

SOCIAL AND ECONOMIC DEVELOPMENT STRATEGY AND CHALLENGES FOR SUSTAINABLE DEVELOPMENT IN INDONESIA

By **Bambang Bintoro Soedjito**

Introduction

I would like to welcome all of you to the training seminar on Environmental Impact Assessment organized by FASID, which comes at a very important time for Indonesia's development, for it coincides with the completion of our country's Fifth Five Year Development Plan (Repelita V) and its First Longterm (25 year) Development Plan (PJP I) as well as the final stage of the formulation for our second Longterm Development Plan; and the sixth Five Year Development Plan, both to be initiated in April of 1994.

Today I want to present to you briefly Indonesia's development aspirations, as they have evolved during these first twenty five years of the New Order, and as they are shaping now to address the challenges and opportunities of the future as well as the strategy for the next long term development (PJP II). Since the subject of sustainable development in terms of environmental planning and management has been discussed elsewhere, I will focus my comments mainly on the regional perspective of national development or on the spatial structure of development. However, I wish to cover in my remarks issues of national concern and priorities, and present them within a national development Trilogy, which encompassed Growth, Equity, and Stability.

Discussions on the spatial structure of development will help us to understand decision about WHERE development should take place. WHERE decision are important because they have a major impact on the efficiency of investment, the social impact of investment, and the environmental impact of investment. Decisions on spatial structure, macroeconomic strategy and sectoral strategies are interdependent. Spatial decisions are determined to some extent by macroeconomic and sectoral decisions, meaning that the spatial structure must be feasible with the investment and other resources foreseen in macroeconomic planning as well as consistent with the locational requirements of sectoral activities. At the same time, spatial decisions determine, to some extent, what can be achieved through macroeconomic and sectoral strategies, i.e. the spatial structure will affect the investment required for development, the efficiency of that investment, and, therefore, the growth that is feasible in the macroeconomic strategy. Furthermore, the spatial distribution of sectoral activities will affect the social impact of sectoral investments --their contribution to human resource development, and their effectiveness in reducing social disparities. And last but not least the spatial distribution will be a major determinant of the environmental impact of that investment.

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The size, distribution, remoteness, and cultural characteristics of our population and the land on which it lives, create many constraints and challenges to Indonesia's development efforts, within which our long and short-term development plans and programs had to be implemented. They also made necessary from the beginning the adoption of a systematic approach to development, and the careful preparation, execution and monitoring of plans. As such, planning became a major instrument of the government since the New Order laid the foundation of the country's economic development in the mid-1960s, and as part of it, planning for the development of the country's regions and urban areas. But the philosophy and the focus of this planning has changed and has evolved during the past twenty years, in response to changing priorities, emerging needs, greater availability of resources, and a greater awareness of the need to plan in order to put scarce resources to their most effective use, and to anticipate problems at their infancy and prevent them from becoming major development detractors.

The First Long Term Development (PJPI) Achievements and Progress

Economic development planning was a major priority of the government of Indonesia materialized through the first 25 year National Development Plan as outlined by the Broad State Policy Guidelines and implemented in stages through five sequential Repelitas. Early economic planning was not directly concerned with specific regional problems, but rather with the key economic priorities of the nation, the economy of which was at the time at the crossroads. That is, national development in the early years of the New Order promoted several objectives which were critical for our survival, namely: development of the nation's infrastructure, agricultural development emphasizing rice self-sufficiency, exploration and exploitation of our natural resources to provide the necessary findings for public investment, industrialization emphasizing import substitution, and the building of national unity based on equity. It is the last objective of national development that soon afterwards became the foundation of our regional development effort.

Indeed, regional development in Indonesia has been based on the effort to distribute the fruits of national economic growth so that not only do they benefit those parts of the country which produce most of this growth in the short run, but also support the development efforts of the rest of the nation as well. Our regional development effort has had three major objectives:

- to alleviate poverty and improve the quality of life in the entire country, reducing, and eventually eliminating regional income disparities,
- to assist provinces and their kabupatens (districts) and kotamadyas (municipalities) in building up their infrastructure and developing their human and natural resources in support of their sustaining development efforts,
- to provide incentives for the more balanced distribution of the nation's population among provinces, and between rural and urban areas.

One of the great achievements of the New Order in the past was the establishment of the family planning system, which led to one of the fastest declines of fertility of any country at a comparable stage of development. Total fertility declined by 40% and this trend in fertility decline will continue into the future. Overall population growth has been managed successfully. The average annual growth rate has decreased from approximately 2.32% in 1971-1980 to 1.98% in 1980-90.

Among the major islands, Jawa, with only 6.89% of the land area, still has by far the largest share of population (60% in 1990), but its share is decreasing. Sumatra's share increased from 17.45% in 1971 to 20.33% in 1990. Kalimantan's much smaller share increased from 5.55% to 5.67%. Sulawesi's share decreased from 7.15% to 6.97%. The share of Maluku and Irian Jaya together, which have almost 26% of Indonesia's total land area, increased from 1.70% to 1.95%.

The main mechanism behind these trends is the 'demographic transition' (from a high fertility/high mortality to a low fertility/low mortality demographic situation) which appears to be very region-specific: Jawa is relatively a front runner in this transitional process, while the outer regions will maintain significantly higher

natural population growth rates, except Bali and North Sulawesi. Urban population approximately 64 million by the end of Repelita V, 34% of total population, up from 20.4 million in 1971 and 55.5 million in 1990. Urban population annual growth rate 5.4%, one of the highest in the world. Indonesia expected to become more than 50% urban before the end of PJP II.

Social aspects of the inter-provincial distribution of welfare deserve to be taken into account as well. These can be measured by a number of indicators such as the infant mortality rate, illiteracy ratio, availability of health and education facilities, etc. The data shows significant progress in most of these areas since the early seventies. The average infant mortality rate declined from 130 per 1000 births in 1971 to 58 in 1993. Life expectancy has increased from 48 in 1971 to 63 in 1993. The primary school crude participation ratio shows an increase from 66 in 1972 to 107 in 1992. For higher school levels enrollment growth has even been faster. As a result the literate population of over 10 years has grown from 71 in 1976 to 84 percent in 1992.

The overall poverty level was down from an estimated 40% of total population in 1976 (50 million people) to 15% in 1990 (27 million people). The percentage of the urban population below the poverty line decreased from an estimated 39% in 1976 to below 17% in 1990. (Note: a person below the poverty line is one who cannot meet the need for a food intake of 2,100 calories per day).

The structure of the Indonesian economy has changed considerably during the last twenty years. Whereas it was dominated by the agricultural sector up to the late sixties, during the seventies the mining and manufacturing sector gained increasingly importance, among others due to the favorable oil-market situation. During this period Indonesia achieved rather high GDP growth rates. However, the slowing down of world trade in the early eighties, the relatively poor export price performance of a number of non-oil and gas (migas) commodities, mainly raw materials, and the fall in the oil price during 1986 deteriorated the external economic conditions considerably in the mid-eighties. As a result GDP growth slowed down from an average annual rate of about 8 percent during the

seventies to less than 4 percent in that year. These structural changes in the external environment required policy responses in order to cope with the overriding foreign exchange constraints, which was at that time not likely to ease in the short run.

The government responded quickly to these developments; a policy package was implemented, which included among others exchange rate realignments, a liberalization of international trade, and a restrictive fiscal policy. In combination with improving external conditions these policies have resulted in a strong growth of non-migas exports and restored production growth rate. In the following years, aiming at improving Indonesia's economic environment and competitiveness in the world market, a series of deregulation packages concerning trade, banking and financial institutions, shipping, manpower, foreign investments, foreign land ownership, and other fields have been implemented by the government of Indonesia.

One of the most remarkable features of Indonesia's economic performance in the past quarter century was the rapid growth of the agricultural sector at an average annual rate of around 4%. It was the result of a number of policy initiative such as a high level of investments for the rehabilitation and extension of the agricultural and rural infrastructure, and the establishment of widespread research and extension services, which led to the speedy adoption of the new agricultural technology.

There was also rapid growth of manufacturing at over 12% per annum. This was partly due to the small base from which the manufacturing sector started at the beginning of the New Order, but it was also due to the many reforms, carried out to liberalize the economy, such as measures to encourage foreign investment.

The contribution of the agricultural sector in the total GDP of Indonesia decreased from more than 40 percent in 1971 to about 21 percent in 1990. The industrial share increased from about 10 percent to about 20 percent during the same period. The agricultural sector remains the largest sector in most provinces, especially if provincial GDP's are corrected for migas and some mining activities. The reason for such a correction is that these activities are generally

rather isolated from other activities in these regional economies. In other words, they have minor direct linkages with other local economic sectors. After such a correction also the off Jawa provinces with large migas or non-migas mining sectors show a heavy dependence on agricultural activities, except East Kalimantan.

Most of Indonesia's manufacturing value added (MVA) i.e. close to three quarters is generated in Jawa. The next largest region in terms of manufacturing is Sumatera with a share of national MVA of 17 percent, followed by Kalimantan 6,8 percent. The shares of manufacturing in total provincial GDP's show that there exist several provinces outside Jawa with considerable industrial sector. Non-Jawa province for which the provincial MVA share exceeds the national average include North Sumatra, South Sumatra, West and East Kalimantan.

The geographic diversification of non-agricultural, non-migas employment and output, linked with sectoral diversification, and urbanization, is accelerating. From 1969 to 1990 the share of secondary and tertiary activity (manufacturing & services, excluding migas) in GDP increased from 46% to approximately 64%.

Between 40 percent and 50 percent of GDP is now created in urban areas (50 to 60 percent, if oil and gas are excluded). This underscores the importance of providing adequate infrastructure in our urban areas and managing their growth effectively.

Improvement in regional infrastructure have always been the major thrust of government investment during PJP I aiming at increasing the capacity and providing adequate services nation-wide of various infrastructures: power, telecommunications, roads, railways, ports, airports, irrigation networks, and flood control works. For roads construction, priority was given to providing greater accessibility especially to isolated regions in eastern Indonesia. Priority in transportation infrastructure was given to improving the operational efficiency of facilities and expanding both domestic and international services. Priority for irrigation has been given to increasing productivity in rural areas in Jawa and some potential rice fields in off-Jawa.

The capacity of local governments to generate revenues to finance local development is be-

ginning to improve, and revenues from the property tax, shared with provincial and local governments, have increased markedly in real terms. There have also been substantial improvements in the municipal tax assessment and collection system. Furthermore, local government's own-resource revenues (including their share of the property tax) as a percentage of all local revenues, increased from approximately 20% in 1984 to 26% in 1989. Moreover resources available to local governments have been increased through additional INPRES funding (block grants and specific grants).

Government's decentralization policies were established consistent with the basic principles of regional administration enacted in Law number 5/1974. The operationalization of the decentralization policies were fortified by various acts and regulations which provide governors and mayors or Bupatis in the Kabupatens with clearer powers to be informed about and coordinate the activities of central agencies in their jurisdictions, as well as a fuller recognition of the roles of individual level two (tingkat II) governments, their different potential and their different needs.

The capacity for the planning and monitoring of growth has increased in the last decade, in particular. In addition to BAPPENAS, there are now provincial and local BAPPEDAs, and multi-year planning and budgeting is being promoted. An increasing effort is being made to improve the quality of program and project preparation at the local level and to link local and provincial priorities more systematically with national priorities. The system of local, provincial, regional and national consultations, in the bottom-up process, is improving each year, supporting this.

In addition to a relatively successful reduction of the population growth rate and the reduction of poverty, both of which are important for environmental quality, a number of steps have been taken to address the task of environmental management directly. These include:

- the incorporation of a comprehensive approach to environmental management in the Broad State Policy Guidelines of which environment is a major theme for sustainable development,

- the establishment of the State Ministry of the Environment in 1978,
- the setting-up of the National Environmental Quality Management Board (Bapedal) in 1990, with regional agencies now being established in strategic regions,
- the implementation of a number of measures to protect marine resources,
- forest protection and enhanced regulation of the forestry industry,
- the management of conservation areas (including national parks) and the protection of endangered species, including genetic resources. Biodiversity action program has been formulated and now is being implemented with the collaboration of international agencies,
- the clean river program (prokasih) -launched for 20 major rivers in 8 provinces,
- pilot projects with alternative energy sources, including solar, wind power, biomass and biogas,
- a beginning has been made in industrial pollution abatement,
- project environmental assessment are required for all projects expected to have a significant environmental impact,
- environmental improvements, linked with economic development and diversification, have been undertaken in urban area,
- the national spatial strategy for the guidance of land use and infrastructure development throughout the Archipelago, has the improvement of environmental quality as one of its principal objectives,
- there is increasing recognition of the economic, as well as social and environmental, significance of the spatial structure of development. "The Spatial Planning Law" was enacted in October 1992, in which the national spatial strategy has been drafted, and is being incorporated in the national development plan of PJP II and Repelita VI. Moreover, the system of provincial and local spatial plans has been established linked with the development plan of the respective level of governments.

Development Issues and Challenges in PJP II

The major issues to be addressed in PJP II have to do with poverty, disparities among socio-economic groups in different regions, the under

development of our human resources, policy and regulatory distortion that are retarding the development of some regions, inefficiencies in investment that result from faulty design and/or inadequate operation and maintenance of facilities, shortfalls in infrastructure, environmental degradation, shortfalls in management capacity (in particular, the capacity to manage very rapid urban growth), the need for fuller private sector and community participation in development, and delays in the effort to decentralize development authority and development responsibilities. In addressing these issues we need also to ensure that regional development help to maintain and even strengthen national autonomy, national security and stability.

More specifically, the environmental issues include:

- depletion of non-renewable resources, including water and soils in strategic locations,
- major environmental damage resulting from unsound practices in forestry, agriculture, fisheries, manufacturing, transport (vehicle emissions), and both industrial and household waste disposal,
- the quality of forest management is unsatisfactory in almost all provinces. In some, actual reafforestations is well below planned levels,
- the vulnerability of many areas to natural disasters --landslides, flooding, volcanic eruptions, and earthquakes-- because of inadequate land use planning and management, improper practices in the use of natural resources, and improper construction practices.

Challenges in PJP II include : (1) the on-going economic and demographic transformation, (2) regional disparities, poverty and social issues, (3) infrastructure, i.e. regional water resources, regional transport, energy, telecommunication, intra urban infrastructure, (4) affordable housing, (5) environmental management, (6) land management, (7) financing of regional and urban development, (8) governmental management in regional development, (9) stability, (10) security, and (11) information.

Total population at the end of PJP II will be between 253 to 263 million. Within this total, the urban population will be between 152-158

million, or 58% to 62% of the total. The percentage of the rural population is likely to have decreased both in relative and absolute terms, i.e from 69% in 1990 to between 38-42%, or from 124.2 million in 1990 to between 101-105 million in 2018.

Major economic changes will be coupled with these demographic changes. Per capita GDP is likely to have increased almost fourfold by the end of PJP II (\$ 671 - \$ 2,624). Growth in income will be associated with major changes in consumption patterns. These changes, combined with the demographic transformation from a predominantly rural nation to a predominantly urban one, will have profound implications for life styles, for the structure of the economy, and for demands for public services in both urban and rural areas.

In agriculture: there are likely to be much greater demands for vegetables, meat, dairy products and fish, with proportionally lower demands for staple crops. The demand for improved housing and a wide variety of consumer goods will increase dramatically.

Basic Policies and Strategies

The basic development policy guidelines as outlined by GBHN 1993 can be summarized as follows:

- development will be constantly in conformity with development trilogy, namely growth, equity and stability,
- meaning that national stability which have been achieved so far, will have to be maintained and even enhanced for both healthy and dynamic political as well as economic stability,
- economic growth will be maintained at a high rate through:
 - a. increasing the quality of human resources,
 - b. intensifying development and application of science and technology to increase added value and competitiveness,
 - c. increasing community and private sector participation in development,
 - d. extensifying, spreading, and enhancing growth centers and development axis with:

+ economic and social infrastructure development,

+ development and utilization of available resources, efficiently, effectively and in an integrated manner,

- development should be carried out and should be attempted to become more just and equally distributed, so that efforts to equally distribute development has to lay the foundation for any development activity with the view that equity will create, promote, and enhance growth and stability,
- in that respect effort to alleviate poverty has to be accelerated more effectively, efficiently and in an integrated manner,
- together with effort to reduce disparities and inequalities:
 - a. among social groups, and
 - b. among regions,
- provision of basic necessities and community services should be increased,
- enforcement and development of national discipline, law abiding, safety assurance and social solidarity,
- promoting and improving democratic life, intensity and quality of community participation and improved social communication and information flow,
- all of them lead to autonomous and self-reliant nation buildings, and accelerate progress and modernization process to pursue equality in progress with other nations of the industrializing world.

These policy guidelines emphasize the following fundamental objective: (1) greater equity, (2) continued economic growth and the efficiency necessary to this, (3) human resource development, (4) environmental quality, (5) cultural enrichment, (6) fuller participation in development, (7) personal and family security, (8) national security, and (9) national autonomy.

Underlying principles to be observed in pursuing these objectives are:

- efficiency in the use of resources,
- adaptability (to external, as well as internal, economic and other changes),
- sustainability --in particular, through saving and investment, human resource development, the proper management of natural resources, environmental protection, and the proper maintenance of facilities,
- stability, as a necessary condition for the achievement of other objectives.

The fundamental objectives identified in the GBHN provide a basis for defining the specific objectives to be pursued through regional development. These are:

- a geographic distribution of mining, forestry, agricultural, fishing, manufacturing, and service activities among regions and cities to optimize efficiency and sustain high rates of economic growth and the provision and proper maintenance of infrastructure to facilitate this development,
- economic diversification and improved technologies in strategic urban and agricultural areas, to reduce Indonesia's vulnerability to external economic change and increase its competitiveness,
- an upgrading of the quality of social services to be consistent with human resource development objectives, together with a geographic distribution of these services, that:
 - a. will insure that all members of the population have affordable access to essential services; and
 - b. will optimize labor mobility in order to enable individuals and families to locate where they can be most productive and lead fulfilling lives,
- protection of non renewable natural resources and enhance quality of regional and urban environments,
- preservation and enhancement of the cultural heritage of individual regions and cities,
- facilitation of greater participation in development by provincial and local governments, the private sector and communities,
- enhancement of national security through appropriate investment and action in vulnerable regions,
- enhancement of personal and family security and safety through more widely-dispersed property ownership and secure land userights, improvements in legal procedures affecting individual rights, and improved safety features in infrastructure and building,
- the maintenance of social and economic stability in all regions and local areas.

The strategy for regional development for PJP II will incorporate the following key components, which will complement one another in achieving the key objectives of sustained eco-

nomical growth, fuller development of the nation's human resources, reduce disparities among communities and among regions, participatory development, high environmental quality, national autonomy, security and stability:

- agricultural investment (including improvements in forest management, food crops, tree crops, horticulture, fisheries) in the most productive locations in each province, consistent with the estimated domestic and external demand for output from those locations -- to provide high-productivity jobs in agriculture, contribute to economic diversification, and improve the environmental impact of agriculture,
- growth oriented urban investment in the most productive locations --primarily the large cities, but also in well located smaller service centers supporting forestry, other agriculture and tourism,
- social services (in particular, health, education, training, and information services) upgraded in quality and focussed on:
 - a. ensuring adequate access to service for all of the population,
 - b. improving the health and skills of disadvantage groups in order to increase labor mobility,
 - c. providing higher technology skills commensurate with the real demand for these skills,
- regulatory measures and investment in protective works coupled with minimal resettlement, to protect natural resources, minimize environmental degradation and reduce the risks associated with natural disasters,
- upgrading and expansion of major infrastructure, with effective operation and maintenance, to ensure that:
 - a. high-productivity urban and agricultural areas are well-served, and
 - b. adequate basic levels of service and accessibility are provided for all of the population,
- expansion and rationalization of the financing of development using domestic savings more fully --with correspondingly less dependence on external assistance, allocating more resources and fuller responsibility to regional governments (in particular, Tk II), and utilizing private sector participation more fully for the provision of public services,
- a focussing of governmental resources on facilitating development, rather than being

- responsible for undertaking development. With this, a continuing modernization of regulatory and administrative systems to facilitate private sector and community participation in development, and to increase the efficiency of government,
- within government, a shifting of responsibility and resources to the regional level (in particular, Tk II), and a sustained staff development and training program to provide the governmental managers and staff needed for this --including the managers and staff needed for modern urban management.

Summary and Concluding Remarks

Indonesia today is confronted with a new agenda of critical development issues, not very different perhaps from that of other countries in the region, but made more difficult because of the special features of our country, namely its enormous physical size, its large and growing population, the remoteness and difficult access of many of its islands, the heavy concentration of its population in Jawa, and the major, although declining, reliance of our economy on non-renewable resources. Moreover, the response to the increasing integration of the world economy and the growing concern of global environmental issues have added a new dimension to our development strategy. Our major development priorities, therefore, aim to confront these issues, and resolve them to the advantage of our people. Today, our major concerns include:

- the achievement of a sustainable level and mode of development,
- the improvement and enhancement of our human resources,
- the expansion, improvements, and efficient use of our infrastructure,
- the improvement and streamlining of our institutions, and
- the protection and the enhancement of the environment and our natural resource.

To achieve this ambitious undertaking, the Government of Indonesia has a short-term agenda of actions, which include:

- the formulation of reform measures to improve the functioning of land, capital, and labor markets comprising the following steps: a transparent administrative system, improvements in the legal framework, the land management and the delivery of public service, and the reform of state companies,
- the development of a transparent regulatory and incentive framework,
- the development of explicit and implicit policies inducing all actors to contribute to achieving these targets,
- the formulation of effective strategies for the mobilization of public and private resources,
- the maximization of benefits derived from international cooperation,
- the effective management of the infrastructure and resources already in place, and
- the striving for quality performance and products in our economic and social activities.

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