa Tenggara, and Papua regions.

### 4.4.3. Area Development

In the context of efforts for supporting accelerated development of the regions, the area development policies are directed at the: (1) development of strategic and fast growing areas, (2) development of left-behind borders, and areas vulnerable to natural disaster, (3) development of urban and rural areas, and (4) reforming and managing land. The strategies pursued are:

1. Encouraging the acceleration of development and growth of strategic and fast growing areas so that they can stimulate the development of adjacent left-behind areas within a system that promotes synergies between the economic developments of different areas. This will not take into account administrative

- borders but places greater emphasis on the importance of inter-linkages among industrial and distribution activities in the area;
2. Increasing the concern of the government for developing areas that are left-behind and isolated so that these areas can grow and develop faster and enable them to catch up with the development progress attained by other regions;
  3. Developing border areas by changing the thus far followed development policy that is more inward looking, to a policy that is more outward looking. In this way, these border areas can become the gateway of economic and trade activities with neighboring nations;
  4. Ensuring the growth rates among metropolitan, large, medium, and small cities are more even based on the national urban development system. This is needed to avert rapid physical growth of cities (urban sprawl and conurbation) that is occurring in the northern coasts of Java Island, and to control migration from rural areas to large metropolitan areas. This will be achieved through the creation of employment opportunities and business opportunities in the medium and small cities, especially outside Java Island;
  5. Accelerating the development of small and medium cities, especially outside Java Island, so that these can become the engines of growth and development in their adjacent areas and also can serve the needs of their population;
  6. Enhancing linkages between economic activities in urban areas and economic activities in rural areas (the produce of rural areas are backward linkages of economic activities in urban areas), in one 'economic development area' system;
  7. Applying the land management system that is efficient and effective, and ensures law enforcement on the rights to land by applying the principles of justice, transparency, and democracy.
  8. Encouraging regional planning that is aware of potential natural disasters, in view of Indonesia's geographic situation as being at the junction of three tectonic plates making it vulnerable to natural disasters.



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## CHAPTER V MACRO ECONOMIC FRAMEWORK

The macro economic framework provides a description on the economic progresses that will be attained in the 2010-2014 period, based on various policy measures that contain five years development agenda and its budget plan.

### 5.1. The 2009 Economic Condition

Generally, the 2009 macroeconomic condition is as follows. First, while economic growth declined slightly, there was reasonable growth during the impact of the global financial crisis in 2008. In mid 2009, the economy started to show signs of recovery, in line with the improving economic condition globally and the increase of commodity prices in world markets. Second, since the beginning of 2009, domestic expenditure has become the main contributor to economic growth. This is mainly related to the continuous purchasing power, General Election campaign activities, and measures taken to accelerate the budget absorptive capacity. Third, most of the domestic economic indicators, such as consumers' confidence, retail and automobiles sales, and industrial activities, have increased since the beginning of 2009, after declining at the end of 2008.

The global crisis started to affect the national economy in the fourth quarter of 2008. Economic growth in the fourth quarter of 2008 was down by minus 3.6% compared to the third quarter of 2008 (q-t-q) and increased by 5.2% (y-o-y), in the preceding quarter. Economic growth was positive, to be exact it was 6.2% in the first quarter, 6.4% in the second quarter, and 6.4% in the third quarter (y-o-y). The global crisis, which led to the decline of world demand, and the decrease of oil and commodities prices, resulted in the reduction of exports of goods and services by 5.5% in the fourth quarter of 2008 compared to the preceding quarter. The global economic condition led to capital outflow from Indonesia. Therefore, investment/Fixed Gross Capital Formation (FGCF) increased by 0.8% in the fourth quarter compared to the preceding quarter.

The economic growth turn down continued until the second quarter of 2009. In the first quarter of 2009, economic growth reached 4.4% and in the second quarter it fell to 4.0%. In the third quarter of 2009, economic growth rose again to 4.2%, and showed the early signs of economic recovery, in line with the world improving economy.

Up to the third quarter of 2009, economic growth has reached 4.2%. From the demand side, economic growth was stimulated by the government and private spending of 15.1% and 5.2% respectively. Meanwhile, exports were still negative (14.1%). From the production side, economic growth has been attributed to the growth of the



agricultural sector by 3.4%, tertiary sectors, such as electricity, gas and water by 13.9%, and transportation and communications by 17.6%.

The performance of Indonesia's economic growth is still considered satisfactory since many nations have experienced economy decline. Indonesia had a positive growth of 4% in the second quarter of 2009. Countries also experiencing growth during this period were China at 9% and India at 6.1%.

In order to accelerate the process of economic recovery, attempts to reduce the decline in export and the slow growth of investment have been intensified. In addition, measures have been continued to maintain the growth of private expenditure by maintaining people's buying power by controlling the inflation rate and also through various programs to reduce poverty. The effectiveness of government spending also has been increased through a stimulus program in maintaining people's buying power and increasing investment. Taking into account the effects of the external environment and various policies pursued, it is estimated that economic growth in 2009 will reach around 4.3%.

On the monetary side, after experiencing pressured shocks from the global economy in 2008, the monetary indicators estimated to continue improving up to the end of 2009. The 11.1% inflation rate, in 2008, has dropped to 2.8% by the end of 2009, in line with the decline of the world commodity prices, the decline in domestic oil prices, the increased inflation expectation, and the maintained supply of domestic food commodities. Even though the rupiah exchange rate weakened down to Rp 10,950.00/USD at the end of 2009, it gradually strengthened to Rp 9,400.00/USD by the end of 2009. The strengthened rupiah exchange rate has been supported by the surplus in the balance of payments, the attractive rupiah rate, the decline of risk premium, the weakening of the US dollar against major world currencies, and the increase in global investors' confidence in the performance of the Indonesian economy.

In 2009, fiscal policy was still aimed at providing an economic stimulus, while maintaining sustainability. This is for countering the adverse impacts of the global economy crisis in 2009. Thus, fiscal policy has been aimed at safeguarding the national economy by expanding the economic stimulus program through APBN 2009, changing the basic assumption in giving the right signal to public, and making various adjustments to government revenues level, government spending, budget deficit, and in financing of the budget deficit.

The fiscal stimulus policy was aimed at: (i) maintaining and increasing people's purchasing power through the provision of various fiscal incentives and subsidies, and through direct transfers provision; (ii) preventing widespread discharges of workers and increasing business community resilience in facing the crisis by reducing tariffs on taxes and import duties, reducing electricity costs, providing interest subsidies, and providing small loans; (iii) handling the effect of workers who were discharged and reducing the unemployment rate by increasing the budget for labor intensive



infrastructure projects; and (iv) accelerating sustainable economic growth by continued reform measures within all ministries/government agencies.

With the above measures, government revenues and grants reached around Rp. 866.8 trillion; 16.3% of GDP, a decline of Rp. 118.9 trillion compared to the original target of Rp. 985.7 trillion, which is 18.5% of GDP. This decline is mainly due to the decrease of domestic revenues, from tax as well as non-tax revenues, due to the impact of the global economic crisis.

Government spending has, meanwhile, reached around RP 954.0 trillion; 17.9% of GDP, which is down to Rp. 83.1 trillion compared to the 2009 initial budget of Rp. 1,037 trillion, which is 19.5% of the GDP. The decline in budget spending is due to the decrease of subsidies to Rp. 159.5 trillion, namely 3.0% of GDP, from Rp. 166.7 trillion, namely 3.1% of GDP that was initially set in the 2009 APBN. This subsidy decrease is significantly attributed by the significant change on oil price assumption, from USD 80 per barrel to USD 61.6 per barrel.

The above revenue and spending developments have caused the budget deficit in 2009 to 1.6% of GDP, an increase of 0.6% of GDP compared to the deficit stated in 2009 APBN of 1.0% of GDP. Meanwhile, the government debt stock could be lowered down to 30.0% of GDP.

Towards the end of 2009, the world economic recovery process continued, having a positive impact on the external environment during 2009. Up to the third quarter of 2009, balance payments remained under control. Up to the third quarter of 2009, the total value of exports reached USD 84.1 billion, a fall of 23.4% as compared to the third quarter of 2008. The total value of imports, up to the third quarter of 2009 reached USD 91.1 billion, a decline of 33.3% from the third quarter of 2008. On the whole, the current account transaction, up to the third quarter of 2009, saw a surplus of USD 7.4 billion. In the second quarter of 2009, the capital and financial account had a deficit, even though up to the third quarter of 2009 the capital and financial account as a whole saw a surplus of USD 4.7 billion, with the surplus attributed to the inflow of foreign direct investment, totaling USD 3.8 billion and the inflow of portfolio investment totaling USD 6.6 billion, while other investment (net) had a deficit of USD 5.6 billion. The balance of payments as a whole, up to the third quarter of 2009 reached USD 8.6 billion, with foreign exchange reserves reaching USD 62.3 billion, equivalent to 6.1 of imports and foreign debt repayment.

With the above economic growth development and with the policies on manpower and reducing poverty, the open unemployment rate fell from 8.39% in August 2008 to 7.87% in August 2009, and the poverty rate fell from 15.4% in 2008 (March) to 14.1% in 2009 (March).

## 5.2. The Economic Prospect in 2010-2014

### 5.2.1. Increasing People's Welfare Through Sustainable Economic Growth

The Indonesian economic condition in 2010-2014 is related to the state of the world economy. After experiencing a global recession since the middle of 2008, the world economy started to show signs of recovery at the end of 2009. The IMF (October 2009) revised its 2009 global economic prospect from - 1.4 to -1.1%; world economic growth in 2010 is estimated to improve from the initial estimation of 2.5 to 3.1%. This recovery is mainly due to the effectiveness of government intervention measures in various nations that have (i) stimulated increased demand, and (ii) reduced uncertainties and potential systemic risks in financial markets. Even though the recovery is already underway, the global economy will still face challenges in five years time, including: (i) the developed nation's debts, which have increased in line with the efforts on fiscal stimulus; (ii) the unemployment rates in developed nations, which are still high; (iii) the uncertainties of oil price in world markets.

**TABLE 2**  
**ESTIMATED ECONOMIC GROWTH**  
**2010-2014**  
**(in%)**

	2010	2011	2012	2013	2014	Average 2010- 2014
<b>Economic Growth</b>	5,5-5,6	6,0-6,3	6,4-6,9	6,7-7,4	7,0-7,7	6,3-6,8
<b>Expenditure Side</b>						
Private Consumption	5,2-5,2	5,2-5,3	5,3-5,4	5,3-5,4	5,3-5,4	5,3-5,4
Government Consumption	10,8-10,9	10,9-11,2	12,9-13,2	10,2-13,5	8,1-9,8	10,6-11,7
Investment	7,2-7,3	7,9-10,9	8,4-11,5	10,2-12,0	11,7-12,1	9,1-10,8
Exports of Goods and Services	6,4-6,5	9,7-10,6	11,4-12,0	12,3-13,4	13,5-15,6	10,7-11,6
Imports of Goods and Services	9,2-9,3	12,7-15,2	14,3-15,9	15,0-16,5	16,0-17,4	13,4-14,9
<b>Production Side</b>						
Agriculture, Plantation, Livestock, Forestry, and Fisheries	3,3-3,4	3,4-3,5	3,5-3,7	3,6-3,8	3,7-3,9	3,6-3,7
Mining and Quarrying	2,0-2,1	2,1-2,3	2,3-2,4	2,4-2,5	2,5-2,6	2,2-2,4
Manufacturing Industry	4,2-4,3	5,0-5,4	5,7-6,5	6,2-6,8	6,5-7,3	5,5-6,0
Non-Oil and Gas Industry	4,8-4,9	5,6-6,1	6,3-7,0	6,8-7,5	7,1-7,8	6,1-6,7
Electricity, Gas and Water	13,4-13,5	13,7-13,8	13,8-13,9	13,9-14,0	14,1-14,2	13,8-13,9



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	2010	2011	2012	2013	2014	Average 2010- 2014
Construction	7,1-7,2	8,4-8,5	8,8-9,3	8,9-10,1	9,1-11,1	8,4-9,2
Trade, Hotels, and Restaurants	4,0-4,1	4,2-4,8	4,4-5,2	4,5-6,4	4,6-6,6	4,3-5,4
Transportation and Telecommunications	14,3-14,8	14,5-15,2	14,7-15,4	14,9-15,6	15,1-16,1	14,7-15,4
Finance, Real Estate, and Corporate Services	6,5-6,6	6,6-6,7	6,8-7,0	6,9-7,0	7,2-7,3	6,8-6,9
Services	6,7-6,9	6,9-7,0	7,0-7,1	7,1-7,2	7,2-7,4	6,9-7,1

Even though it is predicted that the global economic weight will shift from the west to the east, it is believed that the economies of the United States and of other advanced industrialized nations will remain as the engine of the world economy, as well as the export markets of commodities produced by developing nations. The economy of Asia is estimated to remain dynamic, with the economies of China, India, and other Asian industrial nations as the main players. It will remain as a region that is attractive for investments.

On the basis of various policy measures pursued in various fields - as described in the preceding chapters - as well as the economic recovery in Asia that started in the last quarter of 2009; improvement in the world economy in 2010; economic resilience to face the global financial crisis and global economic decrease; expectations of continuity of the current government in five years time; and estimation made of external conditions in the 2010-2014 period, it is expected that a sustainable macroeconomic position will be maintained with the following prospects between 2010-2014.

In the 2010-2014, Indonesian economy is expected to gradually grow from 5.5-5.6% in 2010 to 7.0-7.7% in 2014, at the average growth rate of 6.3-6.8% per year over the next five years.

Regarding expenditure, economic growth originates from private expenditure, as the main component of domestic demand, and from investment and the export of goods and services. Private consumption is projected to increase by 5.3-5.4% per year, while investment and exports are expected to gradually grow starting from 2010. Investment is estimated to grow at an average of 9.1-10.8% and exports of goods and services will grow at an average rate of 10.7-11.6% per year.

Private expenditure will continue to be stimulated by the increase of people's purchasing power through the efforts to maintain stability of the inflation rate and ensuring the continuing supply of basic goods. Efforts to stimulate investment are made by increasing harmonization of policies, simplifying investment licensing procedures, and increasing investment facilities. Export growth will continue to be encouraged



through various policies, such as increasing access to international markets, especially to non-traditional markets, increasing the quality and diversification of export products, and trying to increase export facilities.

On the production side, after experiencing low growth rates in the period 2004-2009, growth of the non-oil and gas processing industry will be increased to reach an average growth rate of 6.1-6.7%. The measures to stimulate growth of the industrial sector will be through policies to expand the total number of the industrial business units, to strengthen the industrial sector, and by increasing industrial activities productivity. Meanwhile, agriculture, fisheries, and forestry sectors are estimated to grow at an average rate of 3.5-3.6% per year, through policies such as: realizing food security, increasing competitiveness of agricultural products, and increasing farmers' income level.

With this sustainable economic growth path, it is expected that people's welfare will continually be enhanced.

### **5.2.2. Firm Economic Stability**

In the medium-term, especially through a policy framework on inflation and central government coordination of macroeconomic policies, Bank Indonesia (Central Bank), and regional governments, the inflation rate is predicted to gradually fall to the range of 4-6%. This estimation is based on the inflation rate target that is relatively low and stable, while still taking into account the need for attaining economic growth. To attain such an inflation rate target, it must be supported by a relatively stable exchange rate, that is possibly made by the estimated inflow of investment funds (capital inflow), in the form of portfolio investments as well as for investment in the real sector, which are stimulated by business climate improvements and security, law and order maintenance.

The maintained low inflation rate will produce a reduction in interest rates in the banking system that is also affected by the risk level of the business community. Even though the domestic banking interest rate will also be affected by the increase in the main international interest rates in the coming periods, it is expected that in the medium-term it will gradually continue to fall, thereby stimulating economic activities in the real sector, covering investment as well as production activities.

With regard to the management of public finances, the improving fiscal sustainability will be maintained. Fiscal sustainability will continually be strengthened to support the attained economic stability. On the revenue side, with the continued efforts to increase tax revenues, it is expected that tax revenues will increase at an average rate of 16.8% per year in 2010-2014. On the expenditure side, the budget allocation for transfers to the regions will increase at an average of 14.0%. In addition, in 2010-2014, the government human resource budget allocation is estimated to increase, in line with the continuing efforts of the government on bureaucracy reform.





In relation to the measures to overcome the threat of economic crisis, the National Annual Government Budget (APBN) deficit in 2009 was still relatively high, reaching 1.6% of GDP, in line with the implemented fiscal stimulus policy. Nevertheless, with the continuing policy stances, including efforts to increase revenues and to optimize budget spending, and to improve economic condition, it is expected that the APBN deficit in five years time can be reduced down to around 1.2% of GDP.

On the deficit financing budget, the strategy is directed at attaining three main targets, including: (1) the reduced debt stock ratio to GDP; (2) the selective use of debts; and (3) the optimal use of grants and debts. Efforts to enhance the management of government debt are directed at reducing the stock of foreign loans, not only relative to the GDP but also in absolute terms. Meanwhile, regarding domestic loans, especially through the issuance of government securities, measures will be taken to ensure adequate space for maneuvering within the private sector. Thereby, the debt stock to GDP ratio is estimated to decline down to around 24% by 2014.

An estimation of the balance payments are based on two basic assumptions, including development of the world economy and of the domestic macroeconomic condition. The assumption regarding the world economy relates to economic growth, especially of developed economies, the world's inflation rate, interest level rate, and the exchange rate of the main industrial nations. The assumption regarding the domestic economy cover assumes the balance payments that are closely related to the target on economic growth and the pattern of economic growth, on growth of investment, and on the investment funding source, from domestic as well as from foreign sources.

Even though competition in the international market is getting tighter, the prediction of improving world economy in 2010, after experiencing the global financial crisis since the middle of 2008, and also induced by the utilization of the increased competitiveness and efforts to create a conducive business climate for export activities, means that the value of non-oil and gas export in the 2010-2014 period is estimated to gradually increase. After experiencing negative growth in 2009, non-oil and gas exports in 2010 are estimated to grow at 7-8%, reaching 14.5-16.5% in 2014.

On the import side, the increase in domestic demand will stimulate the growth of non-oil/gas import from 8-9% in 2010 to 18-19% in 2014. With the deficit in services that remains high in 2010 to 2014, it is estimated that the surplus in the current account will decline down to 2014.

Foreign direct investment (net) is estimated to continue to increase in the 2010-2014 period, while foreign portfolio capital flow is estimated to remain stable. With such developments, it is estimated that foreign exchange reserves will increase to around USD 100 billion in 2014.



### 5.2.3. An Inclusive and Fair Economic Development

Such economic growth will be accompanied by various development policies that are inclusive and fair, in the forms of policies on manpower, empowerment of small and medium scale enterprises, and attempts in reducing poverty. With the average growth of 2 million per year of new work force, it is expected that open unemployment can be reduced to 5-6% in 2014. Accordingly, the total of the poor population is estimated to decline from 14.1% (March 2009) to 8-9% in 2014.

National development activities that are carried out in various fields through various priorities as described above still leave out various gaps that are challenges that need to be resolved. This is reflected in the following problems. First, the inter-province poverty rate still has wide discrepancies. To illustrate, DKI Jakarta has a poverty rate of 3.6%, while Papua had a poverty rate of 37.5% in 2009. Second, the fulfillment of basic needs and basic services among social groups also still show relatively high discrepancies. Those in the lowest 40% income group still consume calorie of below 2,100 kcal/capita/day, which is the minimum calorie requirement. Health services through the *Puskemas* (Public Health Centers) and medical doctors are also still low. Likewise, access to clean water is still limited. Third, the absorption of new workers mostly comprises informal workers, who normally depend on small and micro business enterprises that have limited access to productive resources for developing their businesses. Fourth, gender equality is still limited in various fields of development while women's role in increasing their families' quality is very significant in various economic activities.

Based on the above problems, to actualize inclusive development, including the inclusion of all social groups and communities that are located in remote and isolated areas, the following policies and measures are taken.

First, improvement of the effectiveness of policies and programs to reduce poverty as described in the Priority for Reducing Poverty, so that poor communities with low income levels and limited access to basic needs can be served and reached. The policy directions reflected focuses on empowering communities that still have income levels below the poverty line. The family based social assistance programs are carried out to assist these communities to meet their basic needs, and to increase their opportunities to meet their basic need, through the discrepancies of access among different income levels. Furthermore, such social assistance programs will also place greater attention on disabled peoples, the elderly, especially those from poor families, neglected children, and marginalized communities, so that they can have greater access to basic needs and services and also to productive resources to increase their welfare. In relation to that, the PNPM Mandiri program is specifically aimed at assisting people together with poor communities to empower them and ultimately to become capable to actively participate in the efforts to bring themselves out of poverty, which in turn will enable them to participate in the wider scope of development of their region. In addition, the programs in clusters for Empowerment of Small and Micro Enterprises are also directed at



facilitating informal workers, so that they can have equal access to business opportunities and for increasing their income levels and improving their welfare. As a whole, the effectiveness of programs in the three clusters for reducing poverty is increased to expand the scope and to meet basic needs and services for poor communities, the disabled, the elderly and marginalized, so that the development process can include all national components and can ensure that development can benefit all levels of society and for those who ultimately can actively participate in development.

Second, women's role in increasing family welfare, through economic activities as well as in meeting basic needs, is very important, especially among poor communities. Nevertheless, their role in the decision making process in the family is still limited. The limitation is due to their minimal horizon and capability. Another limitation is that women still have not obtained the place and opportunity that is equivalent with men. In fact, many women are victims of violent acts in the house. Likewise, children, who should be concerned as the quality of new generation since they can be the point that stops the inter-generation poverty chain, and should become the foundation for building their future life, have not been protected and have not obtained opportunities in their young age. In that regard, special attention is continually given through policies and programs that are focused on women and children, especially for assisting neglected children who do not have families and parents to help them building up their future for increasing their welfare quality. The policies and programs to provide attention to women and children are carried out through other National Priorities in the field of People's Welfare.

Third, the majority of poor communities are located in rural areas that have limited infrastructure, and a portion of them are living in remote and isolated areas, including in border regions, most of which are remotely located from capital cities of the districts and of other cities. In that regard, the development of rural infrastructure is an important priority for providing the same opportunities to rural communities and to remote and isolated regions. Development of border regions requires special attention, so that communities in border regions can have the same opportunities as communities in other regions for benefiting from the development benefits and to participate in and to contribute to national development. Policies and programs that are directed for all these are carried out through the Development Priority of Left-behind, Frontier, Outermost, and Post-Conflict Regions.

Various policies and programs to include all levels of society and various social groups that spread out in various regions will be supported by measures in improving various financial mechanisms between the central government and regional governments. Currently, the financial mechanism to the regions is conducted through the DAU (General Allocation Fund), DAK (Special Allocation Fund), and through the DBH (Revenue Sharing Fund). Such financial mechanisms are continuously being improved and supplemented by various instruments that will support the development process

that has been decentralized, and by increasing the quality of the national development funding.

Inclusive and fair development is also reflected in the process of formulating policies and in their implementation, which must involve all stakeholders to actively participate and cooperate by building up the consensus for having concerns for communities that are still left behind. Affirmative policies must be implemented to overcome discrepancies, the state of being left behind, and poverty, that still characterize the majority of the population. Such affirmative policies can succeed if supported by effective coordination and process of consultation among all stakeholders.

#### **5.2.4. Investment Requirements and Policies on National Development Fund and Utilization**

In the context of attaining the development targets, the investment funding policies are directed in ensuring the availability and optimizing of development funds towards development funding self-reliance. In this regard, the main strategies of development funding are: (1) optimizing of the sources and schemes of existing as well as future development funds, and (2) increasing the quality of development funding sources and schemes.

For attaining the average economic growth target of 6.3-6.8% per year, the total investment of Rp. 11,913.2 – Rp. 12,462.6 trillion cumulative for five years is needed. Out of the total investment required, around 18% in 2014 is expected to be obtained by the government. Government funding is obtained from tax revenues and non-tax revenues, originating from grants, foreign financing, and from domestic financing. The remaining investment requirement can be obtained by the business community and from banks, non-bank financial institutions, capital market (stocks and bonds), foreign funds, retained earnings, and other. The increase in the proportion of investment funds from the business community mainly comes from the PMA (Foreign Direct Investment) and PMDN (Domestic Direct Investment) in line with the more conducive business climate, from the increased capital market in line with the improved regulatory framework and strengthened management of the capital market, and from the increased governance and performance of companies.

In the context of increasing government revenues, the government will continue to develop and improve policies on tax revenues and non-tax revenues, while still maintaining a conducive investment climate. Meanwhile, for increasing the effectiveness of government expenditures, the following measures are taken:

1. Increasing expenditures quality by consolidating the implementation of the MTEF (Medium-Term Expenditure Framework) and performance based budgeting, through restructuring programs and activities, and formulating accurate and measurable performance indicators.

2. Increasing and strengthening planning and budgeting that links the central government through improvements in the RPJMN (National Medium-Term Development Plan) formulation, Renstra (Strategic Plans of Ministries), RKP (Government Annual Work Plan), RKA-KL (Budget Allocation Plan of Ministries and Government Agencies), and other instruments. Likewise, the regional governments will improve the formulation of the RPJMD (Regional Medium-Term Development Plan), Budget Work Plan of Regional Governments, and other policy instruments.
3. Formulating more effective budget allocations in attaining targets and placing funding priorities to activities that can multiply domestic economic activities and can create a large number of employment opportunities and support efforts in enhancing public services quality.
4. Strengthening monitoring and evaluation in the planning, implementation, and budgeting process.
5. Improving the mechanisms for budget administration and budget disbursement into a faster and more accountable one.

The funding procurement from foreign sources, in the form of foreign grants as well as loans (PHLN), must place the importance on Indonesia's sovereignty, national interest and should increase effectiveness of their utilization in accordance with the national development priorities. Utilization of the PHLN must be viewed not only from the funding point of view, but also as the means for exchanging information and experiencing in the context of strengthening and improving the national system of planning, budgeting, procurement, monitoring and evaluation and for strengthening the institutional capacity and human resources.

Funding sources through foreign grants can originate from international development partners, countries as well as international institutions and bodies. Even though as a proportion of total government revenues grant is small, it does not entail the risk of having to be repaid. In the context of optimizing the use of grants, the government will continue to enhance the capacity of grant receiving institutions and to improve the implementing regulations on government grants management that are more conducive and flexible while still accountable, that can be adjusted to the characteristics of the grant.

Funding sources from foreign loans can be in the form of program loans as well as project loans that originate from multilateral, bilateral, and commercial financial institutions. In view of the increased status of Indonesia as a Middle Lower Income Country (MLIC), Indonesia will no longer be eligible for obtaining very low cost loans from multilateral financial institutions. Therefore, it is necessary that the management of foreign loans is strengthened and their utilization is increasingly optimized.

To reduce government debt burden, hence the ratio of government debt, including foreign debt, the Gross Domestic Product (GDP) will continually be reduced to 24% in 2014, while still maintaining the negative net transfer target. Government debt



management will continue to enhance, by increasing the effectiveness of portfolio management, diversification of debt sources, development of safer debt funding schemes, and by risk management of government debt.

In order to increase the utilization of foreign loans and grants quality, steps are taken for: (i) revising the regulations on the planning and management of the government PHLN (Government Regulation Number 2/2006 on the Procedure for the Loans Procurement and/or Receiving Grants and Forwarding Foreign Loans and/or Grants, and Regulation of the Minister of National Development Planning Number 05/2006 on Procedure of Planning and Submitting of Proposal and Evaluation of Activities that are Financed from Foreign Loans and/or Grants, (ii) increasing the quality of planning and capacity for implementation of projects such as through enforcing regulations on project preparedness, sharpening focus in the utilization of the PHLN so as to become more selective for the financing or supporting national priority programs/activities, (iii) increasing the use of the national system (alignment) and harmonizing development partners' activities, (iv) strengthening the quality of monitoring and evaluation. The government will continue to increase the effectiveness of foreign loans and grants utilization (PHLN) together with development partners by consistently implementing the agenda of the Paris Declaration, that has been further elaborated in the Jakarta Commitment.

Government domestic financing is obtained from banking and non-banking financing. The important role is that of the non-banking financing, particularly the SBN (Government Securities), the SBSN (State Syariah Securities), and domestic borrowings. The SBN/SBSN are widely sold to financial institutions as well as to the public. To increase efficiency and effectiveness in the management of the SBN/SBSN portfolio, efforts are continued for developing new instruments, strengthening the infrastructure, and coordinating its management.

Domestic loans are obtained through funds from state-owned banks, domestic private banks, and from regional governments. Government financing from domestic debt is not to hamper credit absorption by private sector and is mainly aimed for reducing dependence on foreign commercial loans. In that effort, government policies are prioritized at improving the laws and regulations and at strengthening the capacity of institutions that are related to the procurement of domestic loans. This is directed at strengthening the mechanism for coordinating institutions in the utilization of loans, with regard to their planning, implementation, as well as to their monitoring and evaluation.

As funding intermediation institutions, banks have a very important role in supplying investment funds from public savings. The funding from banks can be through the conventional scheme, such as: the *Syariah*. In addition, it can also be channeled through non-bank institutions, such as: financing institutions including infrastructure financing institutions and export financing institutions, insurance institutions, pension fund institutions, mortgage institutions, and capital markets. The potential of these financial institutions need to be directed to the financing of the real

sector for stimulating investments. For this purpose, efforts are continued in improving the regulations and policies to support the roles of banks, non-banks, and the capital market as sources of medium-term and long-term funding.

In addition to being the provider of national development funds, the PMDN/PMA (Domestic/Foreign Direct Investment) has an important role as business entities in national development. To increase the PMDN/PMA, the strategy is to improve policies to attain a more conducive investment climate and provide reliable and adequate infrastructure.

The prospective in increasing the national development funding sources can also be made by encouraging and developing development schemes that involve government roles and contributions, business community, and public. Some of the funding schemes that can be utilized are: (i) Public Private Partnership (PPP) scheme; (ii) Corporate Social Responsibility (CSR); and (iii) Donations/*Zakat*.

The ability of private companies to reduce costs, shorten the procurement period, and to manage the constructions and facilities more efficiently, have made the PPP capable offering value for money compared to the construction of the same facilities that are managed by the government. To increase the utilization of the PPP scheme, two main steps are carried out, namely optimizing the PPP scheme and increasing the quality of utilizing the PPP scheme.

The steps for optimizing the PPP scheme are made through the following:

1. Developing, revising, and harmonizing various sectors as well as regional policies and regulations, for facilitating formation of the PPP, particularly revision of Presidential Regulation Number 67 year 2005 and regulations on the land procurement for construction of public infrastructure.
2. Developing laws and regulations for expanding the PPP priority fields other than infrastructure.

Steps for increasing effectiveness of the utilization of the PPP scheme are through the following:

1. Compiling the PPP book, that contains the list of government projects that can be implemented through cooperation with private companies at the beginning of each year, according to the government work plan cycle. According to Presidential Instruction Number 5 of 2008, the PPP book is compiled and issued as an effort to create a mechanism for preparing projects that is more integrated with the government budget cycle, transparent and accountable. To optimize private participation in development, it is necessary that the plan for preparing government projects that will be implemented in cooperation with private companies is integrated with the government work plan to subsequently be



- implemented by ministries and government agencies and by regional government agencies.
2. Strengthening the role of the PPP institution for enhancing efficiency in PPP implementation management in compiling the planning strategy and sector priority that will be implemented in cooperation with private companies.

Implementation of CSR by business units that operate in Indonesia has been stipulated in Law Number 40 year 2007 on Limited Corporations. The CSR is then more directed at increasing the consistency of its activities with government programs in supporting national development, including attaining the Millennium Development Goals (MDGs), and efforts for overcoming impacts of climate change. Considering the high potential of the CSR for supporting national development, efforts need to be made to harmonize policies of institutions, companies and government in the process of planning, implementing, and reporting of activities.

Other development funding schemes that have continued to develop are instruments that are related to religious activities, such as *zakat*. Several *zakat* managing entities have already started to develop *zakat* management system in a more professional manner and that also has the potential for supporting government programs. In this regard, such funding source will continue to be encouraged so that it can increase, among others through the strengthening of institutions and management of funds based on religious activities and improvement of its utilization in line with national development.

In addition to the above funding schemes, there are global schemes that have the potential of becoming national development funding sources, such as Carbon Trade, the Clean Development Mechanism (CDM), the Copenhagen Green Climate Fund, and other. In the context of utilizing such funding sources, attempts are made for developing and strengthening policies and institutional capacity that can support the utilization of such funds.





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**TABLE 3**  
**MACRO ECONOMIC FRAMEWORK**  
**2010-2014**

	Medium-Term Projection				
	2010	2011	2012	2013	2014
<b>Economic Growth</b>	5,5 - 5,6	6,0 - 6,3	6,4 - 6,9	6,7 - 7,4	7,0 - 7,7
<b>Expenditure side (%)</b>					
Consumption					
Private	5,2 - 5,3	5,2 - 5,3	5,3 - 5,4	5,3-5,4	5,3 - 5,4
Government	10,8 - 10,9	10,9 - 11,2	12,9 - 13,2	10,2 - 13,5	8,1 - 9,8
Investment	7,2 - 7,3	7,9 - 10,9	8,4 - 11,5	10,2 - 12,0	11,7 - 12,1
Export	6,4 - 6,5	9,7 - 10,9	11,4 - 12,0	12,3 - 13,4	13,5 - 15,6
Import	9,2 - 9,3	12,7 - 15,2	14,3 - 15,9	15,0 - 16,5	16,0 - 17,4
<b>Production side (%)</b>					
Agriculture	3,3 - 3,4	3,4 - 3,5	3,5 - 3,7	3,6 - 3,8	3,7 - 3,9
Manufacturing industry	4,2 - 4,3	5,0 - 5,4	5,7 - 6,5	6,2 - 6,8	6,5 - 7,3
Non-oil/gas industry	4,8 - 4,9	5,6 - 6,1	6,3 - 7,0	6,8 - 7,5	7,1 - 7,8
Others	6,5 - 6,7	7,0 - 7,3	7,3 - 7,7	7,5 - 8,4	7,8 - 8,6
<b>GDP per Capita</b>					
(US\$)	2.555	2.883	3.170	3.445	3.811
At 2000 Constant Prices (Thousand Rp)	9.785	10.255	10.790	11.389	12.058
<b>Economic Stability</b>					
Inflation Rate, Consumer Price Index (%)	4,0 - 6,0	4,0 - 6,0	4,0 - 6,0	3,5 - 5,5	3,5 - 5,5
Nominal Exchange Rate (Rp / US \$)	9.750 - 10.250	9.250 - 9.750	9.250 - 9.750	9.250 - 9.850	9.250 - 9.850
Interest Rate, 3 months (%)	6,0 - 7,5	6,0 - 7,5	6,0 - 7,5	5,5 - 6,5	5,5 - 6,5
<b>Balance of Payments</b>					
Non-oil Export growth (%)	7,0 - 8,0	11,0 - 12,0	12,5 - 13,5	13,5 - 14,5	14,5 - 16,5
Non-oil Import growth (%)	8,0 - 9,0	14,0 - 15,6	16,0 - 17,5	17,0 - 18,3	18,0 - 19,0
Foreign exchange reserves (USD billion)	74,7 - 75,6	82,4 - 84,1	89,6 - 92,0	96,1 - 99,2	101,4 - 105,5
<b>State Finance *)</b>					
Budget Surplus / Deficit to GDP (%)	-1,6	-1,9	-1,6	-1,4	-1,2
Tax Revenue / GDP (%)	12,4	12,6	13,0	13,6	14,2
Government Debt Stock / GDP (%)	29	28	27	25	24
<b>Unemployment and Poverty</b>					
Unemployment Rate (%)	7,6	7,3 - 7,4	6,7 - 7,0	6,0 - 6,6	5,0 - 6,0
Poverty Rate (%)	12,0 - 13,5	11,5 - 12,5	10,5 - 11,5	9,5 - 10,5	8,0 - 10,0



### 5.2.5. Funding through Transferring to Regions

Funding through transferring to Regions is one of the main instruments in implementing fiscal decentralization. The funds transferred to Regions are the Balancing Fund (*Dana Perimbangan*), Special Autonomy Fund (*Dana Otonomi Khusus/Otsus*), and Adjustment Fund (*Dana Penyesuaian*). In line with the implementation of decentralization, the delegation of authority of governmental affairs to the regions that began in 2001, the transfer allocation to Regions has continued to increase. In 2001, the transfer allocation to Regions covered only the Balancing Fund. However, since 2002 it has covered the Special Autonomy Fund and the Adjustment Fund.

In 2010-2014, restructuring and reforms will be made to transfer funding instruments to regions and the status of the Balancing Fund in the context of balancing of finances between central and regional governments will be made more explicit in line with the balance of authority between the central and regional governments. In that respect, the allocation of transfers to the regions in RPJMN 2010-2014 will be directed in:

1. increasing the region fiscal capacity and reducing the fiscal gaps between the central and regions and also among regions;
2. adjusting the magnitude of funding needs in the regions in accordance with the distribution of governmental affairs among the central government, provincial governments, and district municipal governments, as stipulated in the laws and regulations;
3. increasing public services quality in the regions and reducing discrepancies of public services among regions;
4. increasing competitiveness of the regions;
5. supporting the national fiscal sustainability in the context of macroeconomic policy;
6. increasing the capacity of regions in mobilizing the economic potentials of the regions; and
7. increasing the synchronization between the national development plan and regional development plans.

The management of transfers to the regions has invariably been based on the need to fulfill the implementation of good financial management, which is effective, timely, efficient, fair, transparent, accountable, and has measurable performance indicators.



## **Balancing Fund (*Dana Perimbangan*)**

Law Number 33/2004 on Financial Balance between the Central Government and Regional Government, and Government Regulation Number 55/ 2005 on Balancing Fund, stipulate that the Balancing Fund is the fund from the revenues of the APBN (National Budget) that is allocated to the regions for financing regional needs in implementing decentralization. The Balancing Fund, which consists of Revenue Sharing Fund (*Dana Bagi Hasil/DBH*), General Allocation Fund (*Dana Alokasi Umum/DAU*), and Special Allocation Fund (*Dana Alokasi Khusus/DAK*), is funding for implementing decentralization, the allocation of which cannot be separated from one to another. This is because each type are mutually complementary.

## **Policy Direction for Allocation of the Revenue Sharing Fund (DBH)**

The Revenue Sharing Fund (DBH), which consists of Tax DBH and Natural Resources DBH, is managed by the regions for sources of government revenues yielded by the respective regions, the amount for which takes into account the potential of the producing region (by origin). The DBH is part of the Balancing Fund that is allocated to overcome the vertical discrepancy between the central government and region in regard to their fiscal capacity. The sources of revenues that are shared are revenues from taxes (income tax, land and construction tax, fee of the right to land and buildings, and excises on tobacco products), and revenue sharing from natural resources (crude oil, natural gas, general mining, forestry, and fisheries). The use of the DBH is the authority of the regional government, in accordance with the needs of the region in implementing development in the receiving region. This does not include revenue sharing from tobacco excises, the use of which has been determined by the central government.

The policy directions for the allocation of the DBH in RPJMN 2010-2014 are as follows:

1. Increasing data accuracy through coordination with institutions that manage Non-tax Government Revenues (PNPB);
2. Improving the calculation and determination of the DBH allocation in a more transparent and accountable manner;
3. Improving the system for disbursing the DBH so that the DBH allocation to produce regions becomes more timely and more accurate in the amount allocated;
4. Encouraging regions that produce natural resources, especially non-renewable natural resources, to increase efforts for the conservation of such resources and to handle the natural environment impacts after exploration activities.



## **Policy Directions in Allocation of the General Allocation Fund**

The General Allocation Fund (DAU) is a fund from the APBN that is allocated for the better equity in the fiscal capacity among regions for financing the needs of the regions in the context of implementing decentralization. The total amount of the DAU is determined by the laws that are in force and is at least 26% of the total of domestic revenues (net) that is stated in the APBN.

The DAU is a transfer from the central government to the regions and a block grant, meaning that the regions reserve the right to use it on the priorities and needs of the regions in the implementing governmental affairs tasks. The DAU consists of the DAU for provinces and the DAU for districts/cities. The allocation of the DAU to the respective regions is based on the formula and mechanism as contained in Law Number 33/ 2004 and in Government Regulation Number 55/ 2005. The DAU allocation for new autonomous regions (DOB) is implemented through the mechanism that is in line with the effective laws and regulations.

Targets to be achieved during 2010-2014 are: increasing effectiveness and accountability of the DAU as the instrument in increasing the fiscal capacity of the regions; decreasing fiscal discrepancies among regions, in the context of ensuring the effective implementation of governmental and development tasks; and ensuring equitable provision of public services in the regions in accordance with the SPM (Minimum Services Standard).

To achieve such targets, the policy directions for allocating the DAU in RPJMN 2010-2014 are as follows:

1. Increasing, in phases, the proportion of the DAU to the net Domestic Government Revenues;
2. Improving the formula for DAU allocation, by eliminating the use of variables on personnel spending, adding a variable that provides incentives to regions that are performing well in the economic and social welfare fields, and/or providing compensation to regions where most of their area is conservation areas;
3. Improving the evaluation of fiscal needs in the formula for DAU allocation on the basis of estimates on spending for meeting the SPM (Minimal Services Standard) in accordance with the Spending Standards Analysis (ASB).

## **Policy Directions on Allocation of the Special Allocation Fund**

The Special Allocation Fund (DAK) is the fund that originates from the APBN that is allocated to certain regions aimed to assist the funding of special activities that are considered as regional governmental tasks and in accordance with the national priorities.



As one of the Balancing Fund instruments, the DAK has through the years been significantly changed, in terms of the magnitude of allocation, scope of the DAK, as well as the total number of regions receiving the DAK. Some of the constraints and problems in the DAK allocation are: 1) there are still inaccuracies in understanding the DAK concept at central and regional levels; 2) the national upper limit for the DAK is still relatively small compared to the need; 3) the specified use of the DAK in accordance with the effective laws and regulations still emphasizes physical activities, thereby not adequately accommodating actual planned needs; 4) the limited capacity of the DAK planning based on performance and that is in line and integrated with the national sectoral plan; 5) the accuracy of technical data needed for planning the allocation of the DAK is still low; 6) the current formula for allocating the DAK does not fully ensure congruence with national interests and with regional needs ; 7) the DAK is not yet adequately integrated in the national and regional development planning cycles and mechanisms; 8) the clear guideline on coordination of the DAK management as a whole and integrated at the central, provincial, and district/municipal levels, is not yet available; 9) synchronization of the DAK activities with other activities that are funded by the APBD (Annual Regional Government Budget) is still inadequate; 10) coordination and integration in DAK monitoring and evaluation are still insufficient and regional discipline in submitting progress reports to the central government is also low; and 11) the relatively weak regional supervision on the implementation of the DAK activities.

On the basis of the above constraints and problems, the target to be achieved in 2010-2014 is the increased effectiveness of the DAK as the funding instrument in the context of stimulating regional development to support reaching the national development priorities contained in RPJMN 2010-2014.

In order to achieve the target, the policy directions for the DAK in RPJMN 2010-2014 are the following:

1. Improving the design of the DAK concept to make more explicit the status, roles, and missions of the DAK, as one of the effective funding instruments of decentralization for reducing discrepancies among regions in the provision of basic public services, and for providing incentives to certain regions to increase efforts to achieve the national development priorities targets;
2. Increasing, in phases, the national upper limit of DAK in order to optimize the support in achieving national priorities. In addition, a transformation will be made from funds of ministries and government agencies that are used for the financing of regional government tasks, such as the funds for the BOS (School Operational Assistance) and funds for rural infrastructure development, to the DAK;
3. Supporting programs that become national priorities in the RPJMN 2010-2014, in line with the medium-term expenditure framework and performance based budgeting. This includes programs that are cross sectoral and cross-regional programs that become national priorities;
4. Prioritizing assistance to regions that have a relatively low financial capacity in financing public services in line with the SPM (Minimal Services Standard).



5. Increasing planning quality by sharpening performance indicators and by providing accurate technical data;
6. Increasing coordination of the whole and integrated management of the DAK at the central and regional levels, increasing the synchronization of DAK activities and other activities that are funded by the APBN and APBD, and increasing supervision of the implementation of DAK activities in the regions;

DAK allocation to the regions is determined on the basis of the allocation criteria that are stipulated by law. Law Number 33/2004 states that criteria comprises in the general criteria, specific criteria, and technical criteria. These criteria are revised in line with revisions made to Law Number 33/2004.

The DAK scope of activities is determined on the basis of the identification of DAK needs for supporting attainment of national priorities. In that respect, in RPJMN 2010-2014 the scope of activities that can be considered for being funded by the DAK covers: basic public services that are mandatory, such as basic education, family planning, food security, basic infrastructure, national logistics, environment, and regional aspects (left-behind, frontier, outermost, and post-conflict areas).

In the RPJMN 2010-2014 the areas that are funded by the DAK are the following:

1. Specifically in 2010 the DAK areas cover: a) education; b) health, c) road infrastructure, d) irrigation infrastructure, e) drinking water infrastructure, f) sanitation infrastructure, g) infrastructure of regional governments, h) marine and fisheries, i) agriculture, j) environment, k) family planning, l) forestry, m) rural infrastructure, and n) trade facilities.
2. In the following years, the area of activities that will be funded by the DAK will be determined in the RKP (Government Annual Work Plan) of the relevant fiscal year.

### **Policy Directions for Allocation of the Special Autonomy Fund**

Law Number 35/2008 on the Determination of Government Regulation as a Substitute to Law (Perpu) Number 1/2008 on the Amendment to Law Number 21/2001 on Special Autonomy for the Papua Province to become law, the Special Autonomy Fund is allocated for Papua Province as well as for West Papua Province and all of the districts/cities that are on Papua land areas, with the stipulation: (i) special autonomy fund that is 2% of the total National DAU will be distributed between Papua Province and West Papua Province; (ii) supplementary special autonomy funds for infrastructure will be separately given to Papua Province and West Papua Province in line with the agreement reached between the government and the DPR (Parliament). If in the implementation there are new autonomous regions, then the policy and allocation will be coordinated beforehand between the central government and the relevant provincial and district/city governments.



On the basis of Law Number 11/2006 on the Government of Aceh, the Special Autonomy Fund is also allocated to the NAD Province, with the amount that is equivalent to 2% of the national DAU upper limit for a period of 15 years, and for the 16<sup>th</sup> to the 20<sup>th</sup> years becoming 1% of the national DAU upper limit. In the context of optimizing the utilization of the Special Autonomy Fund, the policies pursued up to now are the requirement for having the recommendation from the Ministry of Home Affairs at each stage of disbursement, so that the utilization of the Special Fund is well planned and can increase public services.

In RPJMN 2010-2014, the policies for the allocation of the Special Autonomy Fund based on Law Number 35 year 2008 and Law Number 11 year 2006 will be continued, and the policy directions are the following:

1. Implementing a comprehensive evaluation on the utilization of the Special Autonomy Fund up to present;
2. Transforming, in phases, the Special Autonomy Fund to the Balancing Fund;
3. Increasing the efficiency and effectiveness of the Special Autonomy Fund to Papua and West Papua for education and health;
4. Giving the Supplementary Infrastructure Fund to Papua Province of Papua and West Papua Province in the context of the implementation of special autonomy, that is prioritizing the funding of infrastructure, in accordance with Article 34 paragraph (3) section f of Law Number 21 year 2001 on Special Autonomy for Papua Province and Law Number 35 year 2008;
5. Increasing efficiency and effectiveness of the Special Autonomy Fund to NAD for the construction and maintenance of infrastructure, empowerment of the smallholders' economies, reducing poverty, and enhancing education, social and health services, in line with Law Number 11/2006 on the Government of Aceh.

To implement the policy directions on the balancing fund and special autonomy fund, it is necessary to revise various regulations, especially those related to Law Number 33 year 2004 on the Financial Balance between the Central Government and Regional Governments, and its implementing regulations.



## CHAPTER VI CLOSING REMARKS

The 2010 – 2014 National Medium-Term Development Plan (RPJMN) is the elaboration of vision, mission, and national development action programs of President Susilo Bambang Yudhoyono and Vice President– Boediono. This RPJMN consists of three (3) books: book one contains the national development priorities, book two contains the direction and policies of the development fields, and book three contains the policy direction of regional development. These documents henceforth become the guidelines for the government and general public in implementing national development in the next five years.

These documents also become the basis for formulating the Regional Medium-Term Development Plan and also for the national leaders in formulating the Government Annual Work Plan (RKP). The achievement of national development in materializing the vision of the ACTUALIZING AN INDONESIA THAT IS PROSPEROUS, DEMOCRATIC, AND JUST, must be supported by (1) commitment of the national leaders that is strong and democratic; (2) consistency of government policies; (3) orientation of the people; and (4) the active role of the communities and businesses; (5) the government bureaucracy system that is strong, transparent, accountable, and efficient. In addition, the development of other sectors and the implementation of governmental functions that are not specifically mentioned in these documents will be continued in the context of realization of the above vision.

Onwards, with hard work, solidarity, and sincerity of all components of the nation, Indonesia will become a nation that is grand, advanced, and respected. A nation that becomes the most important power in Asia and that has an equal standing with the advanced nations of the world.