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Investing for **Growth** and **Recovery**

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CGI BRIEF

Investing for Growth and Recovery

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ABBREVIATIONS AND ACRONYMS

ACAP	Anti Corruption Action Plans
ACC	Anti-Corruption Commission
ADB	Asian Development Bank
AGO	Attorney General's Office
AMDAL	Environmental Permits
APBN	State Budget
ASEAN	Association of Southeast Asian Nations
BAPPENAS	National Planning Development Agency
BKM	Scholarship Program for Secondary School Students
BKN	National Civil Service Agency
BKPM	Investment Coordinating Board
BKPMD	Provincial Investment Board
BOS	Operational Fund for Schools
BPJT	Toll Road Regulatory Authority
BPR	Bank Perkreditan Rakyat
BPK	Supreme Audit Board
BPKP	Financial & Development Supervisory
BPS	Indonesian Central Statistics Office
BRR	Reconstruction & Rehabilitation Agency
CEIC	CEIC Data Company Ltd.
CGI	Consultative Group on Indonesia
CIIF	Consolidated Indonesia Infrastructure Forum
CoW	Contract of Work
DAU	General Allocation Fund
DIPA	Spending Authority
DPOD	Regional Autonomy Advisory Board
DPR	House of Representative
DSP	Danamon Simpan Pinjam
FAO	Food Agricultural Office
FDI	Foreign Direct Investment
FTCs	Fixed-term Contracts
FY	Fiscal Year
GAM	Aceh Independence Movement
GDP	Gross Domestic Product
GFS	Government Financial Statistic
GOI	Government of Indonesia
HPAI	Highly Pathogenic Avian Influenza
IBRA	Indonesian Bank Restructuring Agency
IEA	International Energy Agency
IFRC	International Federation of Red Cross and Red Crescent Societies
IMF	International Monetary Fund
INPRES	Presidential Instructions
IUT	Permanent Business Licenses
JICA	Japan International Cooperation Agency
JPY	Japan Yen
KADIN	Indonesia's Chamber of Commerce
Kanwil	Provincial MOJ offices
KHL	Adequate Living Needs
KKPPI	National Committee on Infrastructure Acceleration
KPK	Anti-Corruption Commission
LAN	National Institute of Administration
LKPM	Investment Activity Reports
LP3ES	Village Infrastructure
LPEM-FEUI	Institute for Economic and Social Research – Faculty of Economics University of Indonesia
MDGs	Millenium Development Goals
MenPAN	State Ministry for State Apparatus Reforms
MoF	Ministry of Finance
MoPW	Ministry of Public Works
MTEF	Medium-term Expenditure Framework
NGOs	Non Governmental Offices
NPWP	Taxpayer I.D. number
OECD	Organization for Economic Co-operation and Development
OP	Operasi Pasar
O&M	Operations & Maintenance
PDAM	Local Water Enterprise
PEPI	National Exports & Investment Team
PER	Public Expenditure Review
Perda	Regional Regulation
PERPU	A Government Regulation in Substitute of a Law
PJM	Medium-term Plan
PLN	State Electricity Company
POLRI	Indonesia National Police
PPATK	Indonesian Financial Transaction and Analysis Center
PPP	Public Private Participation
Puskesmas	Community Health Centers
RAN-PK	The National Action Plan for the Eradication of Corruption
RMU	Risk Management Unit
Sarkers	Project Managers
SARS	Severe Acute Respiratory Syndrome
SBY	President Susilo Bambang Yudhoyono
SIUP	The Trade Business License
SMEs	Small and Medium Enterprises
SMERU	Social Monitoring and Early Response Unit
TIMSS	Int'l Mathematics & Science Study
Timtastipikor	A new special team to ensure greater cooperation between prosecutors and
TSA	Treasury Single Account
	police on corruption cases
UCT	Unconditional Case Transfers
UN	United Nations
VA	Volt Ampere
VAT	Value Added Tax
WHO	World Health Organization

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Executive Summary

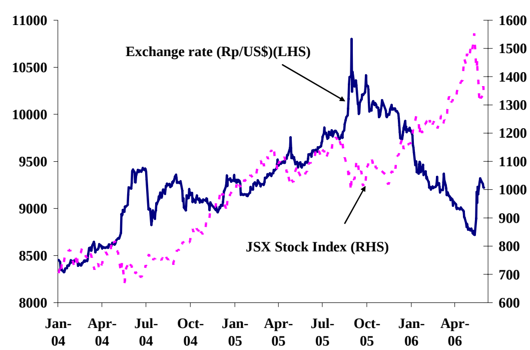
Over the last year Indonesia experienced dramatic economic ups and downs, a busy year for local elections, solid progress attacking corruption and an increase in reform momentum. Economic growth in 2005 was the highest in eight years, but slowed late in the year and in the first half of 2006, as the economy adjusted to higher fuel prices and interest rates. Despite the slowdown, financial markets reacted well to the clear direction on macro policy: the rupiah strengthened and the stock market hit historic highs. The number of people living in poverty continued to fall by about 1 million per year. Direct elections for the first time at the district level were peaceful with incumbents often falling to challengers implying increased accountability. The President has been acknowledged for sustaining progress on corruption eradication, with the Anti-Corruption Committee and the Supreme Audit Board especially active. The waning months of 2005 brought a cabinet reshuffle and a pick up in reform momentum. Policy packages on infrastructure and investment have been issued and a third package on the financial sector will be out soon. Finally, the pace of reconstruction in Aceh gained momentum. Large numbers of houses are now being built, larger infrastructure is getting underway, children are back in school, and medical care is generally available. The finest achievement of the year was the peace agreement between the government and GAM which has already brought huge gains in the quality of life to the people of Aceh.

Sadly, once again the Consultative Group meets in the shadow of real and potential tragedies. On Saturday morning May 27, the historic college city of Yogyakarta and its suburbs Bantul and Klaten were struck by an earthquake registering 6.2 on the Richter scale. At the time of this writing, the quake is estimated to have left around 5,800 dead, and up to half a million homeless. While the destruction to infrastructure is not close to the scale of the Aceh tragedy, the number of houses destroyed or severely damaged, at more than 150,000, may be higher. Meanwhile another potential tragedy may be unfolding as Avian Influenza continues to claim victims. In the past year more people have died in Indonesia from the virus than in any other country in the world. Dealing with natural disasters and potential epidemics is clearly a priority including through better communication, coordination and preparedness.

In 2005 growth reached 5.6 percent the highest level since the crisis. However, by year end the economy was softening rapidly and in the first quarter in 2006 the GDP was growing at 4.6 percent. The current slowdown was triggered by policy adjustments including a weighted average increase of 114 percent in fuel prices in October 2005 and a 400 basis point increase in administered interest rates (between August and December 2005). These policy adjustments were needed to restore economic incentives and fiscal balance by bringing fuel prices closer to market levels and to control inflationary expectations. Nevertheless the magnitude, especially of the fuel price increase, translated into a shift of US$8-10 billion from consumer's disposable income to the government, and a significant short-run shock to the economy. Government plans to accelerate spending (recycle the fuel subsidies) have yet to be effective, although the program of cash support to more than 16 million poor families should more than mitigate the impact on spending for the poorest 28 percent of the population and put approximately US$2 billion back into the economy. Government spending is now accelerating and should be substantially larger by the end of the year when it should combine with falling interest rates to trigger a recovery as the adjustment to higher energy prices plays itself out. By the end year the economy should be growing in the 6 percent range with annual growth in 2006 around 5.5 percent or approximately the same as 2005.

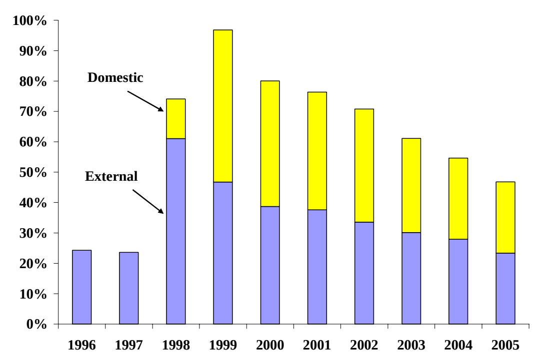
Most economic indicators improve. With continued growth and sound policy direction most economic indicators improved, some dramatically. Financial markets rallied at the end of 2005 and into the first five months of 2006 to bring the rupiah to its strongest level in 2 years, and the stock market to an extended string of highs, before the recent retreat in emerging markets generally. Citing improved policy Moody's International raised Indonesian bond ratings (foreign and domestic) from B1 to B2 (still 4 levels from investment grade). The government budget ended the year with a deficit of 0.5 percent of GDP and the debt to GDP ratio continued to fall to 47 percent of GDP, down from 55 percent at the end of 2004 and almost 100 percent in 1999. Inflation rose to over 18 percent as fuel price increases were passed through into other prices. Sound monetary policy has mitigated this impact, and inflation is now on track to meet Bank Indonesia's inflation target of 7-9 percent by the end of 2006.

Market confidence strengthens
(Rupiah exchange rate against US$)



Source: CEIC, World Bank staff

Reduced debt burden
(government debt to GDP ratio, percent)



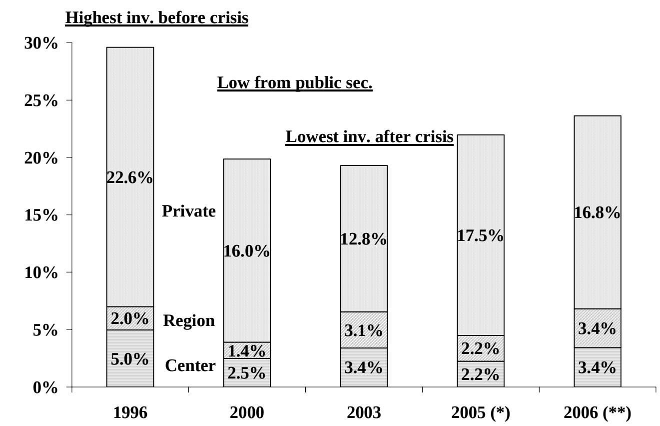
Source: MOF, World Bank

Sustained growth is estimated to have reduced the number of people living in poverty by 1 million people to 35 million (16.0 percent of the population). However, these estimates may need to be adjusted up or down as negative impacts of increased rice and fuel prices and positive impacts of new Government poverty programs, such as cash transfers and reduced fees for health care and schools, become clear.

Growth is not being translated into jobs. The open unemployment rate has reached 10.4 percent in 2006, and may still be rising. Each percentage point of economic growth unfortunately now generates fewer jobs in the formal sector than it did in the 1990s, probably due to labor market rigidities and higher real wages, illustrating the importance of adjustments to labor market policies.

Reaching and sustaining higher growth will require more investment. Despite two years of relatively high investment growth (14.6 percent in 2004 and 9.9 percent in 2005) investment in 2005 was only 22 percent of GDP, in comparison with nearly 30 percent pre-crisis, and 32 percent in Vietnam and over 40 percent in China today. Resources are available to allow public investment to rise sharply this year to pre-crisis levels of nearly 7 percent of GDP. But private investment still remains much too low (see chart), and thus the government's focus on the investment climate reforms is appropriate.

Anatomy of Low Investment
(Gross % of GDP)

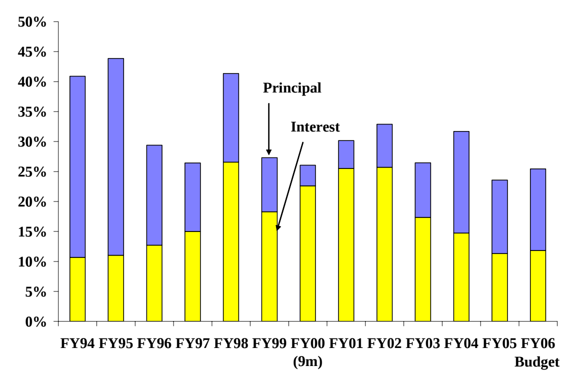


Note- (*) preliminary data; (**) estimates
Source: BPS, World Bank staff

Medium Term prospects appear good -- subject to policy implementation. Economic growth will accelerate later in 2006 as public spending picks up and interest rates fall, with a strong momentum entering 2007. If planned reforms are implemented on schedule, growth of 6 percent in 2007 and 7 percent in the medium term is quite likely. Failure to deliver on policy promises, on the other hand, will result in a growing cynicism among investors, reduced growth prospects and poor employment and poverty outcomes.

The Government's fiscal space widens – the focus needs to shift to spending well. High international oil prices and increased revenues are providing Indonesia an opportunity to increase public investment. Sound debt management has also helped. The share of the public budget allocated to pay interest and amortization on public debt (domestic and foreign), at 25 percent of the budget, is now lower than in the pre-crisis 1990s – providing room for an acceleration in high priority government spending. If development spending accelerates as planned this year, public investment (on the part of the consolidated central and regional government) will be at pre-crisis levels as a share of GDP.[1] The budget for the central government's health and education will increase by more than 20 percent each in real terms. Furthermore, a

Easing Budget Debt Burdens
(debt service to total expenditure, percent)



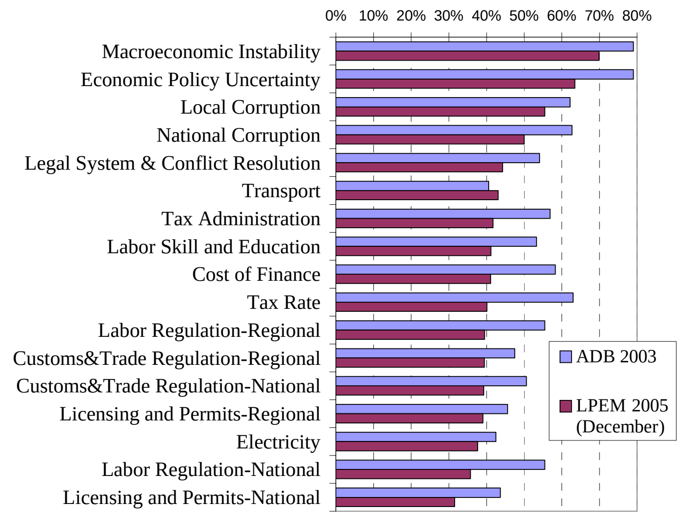
Source: World Bank

[1] Measured as share of GDP. With the new classification of Government accounts there is no longer a category called development spending. For the purpose of comparison, spending on capital and social transfers are combined to approximate the concept of development spending.

gradual reduction in the remaining subsidies (fuel and electricity) would free up substantially more fiscal space for public investment and poverty reduction, as budgeted subsidies are still 79 trillion, or 2.6 percent of GDP. The key challenge for the Government has shifted from how to reduce the debt burden to how to spend public resources well. The challenge is made more difficult by the fact that local governments now account for more than half of public investment, over which the central government has limited influence, and there remain many ambiguities concerning division of labor between central and local governments.

Constraints to Investment

(% of firms reporting constraint to be moderate, severe or very severe)



Source: ADB, LPEM-FEUI, World Bank

Business optimism rose sharply with the new Government, but some investors are now waiting for policy delivery on the ground. Surveys showed a marked improvement in business sentiment in 2005 (see chart), as real obstacles were perceived to be addressed (with the important exception of transport.)[2] However, 2005 was marked by relatively more clarity in intent than concrete implementation. In particular, tax and customs laws languished in Parliament with a lack of support from the business community. This year started on a brighter note; there have been clear-cut policy announcements on the investment climate and infrastructure, and a package in the financial sector is due shortly. These packages contain excellent reform measures but, as always, implementation remains a challenge. Highlights of the investment package include a long awaited investment law (with associated clear, simple and transparent negative list), a revitalized national export and investment team, a reduction in the time to start a business from 150 to 30 days, and a reduced share of imports to go through the customs "red lane". The Investment Law has now been submitted to Parliament, and there is increasing clarity on revisions to the Tax Law, including a number of revisions that redress the balance between tax-payers and tax-officials. The Customs and Tax Departments have long been regarded as among the serious barriers to efficient business operations and new leadership, and planned restructuring, reflect a willingness to address private sector concerns. A preliminary version of the revised labor law designed to increase flexibility ran into significant opposition from labor groups and is being revisited. Generally there is still some tendency to focus on decrees rather than meaningful reforms, and the government is to be commended on its plan to increase external monitoring on the impact of reforms rather than decrees. In addition, major administrative simplification – including the elimination of unnecessary procedures and face-to-face meetings – should be a focus as the most effective near term focus to address problems of endemic corruption.

[2] This represents the results of a study by LPEM-FEUI in late 2005 financed by the Netherlands Government.

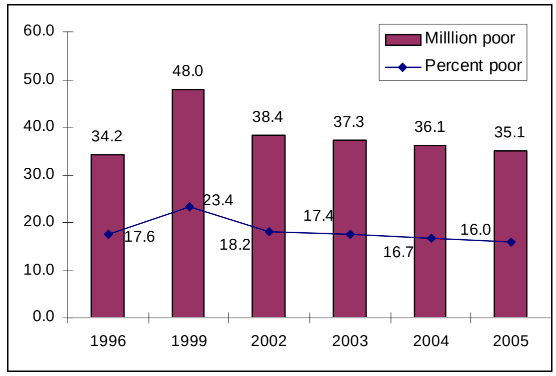
Progress on infrastructure has, to date, been mixed. Concrete results – i.e. projects up and running -- remain few, but progress has accelerated on improving government project coordination and on the critically important creation of unit responsible for risk sharing. The coordinating role of the National Committee on Infrastructure Acceleration (KKPPI) continues to be strengthened, with a Public Private Partnership (PPP) unit being established to facilitate high quality projects. A Risk Management Unit is established at the Ministry of Finance with the aim of assessing government support for projects approved by the KKPPI. There is movement on the financing side as well, with progress on infrastructure financing (including guarantee funds). However, progress on sub-sectoral reforms has not been strong: project preparation remains inadequate, retail tariffs remain below costs in most sectors and decentralization has not led to improved performance on infrastructure by regional governments.

The Government has generated impressive momentum in the fight against corruption and governance indicators are already starting to show modest improvements. In addition to pursuing investigations and successful prosecutions against several high-profile individuals, the Government has strengthened the institutional framework to pursue corruption cases through such bodies as the Anti-Corruption Commission (KPK), Anti-Corruption Court, the Interagency Task Force (*TimTasTipikor*), the Hunting Team (*Tim Pemburuan*), the Judicial Commission, the Police Commission, and the Prosecutorial Commission. But the achievements on prosecutions have not been matched by success in the implementation of a strategy of reforms to prevent corruption and make sustainable improvements in governance. One of the critical bottlenecks preventing a real breakthrough on governance remains civil service and administrative reform. The Government is starting some promising openings in this area, beginning with high-level officials that could extend to the rest of the civil service. Another major bottleneck remains the slow progress in legal and judicial reform. Implementing the comprehensive reform blueprints, prepared by a broad coalition of court officials and civil society, represents the best opportunity for achieving results.

The implementation of direct elections at all levels of the political system has created a new accountability framework that could have a major impact on improving governance outcomes. This has been coupled with the opening of the media and surge of new collective organizations within civil society which are giving rise to powerful demands for good governance. However, "money politics" continues to weaken the link between more robust political competition and good governance. The governance agenda should be expanded to address illicit financial flows through electoral and political party financing, legislative corruption, and quasi-state foundations (*yayasans*). This will require more active engagement with the national and local legislatures and dialogue with the political parties.

There was good progress on poverty reduction in 2005 but the outcome in the first half of 2006 is less certain due to large rice price increases. The poverty head count fell to 16 percent in February 2005 below the 17.6 percent level achieved pre-crisis. More than 13 million people are estimated to have been lifted back out of poverty since the level peaked after the crisis at 23.4 percent in 1999. Savings from reduced fuel subsidies were used for a series of programs for the poor including operational funds for schools, scholarships, village infrastructure and basic health service. The largest program, an unconditional cash transfer (UCT) at more than 17 trillion in 2006, more than compensated the poorest for the losses suffered due to higher prices. In addition, initial evaluations of the program by SMERU and the World Bank indicate that despite the lack of preparation time the UCT performed well. Unfortunately, these excellent pro-poor measures have been undermined by restrictive rice import policies, which have allowed rice prices to rise by 30 percent (March over year earlier), with a serious impact on the poor.

Poverty Trends



Source: BPS, World Bank

Public services, especially for the poor continue to improve although slowly and a new service delivery model is needed. Surveys, designed to assess the impact of decentralization and to measure school performance, suggest that service delivery is continuing to improve in Indonesian regions, albeit slowly. However, given the very large increases in spending on education and health (40 and 47 percent in real terms between 2001 and 2003) this result is not particularly satisfactory. The challenge now is to raise service quality and reduce inequalities in access. A new report suggests how this can be done by increasing the accountability and incentives of providers, and strengthening the voice of clients.[3] This would also involve increasing the ability of governments and clients to monitor provider delivery and quality. Service agreements are one way to do this and they were used in the recent Aid for Schools program (BOS). Under BOS schools received a block grant in return for abolishing the fees of poor students. The schools were free to use these funds as they like. This type of arrangement could be considered for wider adoption. Another way to improve services is the use of vouchers or conditional cash transfers which are potentially powerful instruments for dealing with income-related inequalities.

Reconstruction in Aceh is now progressing well, but the sense of urgency must be maintained. Houses are being built in large numbers, the school year has started normally, and health services are available in most parts of the affected areas. Over US$1.5 billion has already been disbursed, and expenditures are now running at over US$150 million per month. Nevertheless, many challenges remain, particularly in building capacity of local governments, and providing infrastructure to inaccessible regions (on the West Coast), conflict-affected areas, and Nias. There are still cases of poor performance on the part of some central Government departments, and still room for improved coordination. But these are difficulties amid a successful overall story. Most successful of all has been the peace

[3] World Bank "Making Services Work for the Poor", forthcoming.

agreement between the Indonesian Government and GAM, which has been implemented without major disruption, and is providing fundamental optimism for the future of the province.

The response to Avian Flu has not yet been well coordinated or effective. So far in 2006, nearly half of human deaths attributed to HPAI worldwide have been in Indonesia. Potential negative impacts extend well beyond the poultry sector and immediate health risks, to significant long-term health risks and economic disruption. Moreover, perceived inaction in Indonesia, as compared to other affected countries such as Thailand and Vietnam, is threatening Indonesia's image among investors and tourists. The "National Strategic Plan" is sound, but technical details and organizational arrangement for implementation and coordination have not yet been fully developed. Currently a significant financing gap impedes implementation, particularly of animal health aspects. A realistic financing plan is urgently needed.

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Chapter 1: Investment for Recovery and Growth

Key Messages

- **The current slow-down is a cyclical response to fiscal and monetary adjustments.** The economy was slowing at year end and growth in 2006 fell to 4.6 percent in Q1 as consumers and producers adjusted to increased fuel prices and higher interest rates. This slowdown reflects the difficult economic adjustment needed to bring Indonesian energy prices closer to market prices and keep inflation under control so Indonesia moves to a higher longer-term growth path.

- **Sustained higher growth will require higher levels of private investment and better use of public investment.** Despite strong investment growth in 2004-05, investment as a share of GDP is now only 22 percent, close to 8 percent below its pre-crisis high. A high capacity utilization rate (current slowdown excepted) will create constraints to higher growth unless investment picks up. Eliminating these constraints to private investment (see Chapter 3) and improving the efficiency of public investment (see Chapter 2) are economic priorities.

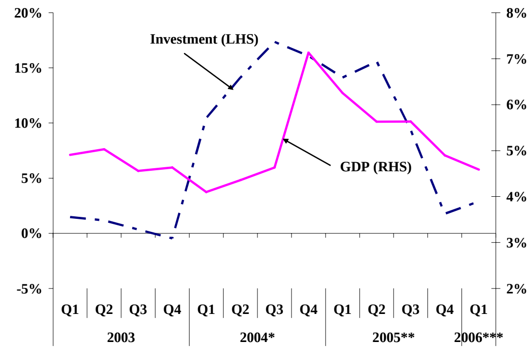
- **Creating jobs is a special problem.** Steady economic growth has not generated the numbers of jobs achieved in the past and open unemployment has risen by 2 percent in 5 years, a period where growth averaged 4.7 percent annually. Poor labor absorption is an outcome of lower growth, but is also a function of poor labor policies and a constraint to investment and therefore itself a cause of low growth.

- **With a cyclical recovery and improvements to the investment climate, Indonesia's growth rate should rise** from approximately 5.5 percent in 2006, to over 6 percent in 2007 and 7 percent in the medium term**.** The current upswing in public investment will support higher investment later in 2006 and beyond while private investment should provide more momentum beginning in 2007. Effective and sustained investment reforms should push investment to more than 25 percent of GDP by 2010. With the higher growth and high oil prices 'fiscal space' is increased and public investment can increase without jeopardizing fiscal sustainability.

1.1 A cyclical down turn in the economy

Growth deceleration: GDP growth in 2005 was 5.6 percent, the highest since the crisis in mid-1997. However, the quarterly profile has been slowing, largely due to weaker investment, and especially towards the end of 2005. There have now been 5 quarters of slowing growth (Figure 1-1). The current steep decline was triggered by a series of fuel price increases (143 percent in 2005 for the year, 114 percent in October alone), higher interest rates (a 400 basis point increase between August and December) as well as delays on investment climate reforms. [1] With these policy adjustments the decline in Q1 2006 growth was very much in line with market expectations.[2]

Figure 1-1: Growth and Investment
(year-on-year growth rate, percent)



Source: BPS, World Bank

Slowing consumption and investment were partially offset by net exports and government consumption. Consumption growth in the first quarter was only 3.2 percent (yoy) the lowest since 2001, and investment growth was only 2.9 percent (yoy). The main contributor to the 4.6 percent growth was a substantial pick up in net exports (exports minus imports) with exports growing 10.8 percent and imports 5 percent (on a national accounts basis), in part due to lower oil and fuel imports. Government consumption grew by 14.2 percent (over a low base in 2005) but remains a relatively small share.

The softening economy hit the manufacturing sector hard. Echoing the claims of the business community, manufacturing was very weak and a number of service sectors were down as well. However, perhaps reflecting the sky line in Jakarta, construction picked up and mining grew dramatically. The pick up in mining is surprising given the weak investment but is echoed in the trade data with real mining exports up 25 percent yoy in the first quarter. The worrisome decline in oil and gas output continues but the rate slowed (Table 1-1).

Table 1-1: Growth by Sector and Category
(Year on year, percent)

	2004	2005	Q4 05	Q1 06
Agriculture	3.3%	2.5%	5.5%	3.9%
Mining	-4.5%	1.6%	1.9%	7.0%
Manufacturing	6.4%	4.6%	2.9%	2.0%
Construction	7.5%	7.3%	6.9%	7.2%
Finance	7.7%	7.1%	5.2%	5.1%
Transport & Commu.	13.4%	13.0%	10.8%	11.0%
Utility	5.2%	6.5%	6.1%	5.2%
Trade, Hotel & Restaurant	5.7%	8.6%	6.0%	4.2%
Services	4.8%	5.2%	6.0%	5.4%
Non-oil and gas	6.0%	6.5%	5.7%	5.2%
Oil and gas	-3.5%	-3.3%	-3.3%	-2.2%
Total	5.1%	5.6%	4.9%	4.6%

Source. BPS, World Bank

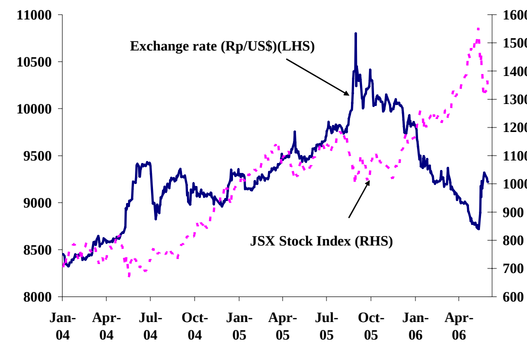
Confidence returns to Financial Markets. In August 2005, the Rupiah suffered a mini-crisis, fuelled by a loss of confidence in monetary policy and concerns over the impact of high oil prices on the budget. The central bank's decision to tighten monetary policy through increases in interest rates (400 basis points between August and December) and the government's decision to slash fuel subsidies restored market confidence in the Rupiah and

[1] For example real interest rates (SBI 1 month over core inflation) which had been below 2 percent since the end of 2003 doubled to 4 percent by year end and has remained there. Real interest rates relative to inflation expectations of 7 or 8 percent (and lower than core inflation which is above 9 percent) would be even higher. It is too early for a detailed assessment of how wages and incomes have been impacted, (much less on their expected recovery) but average industrial wages were down 10 percent in real terms by the end of the fourth quarter of 2005. Workers in agriculture and construction (areas where data is more up to date) seem to be recovering and by March real wages were only down 2 percent. Other urban wages, household servants for example, were still down around 8 percent.

[2] Consensus forecast of 15 economists in Q1 growth was 4.5 percent.

drove the Jakarta Stock Market to new highs. This shift presumably reflected a mix of investor optimism about the projected recovery, as well as perceptions about the spread between Indonesian and international interest rates. The Rupiah began the year at Rp.9,800 to the dollar and appreciated to Rp.9,220 by the end of May 2006 (an appreciation of 6 percent, after rising close to 10 percent earlier). The JSX began the year at 1,172 and reached 1,330 by the end of May (a gain of 15 percent. (Figure 1-2)

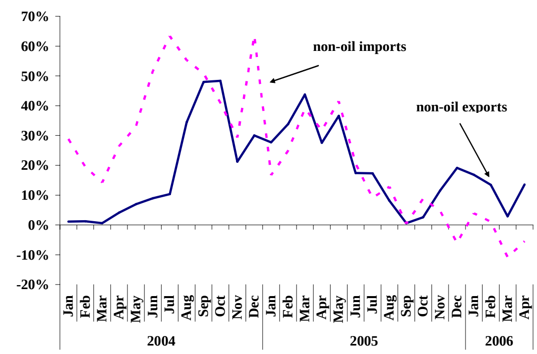
Figure 1-2: Market Confidence Strengthens
(Rupiah exchange rate against US$)



Source: CEIC, World Bank staff

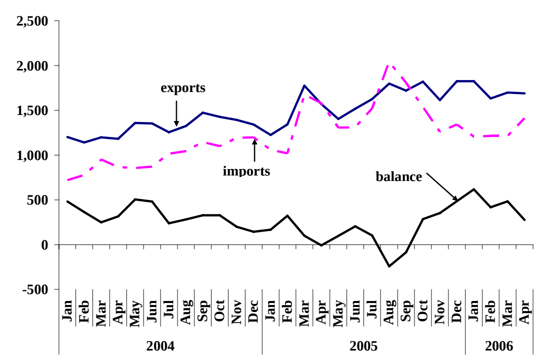
But shifts in emerging market risk reducing the gains. The rupiah strengthened to its high point of Rp.8,740 and the market peaked at 1,553 on May 11, before pulling back sharply. This reflected a pull back in emerging markets generally but in Indonesia the impact was large as earlier gains had been large as well. Thus other countries Turkey, Brazil, and India have been hit hard as well. Despite the volatility Moody's International raised Indonesia's Government bond ratings from B1 to B2 (4 levels below investment grade) citing improved finances and fiscal management practices that warranted an upgrade.

Figure 1-3: Widening Gap
(non-oil exports and imports, year-on-year growth, percent)



Source: BPS, World Bank staff

Figure 1-4: Oil and Gas Balance
(US$ million)



Source: CEIC, World Bank staff

Non-oil exports have sustained growth. In 2005, the growth in both non-oil exports and imports was high (18.6 percent and 15.4 percent, respectively for the year) but monthly data into 2006, indicate that the gap between exports and imports has been widening as the economy has softened (Figure 1-3). Non-oil exports are sharply higher thanks to commodity prices for mining exports[3] and apparent shifts from domestic markets to exports following weakening domestic demand. This trend continued in the first four months of 2006 with non-oil exports up by 11.6 percent and non-oil imports down by 3.1 percent. Reflecting a reduction in fuel imports and the weakness in

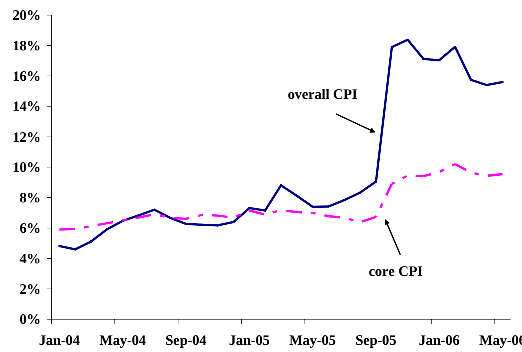
[3] In January-October 2005, mining products like copper and coal contributed about 40 percent of the increase in total non-oil and gas exports relative to the previous year.

manufacturing intermediate imports decelerated sharply (-8.4 percent) while consumption remained very strong and capital goods strong (at 17.8 and 11.9 percent respectively).

Oil and gas trade balance turns positive: In Q3 2005 Indonesia posted a deficit on oil and gas trade for the first time in 20 years as a result of rising demand for fuel and a concurrent decline in domestic oil production. The deficit shifted back to surplus in Q4, and the surplus grew in 2006 as the October increase in domestic fuel prices continued to play out (Figure 1-4).

Fuel price increases push inflation sharply higher but the Central Bank is on track to reach inflation target by year end. Inflation was stable in the 6-7 percent range in 2003-2004. It began to rise in 2005 and a 114 percent increase in fuel prices in October pushed it to over 17 percent by the end of the year (Figure 1-5). In 2006 inflation has decelerated rapidly, in part due to a 6 percent appreciation so far this year. From January through May cumulative inflation has been 2.4 percent, well below the rate in 2005 at 3.8 percent and even in 2004 at 2.8 percent. This is on track to reach or exceed the inflation target of 7-9 percent as 2004 ended the year with inflation of 6.4 percent.

Figure 1-5: Inflation
(year on year growth rates, percent)



Source: CEIC, World Bank

Financial sector reforms continue as the blanket deposit guarantee is phased out and replaced by limited coverage through a deposit insurance scheme. As of March 22, 2006, coverage was reduced to Rp.5 billion. It is to be reduced further to Rp. 100 million by March 2007 with an intermediate step of Rp.1 billion in October. Bank Indonesia has also made progress on banking architecture, including efforts to consolidate the sector and enforce regulations aimed to strengthen the operations and governance of banks. The Government is formulating a financial sector policy package – intended to be announced in June. The package appears set to address key issues in banking and financial markets while sharpening priorities and improving coordination amongst supervisors of financial institutions.

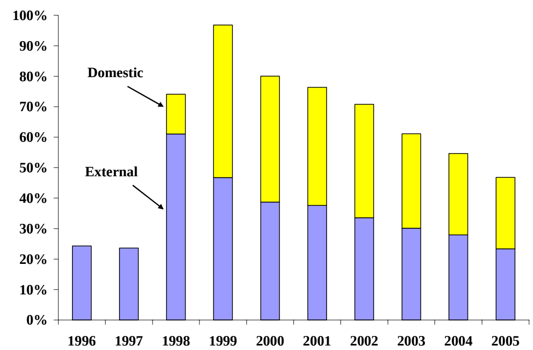
The overall banking sector continues to be basically sound. In 2005 credit growth was 24 percent although this had declined to 18 percent by March 2006; and the capital adequacy ratio for the sector was a robust 22 percent. Despite this overall positive picture there are areas of concern. Gross non performing loans (NPLs) of the banking sector increased since Q2 2005 and stand at 8.2 percent as of March 2006 compared to 4.4 percent in March 2005.[4] Most of this is due to the increases in state-owned banks with Bank Mandiri and BNI recording gross NPLs of 26 percent (18 percent) and 16 percent (5.5 percent) in March 2006 versus March 2005. Efforts to address these are underway but the key challenge remains one of improving governance and market discipline at these banks. The fact that there is a

[4] Bank Indonesia "Indonesian Banking Statistics"

substantial and growing gap between the performance of private banks and the two state banks - Mandiri and BNI - points to the need for greater private sector participation, with the ultimate objective of full privatization. Risk management skills need to be enhanced at state banks and indeed industry-wide. Despite consistent efforts by Bank Indonesia to spur lending to SMEs and rural markets, access to bank finance for these segments needs to be improved.

The merger of Bapepam and DGFI is complete and there is now one regulator for Non Bank Financial Institutions (NBFIs) and capital markets. Senior officials have been appointed and organizational changes and capacity building is underway. The Government is focusing on the development of non bank financial institutions. In the capital market, a medium term blue print has been prepared and preparations for implementation are underway. Programs to ensure adequate technical capacity at pension funds and insurance companies are in place. Operating licenses of some insolvent insurance companies have been revoked to clean up and consolidate the industry. The World Bank has prepared an assessment of NBFIs to survey the sector, highlight issues and identify reform options.[5]

Figure 1-6: Reducing Debt Burdens
(government debt to GDP ratio, percent)



Source: MOF, World Bank

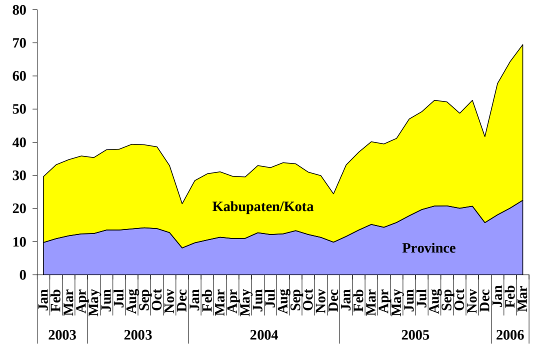
Fiscal consolidation continues. At year end, the budget deficit (relative to GDP) was 0.5 percent, about half the deficit foreseen in the revised budget. The smaller budget deficit (together with a sizable increase in nominal GDP) contributed to a sharp drop in the government debt to GDP ratio to 47 percent (end 2005) from 55 percent in 2004 and 100 percent in 1999 (Figure 1-6). Outstanding Government debt stood at US$139 billion in 2004 and US$132 billion in 2006 with the decline in dues repayments and a yen depreciation. The Indonesian debt to GDP ratio is now quite close to the level in Malaysia (45.7 percent) while Thailand (26.1 percent) and the Philippines (72.3 percent) are respectively lower and higher.

Fiscal consolidation in 2005 also stemmed from low expenditures due to the change in Government and new budget procedures. Government budget execution documents were only available in April (they should be available in January) as the incoming government (and Parliament) created a new budget from scratch. In addition, there was a major reorganization at the Ministry of Finance accompanied by the introduction of a new fiscal management system. This contributed to significant delays in disbursements especially for capital items and especially in the first half of the year. This low spending contributed to the slowing economy in 2005. In the second half of the year, the situation improved despite the fact that capital spending was only 62 percent of the targeted level. Note, however, that

[5] "Indonesia's Non-Bank Financial Institutions: Unlocking Indonesia's Domestic Financial Resources for Development" forthcoming.

higher spending late in the year (more than half of total capital expenditures of the year were disbursed in the last 2 months), contributed to growth in the fourth quarter.

Figure 1-7: Accumulating Deposits by Regions
(deposit outstanding by regions, trillion)



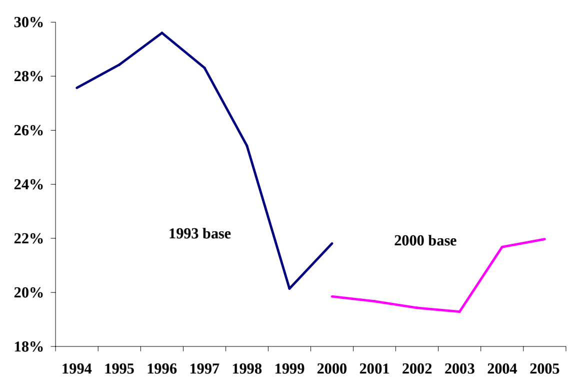
Source: CEIC, World Bank

The Central Government's budget execution in first quarter 2006 was better than 2005 but lower than expected and regional government spending remains a concern. Spending in the first 4 months, measured as the share of the annual budget, has been higher this year as it includes the carry-over of some spending from 2005. The disbursement of capital and social expenditures was 10 and 20 percent of the budget, this year (through April), far higher than the last year (0.5 and 3 percent). However, this remains very back-loaded and creates a drag on the economy. The share of transfers to the region has risen from 5.5 percent of GDP in 2005 to 7.2 percent in 2006 with the average district receiving 50 percent more this year. The size of this increase has raised concerns about both regional government budget execution - including the possibility of regional government surpluses - and budget allocation choices (Chapter 2). For example, deposits outstanding by regional governments–a proxy for a build up in surpluses - has been increasing since 2005 and reached Rp.70 trillion (about 2.3 percent of GDP or US$7.6 billion) by March 2006. (Figure 1-7) This would imply that regions have yet to fully utilize their additional financial resources for development.

1.2 The Post-Crisis economic growth has occurred without a significant recovery in investment

Investment has risen but remains only 22 percent of GDP. Despite strong growth in 2004 (14.6 percent) and 2005 (9.9 percent), investment as a share of GDP remains at 22 percent, about 8 percent below its pre-crisis peak in 1996 (Figure 1-8). This fall in investment can be decomposed into a decline in domestic savings and a turn around in the amount of foreign savings being supplied (the current account deficit) as investment has to equal savings. For example, the 7.6 percent reduction in investment between 1996 and 2005 is due to a decline in domestic savings of 3.2 percent and a turn around in foreign savings of 4.4 percent.

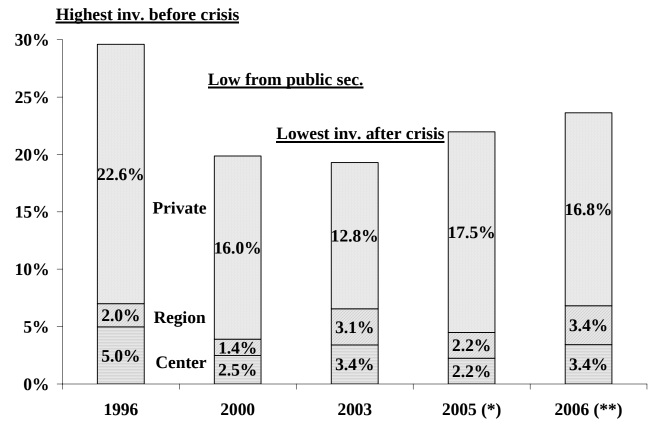
Figure 1-8: Low Investment
(Gross fixed capital formation as % of GDP)



Source: BPS, World Bank staff

All categories of investment have declined but private investment declined most before beginning to recover in 2004-05. [6] In 1996 when investment reached its all-time high of 29.6 percent of GDP, private investment was 22.6 percent and public investment (sum of regions and center) was 7.2 percent. In 2000, public investment fell to 3.9 percent – about half of pre-crisis period- and private investment was 16 percent. Between 2000 and 2003, public investment recovered to near pre-crisis levels and private investment fell further to 12.8 percent. In 2005, higher private investment pushed overall investment to 22 percent despite slow spending by the government (see above and Chapter 2). In 2006, public investment should be 6.8 percent of GDP and the key concern has shifted to the level of private investment (Figure 1-9). [7]

Figure 1-9: Anatomy of Low Investment
(Gross % of GDP)



Note- (*) preliminary data; (**) estimates
Source: BPS, World Bank staff

Low investment is the proximate cause of the low economic growth. A growth accounting exercise suggests [8] that low capital stock and a slow down in labor quality gains are the main cause of the slow down post crisis (Table 1-2). Pre-crisis (1990-97) growth in the capital stock contributed 3.0 percent to growth while it contributed merely 0.1 percent post-crisis (2000-05) while labor quality fell from 1.8 percent to 1.1 percent. Conversely TFP, a measure of productivity, rose substantially from 0.9 percent to 1.9 percent. In fact, Indonesia's capital stock at the end-2005 was almost identical to the level at the end of 1997. In other words, new investment has only kept up with depreciation since the crisis.[9]

Table 1-2: Growth Accounting Exercise
(Annual average, percent)

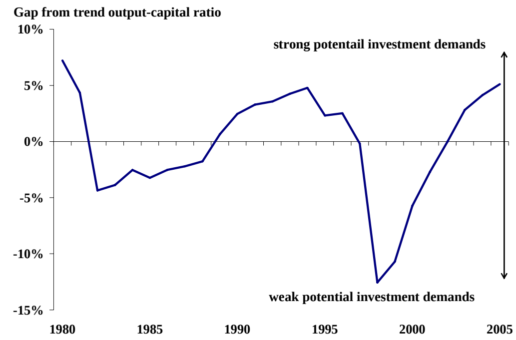
	1990-97	2000-05	Gap
GDP growth	**7.4**	**4.7**	**-2.7**
Capital stock	3.0	0.1	-2.9
Labor quantity	1.8	1.6	-0.2
Labor quality	1.8	1.1	-0.7
TFP	0.9	1.9	1.0

Source: World Bank staff

[6] Central government and regional governments' investment are taken from development expenditures, while private investment is calculated as residual. Private investment includes investment by SOEs.
[7] In Figure 1-9 regional government investment in 2005 and 2006 is estimated to grow by same amount as central government investment. It is difficult to assess the validity of this assumption, on the one hand regional governments budgets are growing faster and they have more discretion over additional spending (no interest and subsidy payments for example) but they may also accumulate surpluses.
[8] The growth accounting exercise is based on estimation of Cobb-Douglas production function. The contributing factors to output growth are (i) capital stock (from investment), (ii) quantity of labor, (iii) quality of labor (years of schooling) and (iv) TFP (total factor productivity). TFP is calculated as a residual.
[9] This is somewhat surprising given that GDP is 16 percent higher in real terms in 2005 than 1997. It most likely reflects higher capacity utilization (see below), higher quality capital and poor pre-crisis investment choices.

The economy is now operating close to full capacity implying very high productivity for the existing capital stock and a pent-up demand for investment. Low investment and economic growth have pushed the economy to high capacity utilization (measured by the gap between the actual and trend output capital ratio) (Figure 1-10). [10] This implies two things. First, if investment does not grow excess demand pressure will spill over into imports and increase inflationary pressures. Second, an improvement in the investment climate could quickly translate into higher actual investment. Or conversely, the gap between potential and actual investment demand reflects the weakness of Indonesia's investment climate.

Figure 1-10: Potential Demand for Investment
(gap between actual output-capital ratio and trend ratio, percent)



Source: World Bank staff

Different approaches are needed for private and public investment. For the first time since the crisis, the Indonesian budget has increased 'fiscal space' for public investment and the focus should now be on improving budget execution, allocation and financial management (Chapter 2). However, private investment has yet to return to optimal levels and requires identifying and removing binding constraints (Chapter 3).

Determining the critical constraints to investment is a prerequisite for effective policy formulation and implementation.[11] Hausmann and Rodrik and Velasco (Figure 1-11) propose the use of a decision tree to assess binding constraints. To do this one first decides whether the constraint is in the form of a low return on economic activities or the cost of/or access to financing. Next, assuming that it is a low return on economic activities, the decision is decomposed into low social returns (poor human capital or infrastructure) or low appropriability (government and market failures). Financing difficulties arise from problems due to poor domestic intermediation or lack of access to international financial markets.

Using this framework in Indonesia the binding constraints appear to be government failures, and bad infrastructure. While financing could be a problem, Indonesian companies appear able to issue USD and rupiah denominated bonds and, as noted, credit growth is high. Rather, micro-risks in areas such as taxes and corruption, contract enforcement, poor skills (i.e. education) and infrastructure show up as binding constraints (shaded boxes in Figure 1-11). For example, *Doing Business 2006* indicates that it takes 570 days to enforce a contract in Indonesia, while it takes 300 in Malaysia and 390 in Thailand. [12] Further, the World Bank rated Indonesia's infrastructure performance as one of the lowest

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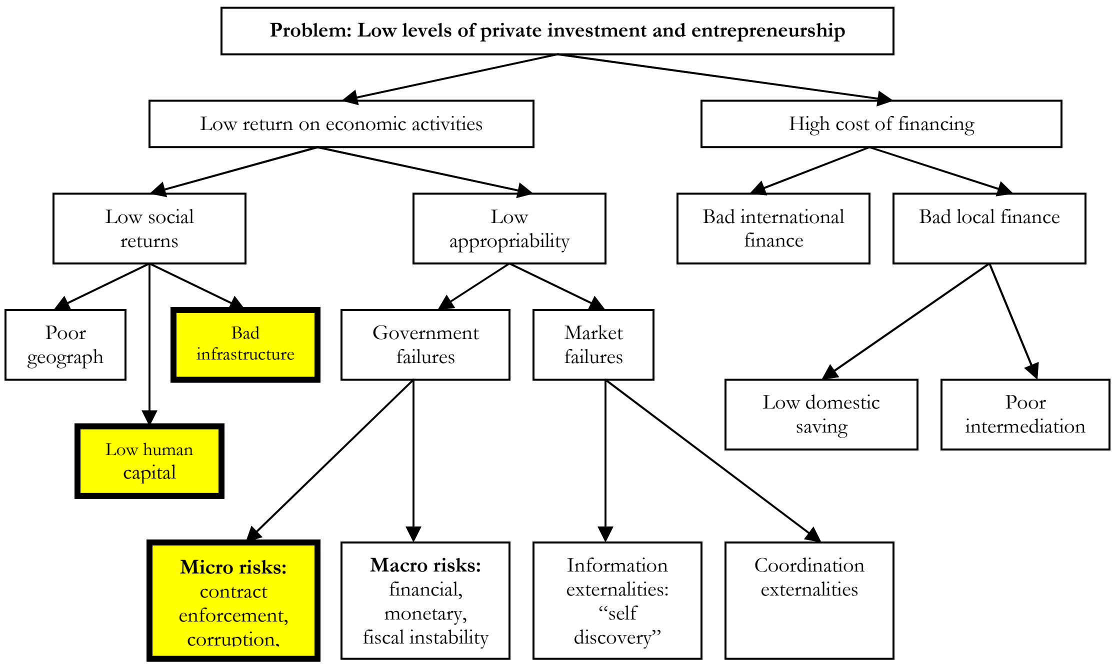
[10] See methodology in "Capacity utilization in Indonesia: Time to Invest" in Economics and Finance in Indonesia Vol.53 (3), Page 279-292 March 2006 by Yoichiro Ishihara and Daan Marks.
[11] This framework is developed by R. Hausmann, D. Rodrik and A. Velasco (March 2005) "Growth Diagnostics". Please see the article for further elaboration.
[12] World Bank and IFC (2006) "Doing Business in 2006: Creating Jobs"

in the region.[13] These are areas addressed by recent infrastructure and investment packages. (Chapter 3)

Figure 1-11: Binding Constraints Decision Tree



1.3 Job Creation is a key concern

Despite a government priority on jobs open unemployment increased by 2 percent between 2001 and 2006 (to 10.4 percent). This is a period when economic growth averaged 4.7 percent. (Table 1-3).

Table 1-3: Labor Market Development in 2001-2006
(Million people, percent)

	2001	2006	Growth (annual average)
1. Labor force	98.8	106.3	1.9%
- Labor participation rate	68.6	66.7	-
2. Employed	90.8	95.2	1.1%
3. Unemployed */	8.0	11.1	7.9%
4. Unemployment rate (3/1)	8.1%	10.4%	-

**/ including job seekers*
Source: BPS, World Bank staff

There are a number of employment related issues (Chapter 3) but rising unit labor costs appear to be the main cause of lower employment in manufacturing as real wages outpaced productivity by 27.4 percent per annum from 2000-2003 (Table 1-4).[14] The most immediate cause for this was the very rapid

Table 1-4: Gap between Wage and Productivity Growth in Manufacturing
(Annual average, percent)

1985-90	1990-96	1997-99	2000-03
-3.4	-3.7	0.6	27.4

Source: BPS, World Bank staff calculation

[13] World Bank (2004, p.19) "Indonesia: Averting an Infrastructure Crisis: A Framework for Policy and Action"
[14] This figure is based on an analysis of Indonesia's Medium and Large Manufacturer census with 2003 currently the latest available information.

run up in minimum wages, with the average minimum wage (quite close to the average industrial wage) rising by 49, 24 and 38 percent in 2000, 2001 and 2002 respectively. With labor costs outstripping labor productivity by such a wide margin, labor intensive industries, including garments and textiles, were naturally hit hard. Starting 2003 minimum wages have tracked inflation reasonably closely but the growth in formal employment has yet to pick up appreciably.

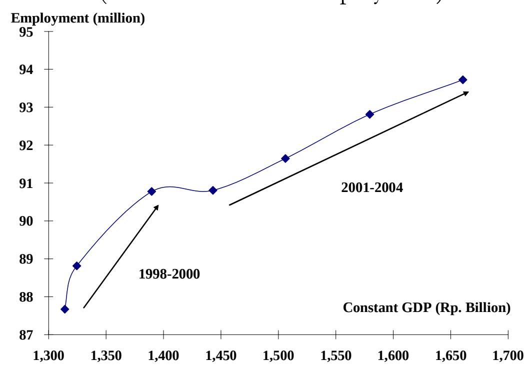
Not surprisingly, the relationship between growth and employment has changed. Historically annual economic growth of 4-5 percent was thought sufficient to absorb new entrants (Figure 1-12).[15] To be sure other factors such as the sectoral composition of growth; the cost of labor relative to capital; labor market flexibility and minimum wages are key determinants of employment growth.[16] (Chapter 3) However, looking at the issue as one of productivity, between 1998 and 2000 every Rp.1 billion of GDP (2000 constant) generated 41 jobs; whereas between 2001 and 2004 every Rp.1 billion of GDP generated only 13 jobs. In other words, recent economic growth is reflected in increased labor productivity, not higher employment (Table 1-5). If this relationship continues to hold, the economy would need to grow by 7 percent between 2005 and 2010 to absorb 2 million workers annually (new entrants and existing unemployed).

Table 1-5: Growth and Employment
(Annual average, percent)

	GDP growth	Job growth	Labor productivity
1998-00	2.8	1.8	1.1
2001-04	4.8	1.1	3.7

Source: BPS, World Bank staff calculation

Figure 1-12: Less Employment Generation
(constant GDP and employment)



Source. BPS, World Bank staff

1.4 Medium-Term Growth Prospects (Table 1-6)

Growth is expected to be around 5.5 percent in 2006. The current slowdown should bottom out in the first half. In the second half, government spending will pick up accelerating the recovery in real incomes while private investment and consumer durable purchases will recover as nominal (and real) interest rates fall. Good progress on infrastructure, investment and financial reforms would reinforce this trend and crowd in private investment, creating an earlier recovery and stronger growth. Assuming good progress on the reform agenda and a favorable global environment, growth should accelerate to above 6 percent in 2007.

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[15] For example, Islam and Nazara (2000) concluded that growth of between 3.5 and 4.7 percent would absorb new entrants to the labor market (about 2 million) based on 1996/97 data.

[16] A SMERU study in July 2005 (The Measurement and Trends of Unemployment in Indonesia: The Issue of Discouraged Workers) provides an overview of the concepts used to measure unemployment in Indonesia. The study indicates that changes in definition have affected measured unemployment trends.

Indonesia can sustain economic growth in the 7 percent range by 2009. However, a pre-condition is a higher level and quality of investment including public investment. With the recovery of both private and public investment, investment as a share of GDP could reach 25 percent in 2010.

The Government's fiscal space will be greater and the debt to GDP will continue to decline. With the increase in 'fiscal space', government's (central and regions) public investment should be sustainable at 7 percent of GDP, levels that match pre-crisis highs. The increase in public investment will enable the government to allocate more resources to sectors such as education, health and infrastructure without hurting fiscal sustainability as long as international oil prices remain at projected levels (above US$60 a barrel). With this the government debt to GDP ratio is projected to fall below 30 percent of GDP in 2010.

Table 1-6: Medium-Term Macroeconomic and Fiscal Framework

	1996	2004	2005	2006	2007	2008	2009	2010
	Act.	Act.	Act.	<-------------World Bank Projection ------------>				
I. Macroeconomic Framework								
Nominal GDP (Rp. Trillion)	533	2,273	2,730	3,316	3,802	4,248	4,726	5,213
Real GDP growth (%)	7.6%	4.9%	5.6%	5.5%	6.2%	6.5%	7.0%	7.0%
o/w investment growth rate (%)	14.5%	14.1%	9.9%	10.7%	11.7%	7.4%	9.5%	10.5%
- Private	-	-	-	3.0%	8.0%	8.0%	8.5%	9.0%
- Governments (center and regions)	-	-	-	40.8%	22.1%	5.9%	12.0%	14.1%
Investment to GDP ratio	29.6%	21.7%	22.0%	23.1%	24.0%	24.2%	24.8%	25.6%
Inflation rates (CPI, %, average)	8.0%	6.1%	10.5%	13.6%	6.2%	4.9%	4.0%	3.1%
Current Account Balance (US$ billion)	-7.6	3.1	3.0	4.9	6.4	4.2	0.7	-2.6
Current Account Balance (% GDP)	-3.4%	1.2%	1.1%	1.4%	1.6%	1.0%	0.1%	-0.5%
Oil Prices (ICP, US$/bbl)	20	37	52	66	69	68	67	65
Real exchange rate (2005=100)	-	102	100	87	85	87	87	88
II. Fiscal Framework								
1. Central Government								
(1) Revenue	**15.1%**	**17.6%**	**18.2%**	**19.4%**	**19.0%**	**18.9%**	**18.6%**	**18.6%**
o/w Non-Oil and Gas	11.7%	12.8%	13.0%	13.4%	13.6%	13.8%	14.1%	14.3%
o/w Oil and Gas	3.4%	4.8%	5.1%	5.9%	5.4%	5.1%	4.5%	4.2%
o/w Grants	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
(2) Expenditure	**13.4%**	**18.7%**	**18.7%**	**20.9%**	**19.9%**	**19.4%**	**19.0%**	**18.8%**
o/w Capital Expenditure	-	-	1.4%	1.9%	2.2%	2.3%	2.4%	2.6%
o/w Social Assistance	-	-	0.9%	0.9%	1.5%	1.7%	1.9%	2.1%
o/w Fuel subsidy	0.2%	3.0%	3.5%	2.6%	2.1%	1.4%	0.5%	-0.2%
(3) Primary Balance	**3.4%**	**1.7%**	**1.6%**	**1.1%**	**1.5%**	**1.7%**	**1.7%**	**1.7%**
(4) Budgetary Balance	**1.7%**	**-1.0%**	**-0.5%**	**-1.5%**	**-0.9%**	**-0.5%**	**-0.5%**	**-0.3%**
(5) Financing	**-0.2%**	**0.9%**	**0.7%**	**1.0%**	**1.1%**	**1.1%**	**0.7%**	**0.4%**
Gross financing needs (US$ billion)	3.3	10.7	7.9	14.2	13.7	12.6	12.1	9.7
Government debt to GDP ratio (%)	25%	55%	47%	37%	34%	33%	30%	29%
Debt service to expenditure ratio (%)	29%	32%	24%	25%	25%	24%	22%	19%
2. Consolidated Government								
(1) Revenue	16.2%	19.7%	20.7%	22.0%	21.5%	21.3%	21.0%	21.0%
(2) Expenditure	15.1%	19.7%	20.6%	22.5%	21.3%	21.6%	21.0%	20.8%
o/w Investment	-	-	4.8%	6.3%	7.1%	7.1%	7.4%	7.9%
(3) Budget Balance	1.0%	0.0%	0.1%	-0.4%	0.1%	-0.2%	0.0%	0.2%

Source: World Bank staff

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Chapter 2: Fiscal Space, Public Investment and Decentralization

<u>**Key Messages**</u>

- **There is increased 'fiscal space' for public investment.** For the first time since the crisis, the Indonesian budget has enough 'fiscal space' to increase spending on education, health and infrastructure without jeopardizing fiscal sustainability targets. This increase is due to declining debt burdens, a significant reduction in fuel subsidies and increased non-oil tax revenues. However, Indonesia has yet to fully translate this fiscal space into public investment due to a lack of absorption capacity realizations are consistently below budgeted amounts.

- **Indonesia's debt burden has fallen dramatically.** Debt service payments (the sum of interest and principal payments) are now lower than pre-crisis levels.

- **Public investment is returning to pre-crisis levels with the regions emerging as the key driver.** Development expenditures at the central and regional level, a proxy for public investment, averaged 6 percent of GDP in 2003 and 2004 and are potentially 6.8 percent in 2006. These levels of investment are now close to pre-crisis levels. Nevertheless, to make up for low public investment post-crisis and to improve public service and stimulate growth, Indonesia will need to take advantage of the potential for high public investment.

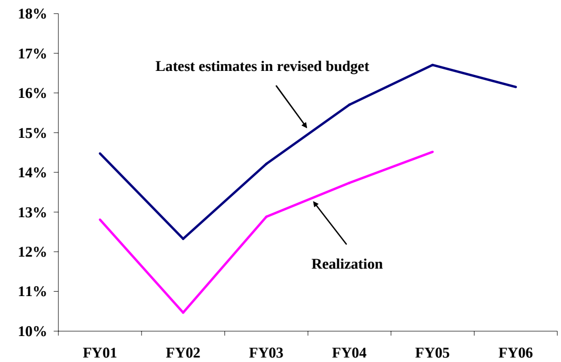
- **Accelerating decentralization reforms is a prerequisite for public investment** as the role of regional governments has significantly increased. Six years after decentralization, regions now account for more than half of total public investment. In 2006, central government transfers to regions are likely to grow by a sizable 2 percent of GDP. The reform agenda remains incomplete, especially around expenditure assignments.

- **Developing an efficient public financial management mechanism will help streamline public investment.** Indonesia has undertaken major public financial management reforms which will reduce leakage and promote investment. However, these new mechanisms sometimes appear to be constrain public investment rather than promote it. The new public financial management mechanisms should be accompanied by efficient implementation.

2.1 Increasing but Unutilized Fiscal Space

For the first time since the crisis, Indonesia has the financial resources to begin to address development needs. In recent years the central government's financial resources for public investment and other development priorities have increased significantly. One way to assess this is to look at the potential spending available for government after adjusting for salary and interest payments. These have increased from 12.3 percent in 2002 to 16.2 percent of GDP in 2006 (Figure 2-1). The sharpest increases are in 2005-2006 budgets in conjunction with higher international oil prices. However, the central government has not been able to keep up with the growth in fiscal space as indicated by the gap between budgeted spending and realizations. Figure 2-1

Figure 2-1: Increased Fiscal Space
(share in GDP, percent)



Note: Fiscal space defined here as total expenditures minus salary and interest
Source: World Bank

2.2 Key Expenditure Issues

Major shifts in the central government spending are likely in 2006 (Table 2-1)**.** The combined increase in revenues and reduced spending on fuel subsidies has potentially freed up resources equivalent to 4.4 percent of GDP in 2006. The central government budgets a transfer of additional resources to the regions (+1.7 percent), capital expenses (+0.7 percent), social assistance (+0.3 percent) among others. A sharp increase in transfers to the regions makes them an increasingly important actor on fiscal policy (see more discussion in Section 3). Other key expenditure items are (i) subsidies (ii) debt service and (iii) public investment.

Table 2-1: Spending Shift between 2005 and 2006
(% of GDP)

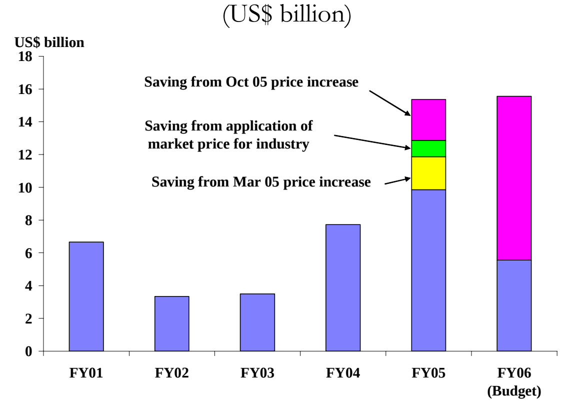
Sources		Usage	
Subsidy cut	1.8%	Transfers to regions	1.7%
Spending increase	2.6%	Capital	0.7%
		Material	0.6%
		Personnel	0.6%
		Interest	0.4%
		Social Assistance	0.3%
		Others	0.1%
Total	**4.4%**	**Total**	**4.4%**

Note: 2005- preliminary actual, 2006- budget
Source: World Bank

Subsidies

A series of fuel price adjustments saved US$5 billion in 2005 and will save US$10 billion in 2006. In 2005, fuel subsidies reached US$9 billion (3.5 percent of GDP), more than twice as large as capital spending. However, a series of fuel price adjustments (30 percent price increase in March, introduction of market prices for industry in July/August and 114 percent price increase in October) saved US$5 billion in 2005 and will save US$10 billion in 2006 (Figure 2-2). Despite the bold hikes, Indonesia's retail prices for gasoline and kerosene still remain at 70 percent and 30 percent of international prices (Table 2-2). [1] Given these remaining subsidies (still 2.6 percent of GDP) adjustments to domestic fuel prices

Figure 2-2: Fuel Subsidy
(US$ billion)



Note: Saving for 2006 is estimated based on the approved budget
Source: World Bank

[1] The impacts of recent spikes in international oil prices are offset by the appreciation of the rupiah exchange rates.

and especially linkages to market prices are needed, with due consideration for growth outcomes and the impact on the poor. It should also be noted that Indonesia is an oil and gas producer thus as international prices rise (with many domestic prices fixed) subsidies rise but there are off-setting revenues. Thus simulations indicate that higher international oil prices are neutral with respect to their impact on the budget deficit.

Table 2-2: Domestic Fuel Prices vs. International Prices

	Before Oct fuel hike (Sep 05)	After Oct fuel hike (Oct 05)	Latest (May 06)
A. Domestic Fuel Prices (Rp/liter)			
Gasoline	2,400	4,500	4,500
Kerosene (household)	700	2,000	2,000
Diesel	2,100	4,300	4,300
B. International Prices (Rp/liter) 1/			
Gasoline	6,570	5,876	6,238
Kerosene (household)	6,493	6,218	6,307
Diesel	6,470	6,225	6,460
C. Domestic Prices as % of International Prices (A/B)			
Gasoline	37%	77%	72%
Kerosene (household)	11%	32%	32%
Diesel	32%	69%	67%
D. Economic Variables			
Crude oil price (ICP, US$/bbl)	62	58	70
Exchange rate (Rp/us$)	10,310	10,090	9,220

1/ MOPs plus 15% adjusted by exchange rates and tax
Source: World Bank staff

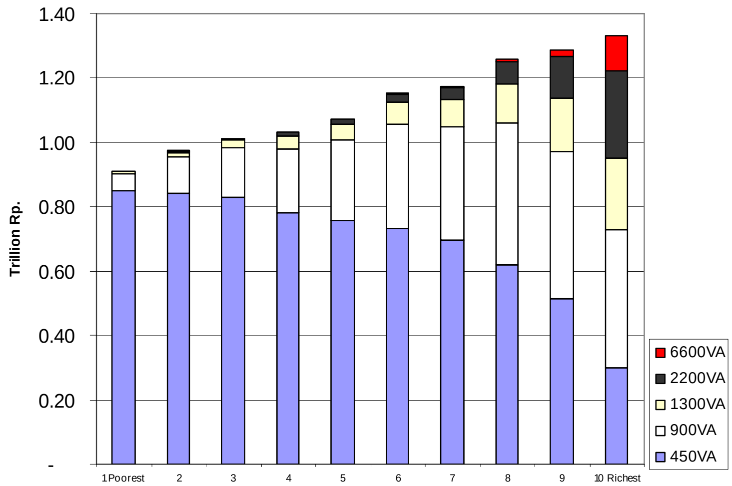
The government faces a critical choice on electricity subsidies.[2] The increases in fuel prices have increased the subsidies required by PLN (State-owned Electricity Company) as they pass into production costs. In the 2006 budget, the central government set aside Rp.17 trillion (US$1. 8 billion) for electricity subsidy assuming an increase of 20-30 percent in tariffs. The subsequent decision to not increase electricity tariffs in 2006 will result in an additional subsidy of Rp.20 trillion (about US$2 billion). As for was the case for fuel, subsidies to electricity distort consumer and producer incentives and constrain higher value spending. Most of the electricity subsidy is absorbed through a regressive subsidy to consumers (66 percent) followed by industry (29 percent) and business (5 percent) in 2006 (see Box 2-1)

[2] More discussion on electricity subsidy is in "Electricity for All: Options for Increasing Access in Indonesia" (World Bank, 2006)

Box 2-1: Who is benefiting from electricity subsidy?

The electricity subsidy is regressive although less so than fuel subsidies before the price increases. In 2005, the Rp.11 trillion household subsidy for electricity is distributed as follows: The poorest 10 percent of Indonesians received an estimated Rupiah 900 billion in 2005, while the richest 10 percent received 1.3 trillion, 40 percent more. Other population groups range between Rp. 980 billion and Rp.1.3 trillion (see chart below).

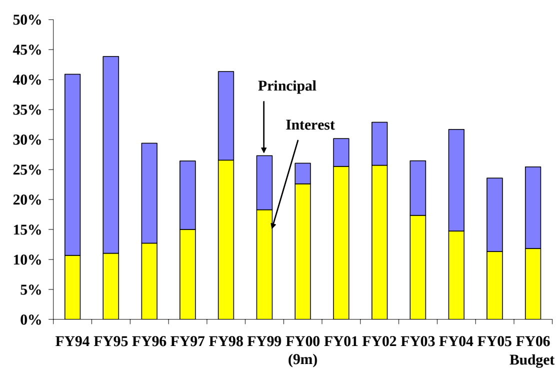
Indonesia has five types of electricity subsidies that are distributed very differently. The most important is for 450VA, a voltage capacity that only allows for low-intensity electricity use (e.g. for light bulbs). The poorest households fall predominantly in the 450VA capacity group, and this subsidy which covers more than half of all electricity subsidies to residents, is *progressive*. Within the 450VA category, the poorest 10 percent of Indonesians receive Rp. 850 billion, almost three times as much as the richest decile (Rp. 300 billion). It is the other electricity subsidies (900VA up to 6600 VA) that make the overall subsidy regressive.



Debt

The burden of debt service on expenditures is now below pre-crisis levels. Debt service – the sum of interest and principal payments- as a percentage of total expenditures is now below the pre-crisis level (Figure 2-3). During 2003-2005, debt service was 27 percent, while it was 38 percent pre-crisis (1994-1996).[3] Post crisis principal and interest rescheduling under the Paris Club agreements lowered financing costs. Despite the loss of Aceh based rescheduling debt service as a percentage of

Figure 2-3: Easing Debt Burden (1)
(debt service to total expenditure ratio, percent)



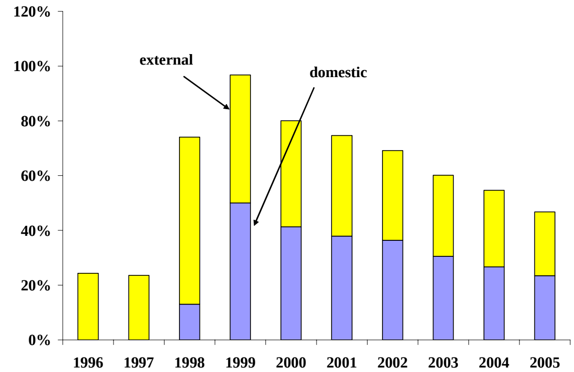
Source: World Bank

[3] In 1994-95, prepayment of government debt increased debt service substantially but current levels are below the level in 1996 when there was no prepayment.

total expenditures will remain low at 25.5 percent in the 2006 as revenues and expenditures are higher as noted earlier.

Since 2000, Indonesia's debt burden has been reduced substantially. The government debt to GDP ratio improved from 97 percent in 1999 to 47 percent in 2005 and foreign debt is now approximately pre-crisis levels (Figure 2-4). This decline has been much faster than Bank and other observers projected in 2000.[4] Fiscal consolidation and non-debt financing (e.g. IBRA asset sales) contributed to keeping total debt outstanding stable but most of the story is that Indonesia has been growing out of its debt. (Table 2-3)

Figure 2-4: Easing Debt Burden (2)
(government debt to GDP ratio, percent)



Source: World Bank

Table 2-3: Factors Affecting Central Government Debt to GDP ratio

	2000	2005	Change	Contribution
Government debt outstanding				
I. Total Debt Outstanding (US$ billion)	**132.0**	**131.6**	**-0.5**	**0.5%**
1. External Debt (US$ billion)	63.9	65.7	1.8	-1.9%
(1) US dollar denominated (US$ billion)1/	38.9	40.9	2.1	-2.2%
(2) JPY denominated (US$ billion)	25.0	24.7	-0.3	0.3%
a. JPY denominated (JPY billion)	2,877	2,918	42	-0.4%
b. JPY exchange rate (Yen/US$)	114.9	118.0	3.1	0.7%
2. Domestic Debt (US$ billion)	68.1	65.9	-2.2	2.4%
(1) Domestic Debt (Rp. Trillion)	653.8	647.7	-6.1	0.7%
(2) Rp. Exchange rates (Rp/$, eop)	9,595	9,830	235	1.7%
Gross domestic product				
II. Nominal GDP (US$ billion)	**165.0**	**281.3**	**116.2**	**99.5%**
1. Nominal GDP (Rp. trillion)	1,389	2,729,708	1,339,938	118.2%
(1) Real GDP (Rp. trillion)	1,389	1,749,547	359,777	40.6%
(2) GDP deflator (2000=100)	100	156	56	77.5%
2. Rp. Exchange rate (Rp/$, average)	8,422	9,705	1,283	-18.7%
Government Debt to GDP ratio	**80.0%**	**46.8%**	**-33.2%**	**100.0%**

1/ Non-JPY portion
Source: World Bank Staff Estimates

Public Investment

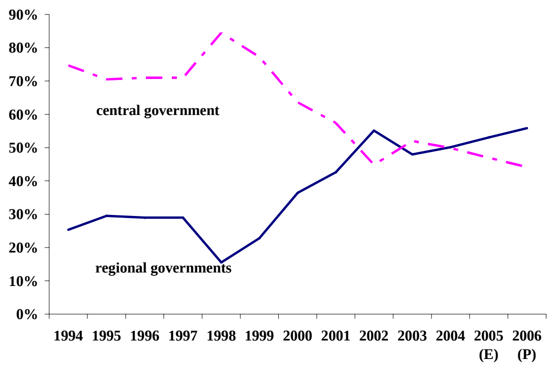
Development expenditures, which have often been used as a rough proxy for public investment, have been recovering. Indonesia faced a "crisis of investment" from 1999-2002 the immediate post-crisis period. Only strong consumption kept the economy growing (see Chapter 1). Investment levels dropped to below 20 percent of GDP, and private and public investment levels dropped in tandem and reached record lows in 2000. The central

[4] For example, The Bank projected the ratio to decline to approximately 45 percent only by 2010 in "Indonesia: Managing Government Debt and Its Risks" (May 2000)

government's development expenditure fell to 2.0 percent of GDP in 2002 before recovering to 2.7 percent in 2005.[5]

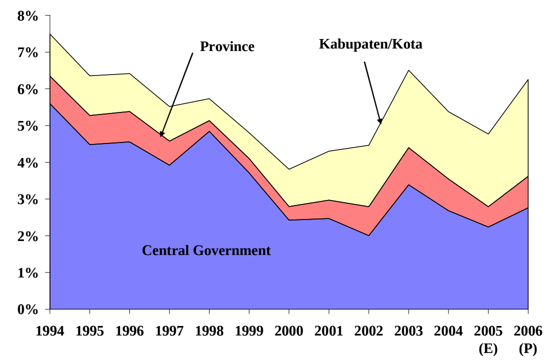
However, regions are now contributing half the aggregate public investment in Indonesia. Since 2002, regions contributed 50 percent or more to aggregate development spending (Figure 2-5). Regions have been the main driver of increased development spending in recent years. Total development expenditures as a share of GDP reached 6.5 percent in 2003 before slipping to 5.4 percent in 2004, almost the levels in 1995-1996 (Figure 2-6). However, as public investment has been low for years, it will need to grow for some time to make up shortfalls.

Figure 2-5: Regions Share Increased
(% of total development expenditures)



Note: 2005-Estimates, 2006-Projection
Source: MOF, World Bank staff

Figure 2-6: Development Expenditures Recover to the Pre-Crisis Level
(% of GDP)



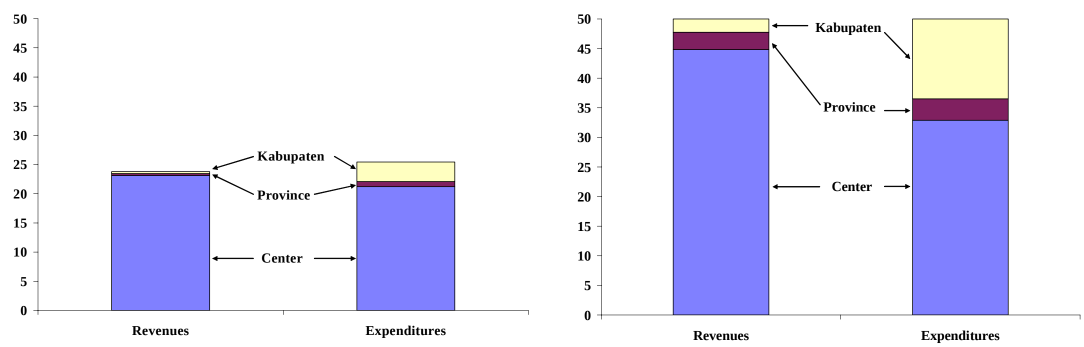
Note: 2005-Estimates, 2006-Projection
Source: MOF, World Bank staff

2.3 Accelerating Decentralization Reforms

Regions have become key players in service delivery and their role in economic development is increasing. Much of the increased spending from higher oil prices and the fuel subsidy reduction will be spent by regions through transfers (Table 2-1). In 2004, the latest year for which we have regional fiscal data the regions commanded about 35 percent of total expenditures (Figure 2-7). Given the sharp increase in regional transfers in 2006, regional share in total public investment is likely to rise above 50 percent in 2006.

[5] Indonesia has historically been classifying the budget in *routine* and *development* spending. Development spending has been used as a proxy for public investment but has also included spending categories that are considered current spending (e.g. travel, allowances, etc.). In 2005, the government changed its budget classification and moved to the international standard GFS-classification. A comparison of development spending (old definition) and capital spending public (new definition) for 2004 shows that up to 40 percent of development spending is not capital investment but various types of current expenditure. As it is not possible to calculate the historic public investment rates, this analysis continue to use proxies of development spending for consistency and comparability reasons. Starting in 2005 the sum of capital expenditures and social assistance is considered as development expenditures.

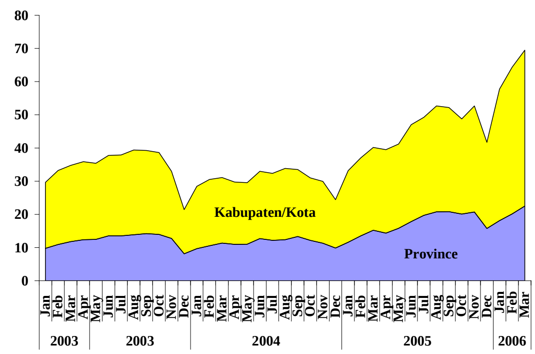
Figure 2-7: Illustration of Roles of Different Levels of Governments: before and after Decentralization
(US$ billion)



Source: MOF, World Bank staff

In 2006, the single most important fiscal concern is the capacity of regions to spend their resources. Total funds available to regions will increase by about 50 percent in 2006 through transfers from the centre. However, since decentralization, the regions appear to have been building up sizeable savings that have reached Rp.70 trillion by March 2006 due to the large increase in revenue sharing (natural resource-based transfers) in 2005 and the general allocation fund (DAU) in 2006 (Figure 2-8). The accumulation of deposits by regions implies that regions have not yet figured out how to spend their resources, much less spend them well.

Figure 2-8: Accumulating Deposits by Regions
(deposit outstanding by regions, trillion)



Source: CEIC, World Bank

Under-spending by regions is likely to have negative consequence for economic growth. If the total surplus of regional governments indeed rises to Rp.70 trillion, regions will be holding reserves equivalent to about 10 percent of government spending. One of the constraints on regional expenditures is the slow pace of decentralization reforms.

The slow pace of decentralization reforms is a rising concern. With large resources to spend and most service delivery functions at the local level, Indonesia cannot afford to leave its decentralization structure *in limbo*. The longer fundamental reforms remain unaddressed the more difficult it will be to scale back vested interests.

The most important pending decentralization reforms include the following:

- **Removing ambiguities and improving expenditure assignments:** Despite an attempt to address the legal ambiguities around expenditure assignments in law 32/2004, it is still not clear who is in charge of key public services, and central government departments continue to spend more than 50 percent of their development budgets in the regions on infrastructure services that are the responsibility of provinces and kabupaten/kota. Moreover a clause in the draft regulation on expenditure assignment turns over further responsibility for detailing service responsibilities to central departments themselves. This raises concerns about more centralized control of local public service delivery. At the least duplicated efforts, wasted resources, and confusion will likely continue to prevail at local levels.

- **Transferring authority for property taxes to the regions:** Unlike most decentralized countries, Indonesia has not transferred significant tax power to local governments. The pending amendment to Law 34/2000 on Regional Taxation is again unlikely to provide additional authority over typically local tax bases (e.g. property taxes) to sub-national governments. As such, the one-sided nature of decentralization is set to continue.

- **Reforming on-lending and on-granting regulations and transitioning to market-oriented system of sub-national credit:** Local and provincial governments have a key role in public investment particularly in the infrastructure sector. However, borrowing for infrastructure and other projects is underutilized. By 2004, provincial, kabupaten/kota and local water enterprise (PDAM) outstanding debt was just 0.18 percent of GDP. The Government needs to finalize draft revisions to on-lending and on-granting decrees to facilitate immediate support for local infrastructure finance and service delivery. After that the Government should begin to establish a regulatory framework for the development of more market-based system of sub-national credit including the issuance of regional bonds (based on Law 33/2004).

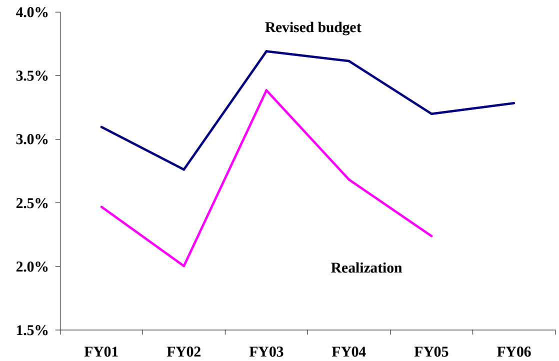
- **Improving sub-national fiscal and financial reporting:** Despite the increased responsibility of sub-national governments, Indonesia does not yet have a sound system of sub-national fiscal and financial reporting to facilitate the systematic monitoring and evaluation of local government performance. In most middle-income and high-income countries the financial performance of local governments is measured by rating agencies and performance measurement mechanisms create competitive and political pressures. An improved system of reporting that reliably captures the performance of all 440 local governments and 33 provinces would represent a first step in the development of a comprehensive system to monitor local fiscal and financial outcomes, with a view to eventually establishing a firm basis to allocate resources according to performance.

2.4 Efficient Public Financial Management

Indonesia has made major advances in establishing a sound legal framework to manage its public finances and improve transparency. The enactment of the State Finance Law (No. 17/2003), the Treasury Law (No.1/2004) and the State Audit Law (No. 15/2004) were significant steps in bringing Indonesia in line with good international practice. The Ministry of Finance has undergone a major reorganization to better execute its function. Several of these laws are now seeing implementation, most notably in making the national budget compatible with the international standard GFS-classification and by establishing a Treasury Single Account (TSA) (in pilot). These reforms can make an important contribution to increasing transparency, improving public procurement and reducing corruption in Indonesia's public financial management.

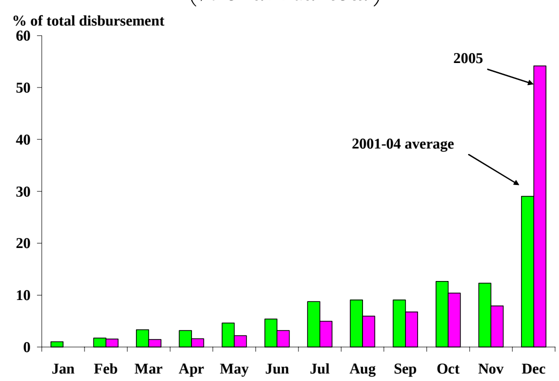
However, key indicators of government budget performance have not improved, most importantly the pattern of disbursement. Public investment from the central government (i.e. development expenditures) was consistently lower than its latest estimates (Figure 2-9). In addition, Indonesia still spends 50 percent of its capital expenditures in the last quarter of the year. For the last five years, spending always starts very slowly and then accelerates (Figure 2-10). This unhealthy pattern raises concern. Economic activity is disrupted by an unnatural cycle, project implementation starts late or, as in the case of multi-year projects, is interrupted at the beginning of each year.

Figure 2-9: Comparison between Projected and Actual Public Investment
(development expenditures, % GDP)



Source: MOF, World Bank

Figure 2-10: Monthly Disbursement Pattern of Development Expenditures
(% of annual total)



Source: MOF, World Bank

In 2005, the back-loading of government capital spending was even more pronounced and progress in 2006 while better is disappointing. As of end-October 2005, the government only spent 68 percent of capital and 72 percent of material budgeted expenditures. As in previous years, the last two months saw a rapid acceleration in spending. The back-loading of capital spending was even more extreme: 54 percent of total 2005 capital spending was carried out in December alone. Spending in the first 4 months of 2006 has seen an improvement but remains disappointing. Only 10 percent of the capital expenditures have been spent, compared to 9 percent in previous years.

Several extraordinary circumstances contributed to the slow implementation of the budget and even more pronounced back-loading of spending in 2005. Foremost amongst these has been the transition to new budget preparation and execution procedures, a reorganization of the MoF, a change in Government and the Aceh-Nias natural disaster. In particular the change in Government and Parliament led to delays. Spending authority (DIPA) that should have been available in January was only available in April. In addition the designation of signature authority for project managers (Satkers) and their staff managing the finances was also severely delayed.

While familiarity should improve execution the underlying structural factors of slow budget execution and back-loading of government expenditures are yet to be addressed. Many of the recent reforms were well-intended and go in the right direction but the new system still constrains the speedy implementation of the budget.

- **Simplifying budget documents.** Indonesia's budget provides excessive detail for each spending unit and activity and demands multiple checks and balances before implementation. If the budget implementation document needs to be changed, a lengthy revision process will follow, even if the revisions are minor. These ex-post revisions are particularly problematic in rapidly changing post-disaster environments and contributed to the slow government disbursements to the Aceh and Nias reconstruction.

- **Towards multi-year budgeting system.** Each government project stops at the end of each year and does not start up until all the sign-offs have been received again. A multi-year budgeting system would greatly improve this stop-and-go budget implementation. To address this, the government plans to implement by 2008 a Medium-Term Expenditure Framework (MTEF). An important first step would be an automatic carry-over between budget years of signing authorities for the existing project managers (*satker*).

- **Balancing ex-ante and ex-post controls.** The Indonesian budget system is still heavily reliant on ex-ante controls and does not yet use ex-post control systematically. Given that Indonesia's audit institutions have become more proactive this should be revisited. The effectiveness of ex-post controls is hampered by the lack of clarity in the responsibilities of BPK and BPKP.

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Chapter 3: Investment Climate and Infrastructure

<u>**Key Messages**</u>**:**

- **Reform momentum picked up in early 2006 with two major investment packages, one for infrastructure and one for investment policies**. The packages contain many excellent initiatives, with highlights including a business friendly investment law, faster customs clearance procedures, risk guarantees for infrastructure projects, and anxiously awaited revisions to the tax laws. The likely challenge remains implementation and the Government is to be commended for establishing a strong external monitoring effort to assess implementation.
- **Business perceptions about the Investment Climate improved significantly between 2003 and 2005.** However, corruption – including in tax, customs and business licensing - continues to be a major impediment, with firms ranking corruption as the third most serious obstacle after macroeconomic instability and policy uncertainty.
- **Despite a boom in commodity prices, investment in mining is stagnant calling for a new look at incentives in the sector**. Reversing the collapse of mining investment will require a secure working environment for private mining companies, settlement of outstanding disputes, and a comprehensive policy approach coordinated at the cabinet level.
- **The investment climate constraints facing micro and small enterprises are different from those facing larger firms**. Improving investment for micro and small enterprises will require a focus on investments in rural infrastructure, improved access to commercial small business finance, simplified business licensing, and the removal of interregional trade barriers.
- **Significant progress has been made toward the creation of a new framework for private investment in public infrastructure**, including the recent announcement of risk guarantees for infrastructure projects. However, retail tariffs remain below costs and procedures for financial transfers from the center to local governments are inadequate, inhibiting further private investment in, and public expenditure on, infrastructure.

3.1 Introduction

During early 2006 the government initiated a series of investment climate reforms aimed at improving the business environment, removing impediments to private participation in infrastructure investment, and accelerating economic growth. Among the most important of these were an investment climate policy package and an infrastructure policy package. The investment climate package covered five broad issues: investment procedures, taxation, customs, labor and SME finance. The infrastructure package was aimed at making further progress on public private partnerships for infrastructure investment, including a risk sharing framework (allowing contingent liabilities on the budget), improved coordination mechanisms and progress on sectoral issues in anticipation of a second Infrastructure Summit. The packages were generally well received and contributed to increased business confidence in the new economic team. Improved perceptions of the government's commitment to investment climate and infrastructure policy reform will reinforce the improving macroeconomic situation, contributing to a resumption of strong investment growth in the second half of 2006. However, implementation is the key to sustaining positive perceptions, particularly since there have been gaps between announcements and implementation in the past.

3.2 Recent Trends

Investment grew rapidly in the first half of 2005, with investment rising by 15 percent from a year earlier and outpacing consumption as the main contributor to economic growth. However, during the second half of 2005 -- following a series of macroeconomic shocks that included a sharp currency depreciation, rising interest rates, higher inflation, and the doubling of domestic fuel prices -- investment growth dropped to just 6 percent. By the first quarter of 2006 investment growth had further slumped to 3 percent. Fortunately, by mid-2006 the macroeconomic situation was stabilizing, with falling inflation, declining interest rates, and a recovery of the exchange rate, suggesting better prospects for investment in 2006.

Capital goods imports have remained strong supporting an optimistic assessment of investment trends. Following negative growth of capital goods imports from 2001 to 2003, imports of capital goods increased 46 percent in 2004 (from a very low base) and by an additional 23 percent in 2005. By 2005 Indonesia's capital goods imports had almost recovered to the pre-crisis level. During the first four months of 2006 capital goods imports continued to rise, growing a strong 12 percent relative to the same period in the previous year.

Foreign direct investment (FDI) also grew strongly in 2005, with balance of payments data showing an increase in FDI inflows from US$3,860 million in 2004 to US$6,922 million in 2005, an increase of 79 percent.[1] Data from the Investment Board (BKPM) show similar strong growth, with realized foreign investment rising from US$4,601 million in 2004 to US$8,915 million in 2005. However, the level of realized foreign investment reported by BKPM is much higher than FDI inflows reported by Bank Indonesia, suggesting some weaknesses in the available statistical series (see Box 3.1 below).

Despite strong growth of foreign and domestic investment, at least during the first half of 2005, there was little indication that some of the weaknesses in Indonesia's micro investment climate were being resolved. Businesses continued to face high costs due to corruption, a weak legal system, deteriorating infrastructure, poor tax and customs administration, rigid labor regulations, complex licensing and approval procedures, and a mushrooming of local "nuisance" taxes. While there was a good deal of planning and preparation for investment climate reform, few major changes were implemented in 2005.

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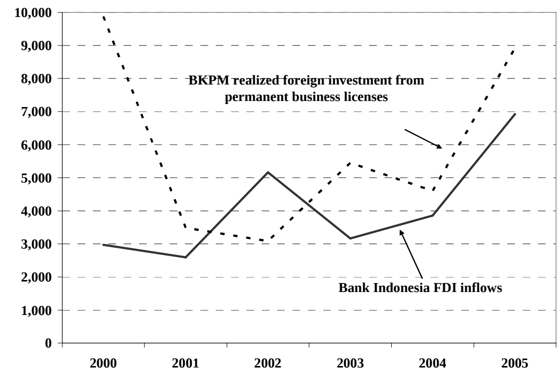
[1] FDI inflows are calculated from Bank Indonesia's balance of payments statistics (old format) by excluding "debt repayments" which are included in the net FDI number.

Box 3.1. Reconciling different data sources for foreign direct investment (FDI)

There are two main sources of FDI data in Indonesia: balance of payments data from Bank Indonesia and realized foreign investment data from the Investment Board (BKPM). These two sources sometimes show very different levels and contradictory trends, as can be seen in Figure 3.1. Between 2004 and 2005 both sources show a large increase in FDI, amounting to 79 percent in the BI data and 94 percent in the BKPM data. However, the BI data show total FDI inflows of US$6.9 billion in 2005,[2] whereas BKPM data show realized foreign investment of US$8.9 billion during the same period. The fact that the FDI level reported by BKPM is larger than that reported by BI is puzzling, because BI data are more comprehensive, covering all types of FDI, whereas BKPM data exclude investment in mining, oil and gas, financial services, and investment through the capital market. The last factor was particularly important in 2005 due to the purchase of local cigarette company Sampoerna by Philip Morris – a transaction included in BI data but not in BKPM data. This purchase accounts for roughly US$2 billion of the total US$6.9 billion FDI inflow in the BI data for 2005. Differences in the way BI and BKPM compile investment statistics may explain this anomaly. BI collects data on FDI from multiple sources whereas BKPM uses a single source: the issuance of permanent business licenses (IUT) by BKPM. All investors approved by BKPM are required to obtain IUT licenses after they are in commercial operation. The IUT is normally issued only after a field check by regional staff to determine whether the investment has been carried out in accordance with the information on the original approval form. Because the field visit can be quite costly, many businesses in the past delayed applying for the IUT. In 2005 BKPM extended a holiday on field visits on the condition that investors submitted their backlog of investment activity reports (LKPM) and other information required for the IUT. An increase in IUT licenses in 2005 in response to this incentive may have boosted the BKPM investment realization data and could partially explain the large difference between BI and BKPM data on FDI.

Figure 3-1: Foreign Direct Investment
(US$ million)



Source: Bank Indonesia, BKPM

3.3 Investment Climate Policy Initiative in 2005

The weaknesses in the investment climate were clearly identified at the outset of Indonesia's new government. In his inauguration speech President Yudhoyono stressed the importance of improving the investment climate, and the new government's medium term plan (PJM) detailed the major constraints and proposed solutions. The Indonesian Chamber of Commerce provided a roadmap for improving the business environment, and the CGI working group on investment climate outlined five high priority policy areas, including: (i) taxation, (ii) customs clearance and tariff system, (iii) labor regulation, (iv)

[2] See footnote 1 regarding the measurement of FDI inflows from balance of payments data.

infrastructure, and (v) investment policy and SME promotion. These investment constraints were succinctly summarized in last year's CGI brief.[3]

Initial progress was promising, with the convening of an infrastructure summit in January 2005, an announcement from the Economic Coordinating Minister that the investment approval system would be reformed, and the appointment of the Trade Minister to coordinate investment policy and accelerate drafting of a new investment law. However, progress has taken longer than expected. The second Infrastructure Summit has been postponed several times and the draft investment law was not submitted to Parliament until March 2006. The most significant investment-related initiatives completed in 2005 were three new draft tax laws and a draft customs law.

Draft tax laws: Three new tax laws, on general tax administration, income tax and value added tax, were submitted to Parliament in September 2005. The draft tax administration law reduces the administrative burden on businesses by cutting the statutory limit for tax assessment from 10 years to 5 years, extending filing deadlines for corporate income tax and allowing automatic extensions, and removing the requirement to audit every refund request. The draft income tax law reduces corporate tax rates over a five-year period, cuts taxes on dividends, reduces the tax rate for low income earners, and raises thresholds so that minimum wage earners will no longer be subject to income tax. The draft VAT tax law exempts unprocessed agricultural products, electricity, and water from VAT tax.

While the draft tax laws included some improvements in tax administration, they were widely criticized for not striking an appropriate balance between protecting taxpayers rights, on the one hand, and providing tax officers with necessary powers to enforce the law, on the other. In particular, the business community objected that the drafts treat taxpayers harshly but do not provide for similar harsh treatment of tax officials who abuse their authority. This is a major concern given the perceived subjective nature of tax assessments, subjective handling of appeals and refund requests, and pervasive corruption. Under the September drafts, tax officials continued to have the power to arrest and detain a person suspected of having committed a tax crime; vaguely defined "negligence" in filing a return was a criminal offense subject to imprisonment; and 100 percent of any assessment had to be paid immediately even if the assessment was under appeal.

Based on these concerns, the public and the business community, including the Indonesian Chamber of Commerce, lobbied to have the draft tax laws revised. Following the appointment of a new Director General for Tax on April 27, 2006, a breakthrough was achieved in early June. On June 5, 2006 the new Director General announced that revised drafts of the three tax laws had been submitted to Parliament for deliberation. The revisions include major changes designed to strengthen the rights of taxpayers, including: (i) the right of taxpayers to be present during any audit of their taxes and to have access to the audit results; (ii) removal of the requirement to pay 100 percent of any tax assessment prior to submitting an appeal (taxpayers will now pay only their self-assessment and will be subject to an administrative sanction if the appeal fails); (iii) administrative rather than criminal sanctions for a first violation of the tax law; and (iv) additional safeguards in the event a taxpayer's bank account is frozen. New taxes on grants and mutual funds were dropped. In

[3] *Indonesia: New Directions*, World Bank, January 2005

addition, the revised drafts lower the income tax on companies from 30 percent to 28 percent with a further gradual reduction to 25 percent by 2010.

Draft customs law. A new draft customs law was also submitted to Parliament in September 2005. The main objective of the new law is to combat smuggling, underinvoicing and customs fraud by creating harsh new penalties and fines, clarifying definitions, and increasing the powers of customs officials. However, the law does little to improve customs service for legitimate traders. More importantly, the draft customs law suffers from the same shortcoming as the draft tax laws (before the recent revision) – it fails to create an appropriate balance between the rights and obligations of importers and exporters and the powers of customs officials. Given the harsh new fines, penalties and prison sentences specified in the law, legitimate traders might be concerned about potential misuse of these provisions. These concerns could be partly allayed by specifying, with greater clarity and transparency, the process of making an objection; by creating narrower ranges between minimum and maximum fines; by stipulating that evidence is required in an audit and that the burden of proof of customs fraud is upon the DG Customs; and by reducing the record keeping obligation from 10 years to 7 years.

Draft investment law. After a number of delays, a draft investment law was signed by the President and sent to Parliament on March 21, 2006. The draft (i) creates a unified national law covering both foreign and domestic investment; (ii) states the principle of equal treatment of all investors regardless of national origin; (iii) stipulates creation of a negative list that is clear, detailed and based on standard industrial classifications; (iv) reaffirms free repatriation of capital; (v) confirms the principle of no expropriation without compensation; (vi) removes the limited duration of investments; and (vii) abolishes the system of forced divestments. The law is general, providing increased flexibility and leaving important issues to implementing decrees. These implementing decrees, which will be issued as Presidential Regulations, are currently being drafted, but political commitment will be needed to overcome resistance to changes, such as the streamlining and simplification of investment procedures. In particular, the President's promise to replace the current investment approval system with a simpler registration system will need strong implementing decrees to succeed.[4]

3.4 Business Perceptions of the Investment Climate

Surveys of businesses conducted in 2003 and December 2005 reveal that perceptions of Indonesia's investment climate improved over this 2½ year period. However, businesses faced the same set of problems in both periods, with little change in the ranking of constraints.[5]

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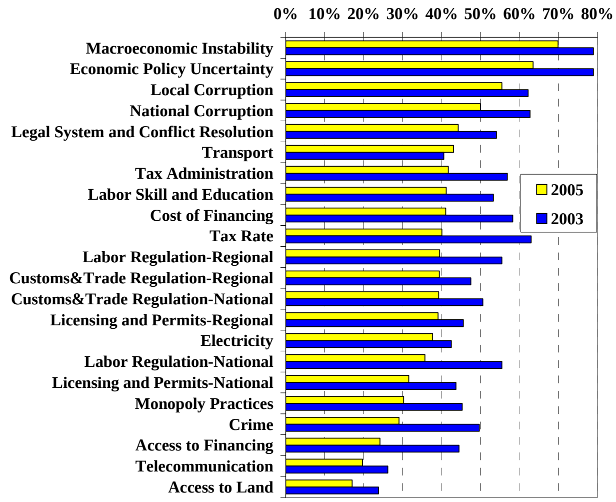
[4] The President mentioned moving from an investment approval system to a simpler registration system in two speeches to international investors, first in Jakarta on 30 August 2005 and again in New York on 15 September 2005. This reform was first raised by the Coordinating Minister for Economy in January 2005.

[5] In 2003 the Asian Development Bank and World Bank surveyed 713 manufacturing firms in 11 regions of Indonesia, of which 330 employed 100 or more workers. In December 2005 the University of Indonesia (LPEM-FEUI) surveyed 500 manufacturing firms with 100+ workers in five greater metropolitan areas -- Medan, Jabotabek, Semarang, Surabaya and Makassar. Both surveys asked identical questions about business constraints. Although the regional coverage of the ADB/WB survey was broader than the LPEM survey, one-half of manufacturing firms with 100+ workers in Indonesia are located in the five greater metropolitan areas.

- **Major obstacles to doing business**. Firms were asked to rank the severity of 22 business obstacles. The perceived severity of all obstacles except infrastructure declined between 2003 and end-2005, indicating an improvement in Indonesia's investment climate (Figure 3.2). However, the ranking of obstacles changed very little. Macroeconomic instability, policy uncertainty, and corruption were ranked as the biggest obstacles in both periods. The next biggest obstacles (in December 2005) were weaknesses in the legal system, transportation, labor skills, tax administration, cost of financing, and labor regulation. Only a few obstacles experienced any significant change in ranking, including tax rates which dropped from 3rd place in 2003 to 11th place in 2005, weaknesses in the legal system which rose from 10th to 5th place, and transportation which rose from 20th to 6th place.[6]

Figure 3-2: Constraints to Investment
(% of firms reporting constraint to be moderate, severe or very severe)



- **Corruption and harassment**. Eighty-nine percent of respondents (Dec 2005) report that it is necessary for businesses to make unofficial payments to government officials to get things done. The cost of such payments averaged 1.9 percent of production costs. Firms reported that they were visited 15 times on average by local and national authorities during the six months prior to the survey, with the police and military being the most frequent visitors, and with most official visitors expecting a gift. Reducing the opportunities for corruption through a major program of administrative simplification – including the elimination of unnecessary business regulations and licenses, and the replacement of face-to-face meetings with electronic online application and approval systems – might be the most effective way to reduce this burden on business activity.

- **Tax administration**: Of firms who requested VAT refunds, 57 percent reported that it is necessary to make unofficial payments to tax officials to obtain refunds and the amount refunded averaged only 84 percent of the claim (December 2005 survey). The average time to process a VAT refund increased from 5.2 months in the April 2005 survey to 6.1 months in the December 2005 survey. Businesses report that they must file 7 different tax returns every month and they devote on average 41 man-days per month to tax filing. A separate survey conducted by the World Bank found that Indonesian firms make 52 separate tax payments per year; only the Philippines requires more frequent payments among regional economies.[7] The prevalence of corruption and inefficiency in tax administration partly explains the strong opposition of the business

[6] The increase in the perceived severity of transportation as an obstacle might reflect the doubling of fuel prices immediately prior to the survey, or growing road congestion and lack of investment in transportation in recent years.
[7] World Bank, *Doing Business in 2006*.

community to articles in the draft tax laws that enhanced the powers of tax officials without a corresponding enhancement of the rights of taxpayers.

- **Customs administration**. Of firms who had dealings with Customs, 84 percent reported that it is necessary to make unofficial payments to clear import shipments, with payments reported to average one percent of import value, one-half of which went to customs officials and the remainder to other authorities involved in the import clearance process (port authority, port administration, quarantine, etc). Importers report that it took 7.5 days on average to clear import shipments through the Red Lane, counting from the time the boat docked to the time the goods exited the port, and 6.2 days to clear shipments through the Green Lane. A study conducted by JICA in mid-2004 found that average import clearance time was 7.9 days in the Red Lane and 6.5 days in the Green Lane, indicating little improvement over the past two years. Import clearance time in Japan is 3 days and in Singapore 1 day.

- **Labor regulations**. Forty percent of firms reported that labor regulations are a moderate to severe obstacle and 31 percent reported that labor regulations reduce the competitiveness of their products on domestic or international markets.[8] The two biggest constraints were considered to be severance pay regulations and lay-off procedures, cited by 21-23 percent of respondents as severe or very severe obstacles. Requirements to hire workers from the surrounding community and minimum wages were also cited as severe or very severe obstacles by around 12 percent of respondents.

- **Licensing and permits**. Between 36 percent and 39 percent of firms found licensing and permits to be moderate to severe obstacles for their business. Given that the survey covered only established businesses rather than new or potential investors, it is not surprising that licensing and permits ranked lower than some other obstacles. For potential investors, the time and cost to obtain approval from the Investment Board, legalize a company and obtain business licenses from central ministries and local governments, is a major barrier to new investment (see Box 3.2 in p.31).

In sum, it seems clear that macroeconomic instability and policy uncertainty still weigh heavily on business perceptions of the investment climate. However, corruption, weaknesses in the legal system, tax and customs administration, deteriorating infrastructure, complex and costly investment approval and business licensing systems, and labor regulation, also pose significant obstacles for business activity.

3.5 The Investment Climate Policy Package

The Government announced a major new policy package to improve the investment climate in early March 2006 (Inpres 3/2006).[9] The package has time bound targets and assigns a minister to be responsible for each target. It is divided into five categories: (i) general investment policies, (ii) customs, (iii) tax, (iv) labor policy, and (v) SME policy.

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[8] Only 24 percent of survey respondents stated that labor regulations are *not* a problem; 36 percent stated that labor regulations are a minor problem.
[9] The investment climate policy package is dated February 27, 2006 but was announced on March 2, 2006.

These categories are roughly similar to the key policy areas outlined in the CGI working group brief on investment in October 2004.[10]

Some of the highlights of the package include:

- Submit the draft investment law to Parliament, and reach a decision on the status of the draft tax laws submitted last year, by the end of March 2006.
- Stipulate a new investment negative list based on clear, simple and transparent criteria.
- Issue a Keppres to revitalize the national export and investment team (PEPI) by the end of March 2006.
- Cut the time to start a business from 150 days to 30 days and simplify 9 business licenses.
- Activate a team at the Ministry of Finance to accelerate the review process for thousands of non-business friendly local regulations (*Perda*).
- Issue a decree by November on environmental permits (*Amdal*) making it clear what type of business requires an *Amdal*.
- Reduce the percentage of import shipments sent through the Red Lane (physical inspection) to 20 percent by June, 15 percent by September and 10 percent by end-December 2006.
- Increase the number of priority lane companies from 71 to 130 by the end of the year.
- Submit revisions to the Labor Protection Law (Law 13/2003) by April 2006.
- Cut the number of visas and work permits required of foreign workers from 6 to 2.

Most of the reform items in the package are not new, having existed in one form or another in previous policy statements. Many of the items are also quite general, stating only what the government hopes to accomplish but not how it will be accomplished. For example, "shortening the time for cargo handling" and "designing an investment credit scheme for SMEs" are both praiseworthy outputs but there is little indication of how these outputs will be achieved. However, some of the reforms are specific, such as cutting the red lane to 10 percent and compiling a transparent negative list, and most targets include deadlines to ensure rapid implementation and specify the responsible minister.

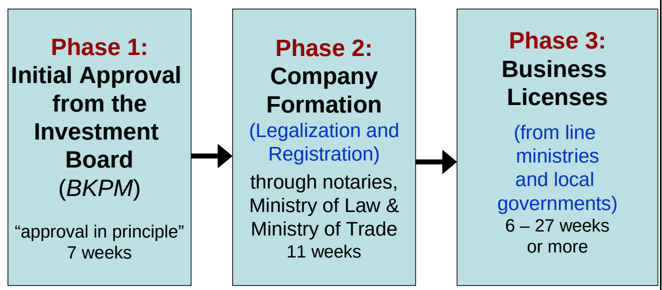
Meeting these targets will be challenging and will require high level coordination. For example, cutting business start up time from 150 days to 30 days will require changes in numerous licensing and approval procedures involving different ministries, agencies and local governments (Box 3.2). Issuing the necessary implementing regulations for the new investment law will require making tough decisions about the role of the Investment Board, procedures for FDI, and business sectors that will remain closed or restricted to foreign investors (the "negative list"). Determining revisions to the labor law will involve complex negotiations between the Government, labor unions and business representatives. Finalizing the draft tax, customs and investment laws will involve consultations with Parliament, the business community and other stakeholders. Because of the broad nature of the required reforms, no single ministry, or even a single coordinating ministry, can resolve investment climate problems. Coordination will have to be at a level above the coordinating ministries.

[10] *Creating Jobs Through Investment*, CGI Working Group on Investment, October 2004.

Box 3.2 Reducing Business Start Up Time From 150 to 30 Days

The March 2006 investment climate policy package calls for reducing the time to start a business from 150 to 30 days. This will be a challenging task. Establishing a company in Indonesia currently requires investors to go through three distinct sets of procedures, each involving numerous sub-steps. These include: (i) obtaining initial approval from the Investment Board; (ii) creating a limited liability company through the Department of Justice which requires at least ten different procedures involving notaries, banks, the tax department, local government offices, and the Minister of Justice; and (iii) obtaining numerous licenses and registrations from line ministries and local governments. Ordinary manufacturing firms, for example, require at least eight standard licenses issued by different local government offices, plus numerous specialty permits. As of mid-2005, the first phase took about 7 weeks, the second phase 11 weeks and the third phase 6-27 weeks (or more) depending on the location and type of business.[11]

Three Phases to Start a Business



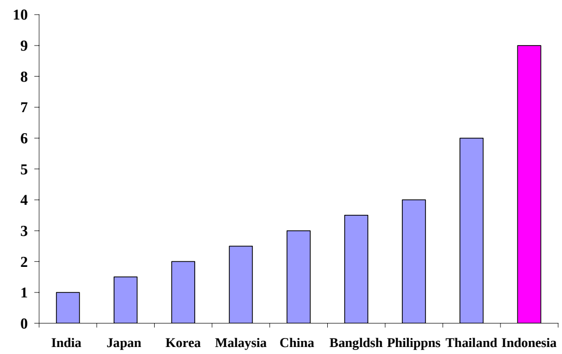
Cutting total start-up time to 30 days will require major changes in each phase. The first phase could be eliminated by moving from an approval to a registration system. The second phase could be streamlined by setting a shorter deadline for legalization of a company's deed of establishment, eliminating unnecessary requirements such as the letter of domicile, creating an on-line public access corporate registry in place of the State Gazette publication requirement, and bringing Indonesia in line with practice in most other countries by eliminating minimum capital requirements. Streamlining licensing (Phase 3) might be the most difficult change because most business licenses are now issued by local governments that follow their own rules, create their own standards and criteria, and have wide autonomy under decentralization. (It is anticipated that the licensing powers of local governments will be somewhat restricted under the proposed revisions to Law 34/2000).

Recognizing the importance of implementation, the government established an internal monitoring team to provide monthly progress reports for Inpres 3/2006. In its May 8, 2006 press report, the team noted that out of twenty-six items scheduled for completion by the end of April, twenty-three had been completed and three were in the process of finalization. Among important measures completed in March and April were: submission of the draft investment law to Parliament (March 21, 2006); revitalization of the national export and investment team (March 16, 2006); simplification of eight business licenses under the Ministry of Trade including the important Trade Business License or SIUP (March 29, 2006); delegation of the authority to legalize limited liability companies to provincial offices of the Ministry of Justice (March 24, 2006); establishment of a team to review non-business friendly local regulations (March 29, 2006); and simplification of procedures for granting visas and residence permits to foreign investors and expatriate employees (March 29, 2006). This demonstration of the government's commitment to implement the new investment package has had a significant positive impact on Indonesia's investment climate. However, closer scrutiny of certain reforms, such as the delegation of authority for legalizing limited liability companies to provincial offices of the Ministry of

[11] See Institute for Economic and Social Research (LPEM-FEUI), *Monitoring the Investment Climate in Indonesia: A Report from the Mid-2005 Survey*, August 2005.

Justice, may lead to disappointment as some changes are quite marginal.[12] Moreover, there is a tendency for the bureaucracy to measure implementation in terms of the number of official decrees issued rather than in terms of meaningful change at the interface between officials and businesses. For example, only one minor measure has been enacted to meet the goal of cutting business start up time from 150 to 30 days and there is no overall plan to reach this target. A strong *external* monitoring effort that is willing to ask tough questions, both about implementation and about the significance of individual measures in relation to the stated broader objectives of the package, may be the only way to ensure that the bureaucracy does not sidetrack the government's serious commitment to investment climate reform.

Figure 3-3: Severance Rates for Employee with 4 Years Service Dismissed for Economic Reasons
(No. of monthly wages)



Source: UNPAD/GIAT (2004), p.18

Revisions to Labor Law No. 13/2003 were an important component of Inpres 3/2006 and were targeted for submission in April 2006. However, following a strong negative reaction from organized labor to the proposed changes, the April target in the investment package could not be met. The uncertain outlook for revision of the labor law is unfortunate as this is an issue of longstanding concern to investors. Several regulations introduced in the 2003 law significantly raised hiring costs. For example, severance pay rates are now far higher than in other regional economies (Figure 3-3). This has discouraged employers from hiring new workers on a permanent basis. The changes would address this bias against employment (especially among youths) and bring employment regulations into line with neighboring countries such as Thailand and Malaysia (Table 3-1). The revisions include the following:

- **Fixed-term contracts** (FTCs) are currently limited to certain temporary (e.g., seasonal) jobs, and workers can be employed up to three years on FTCs before entering a permanent contract. The proposed revisions would allow employers to use FTCs for all work activities. In addition, firms can hire workers on a FTC basis for up to five years, before being obliged to transfer workers to a permanent status.

- **Outsourcing** can be applied to all types of work and production under the revised draft law and this is not limited to 'core-production' activities anymore as is the case under the current law. The outsourcing activity has to be specified under a written agreement between the enterprise and the contracted enterprise/labor supplier. Workers employed in the outsourcing activity have a working contract with the labor supplier. Thus any

[12] The delegation of authority for legalizing limited liability companies to the 33 provincial offices of the Ministry of Justice (kanwil) has not yet been implemented, as Ministerial Decree No. M.837-KP.04.11 states that the procedures for implementation will be forthcoming in a separate Ministerial Decree. Moreover, this change is likely to delay the process of starting a business because the local offices do not have the capacity to administer the online registration system (SISMINBAKUM) and are likely to have weaker internal control systems to prevent face-to-face contact and corruption.

Table 3-1: Comparison with Regional Neighbors

Country	Restrictions on fixed term contracts of direct hires	Restrictions on indirect hires through manpower agencies
Indonesia	Limited to temporary Limits on duration (max 3 years) Limits on extensions and renewals	Limited to non-core activities Limits on duration Limits on renewals
Japan	No restrictions	Limited to certain sectors Limits on duration (3 years) Limits on renewals)
Korea	No restrictions	Limited to certain sectors Limits on duration (2 years) Limits on renewals
Malaysia	No restrictions	No restrictions
Philippines	Limited to certain uses Limits on duration No renewals	Must be direct hires
Thailand	No restrictions	

Source:: Indonesian Labor Protection Law (2003); For Japan and Korea, OECD Employment Outlook Report (2004); for Thailand, Labor Protection Law (1998)

obligations concerning working conditions and dismissal procedures are transferred to the labor supplier.

- **Minimum wage regulations** now state that the minimum wage should be set as a social safety net and no longer based on KHL (adequate living needs) criteria.
- **Severance pay rates** are the most contentious issue. These have been reduced to a maximum of 7 months (9 months under the current law). Long term service pay has also been reduced to a maximum of 6 months (10 months under the current law). If a worker is dismissed for economic reasons (e.g., bankruptcy of firm or – for reasons of efficiency as defined in the amended Law) - then the maximum total severance pay (severance plus long service pay) is set at 13 months (28 months under the current law in Table 3-2).

Table 3-2: Severance Pay rates under Current and Proposed Revised Law

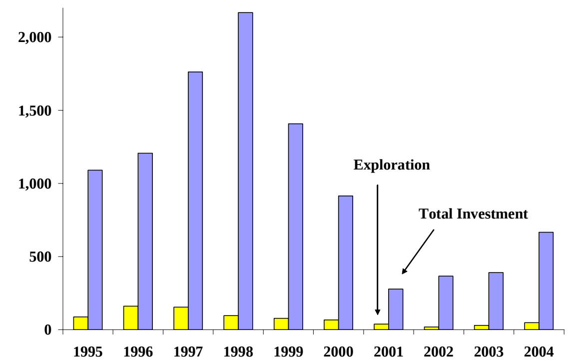
Maximum* severance pay rate (in months of pay)	Current law	Proposed revision
Severance pay	9	7
Long service pay	10	6
Total	**19**	**13**
Dismissed due to economic reasons (bankruptcy, efficiency, force majeur)	2 x severance pay plus long service pay	1 x severance pay plus long service pay
Total	**28**	**13**

**/ Maximum severance pay rates means severance pay handed out to workers with more than 24 years of services*
Source: World Bank Staff

The proposed revisions would provide stronger incentives for employers to hire more workers, including on a permanent basis, as dismissal costs would be reduced. However, workers - primarily in the formal sector - are understandably concerned about the cut in severance pay, particularly as they cannot fall back on any system of unemployment insurance. A potential way for stakeholders to strike a balance between flexible labor regulations and social protection would be to increase social security contributions. But this would require significant reforms to make social security institutions like Jamsostek more efficient and transparent in order to increase the compliance rates.

3.6 Investment Climate for Mining[13]

Figure 3-4: Total Mining Investment 1996-2004
(US$ million)



Source: Complied from various sources by PWC, Review of Trends in the Indonesian Mining Industry, December 2005

Despite a boom in commodity prices, investment in mining in Indonesia is stagnant and far below historical levels. Indonesia is one of the most natural-resource-rich countries in the world and has among the best potential of any country for further development of mining activity. In a 2004/2005 survey of 259 mining and exploration companies worldwide, Indonesia received a score of 97 (out of a maximum of 100) for mining potential and ranked 6th out of 64 regions; only certain provinces of Canada and Australia ranked higher.[14] Yet despite this enormous potential, exploration investment in Indonesia's mining sector has been almost non-existent in recent years. Greenfields exploration spending dropped to just US$7 million in 2004 from US$54 million pre-crisis, and total investment dropped by two-thirds (Figure 3.4). Although Indonesia ranked 6th in terms of global mining potential, it received less than 1.5 percent of worldwide mining exploration spending in 2004.

The decline in mining investment reflects the weakness of the investment climate. This is partly a result of political instability and security problems in the aftermath of the 1997/98 Asian economic crisis, but mainly reflects an unfavorable policy environment. The policy problems include: (i) a tug-of-war between local governments and the center over who controls mining activity, (ii) unclear and changing environmental rules which are interpreted differently by different ministries, (iii) a mining fiscal regime that is no longer competitive,[15] (iv) a draft mining law that abolishes the Contract of Work (CoW) system for new projects, (v) an unclear legal environment that causes uncertainty in the administration, interpretation and enforcement of existing regulations, and (vi) arbitrary application of rules for divestment and mine closure.

[13] The section draws on the World Bank policy brief *Attracting New Mining Investment in Indonesia*, January 2005, and on two recent reports from PricewaterhouseCoopers: *Review of Trends in the Indonesian Mining Industry* (December 2005), and *Oil and Gas Investment in Indonesia* (September 2005).

[14] PricewaterhouseCoopers: *Review of Trends in the Indonesian Mining Industry* (December 2005)

[15] The fiscal regime has deteriorated for three main reasons. First, the level of production contribution (also called "royalty") now averages about 4 percent which is about double the level under the 7th CoW. Second, coal, gold and silver are no longer zero-rated for VAT, which raises production costs. Third, district and provincial taxes, levies and fees have increased. See World Bank, *Attracting New Mining Investment*, January 2005.

The investment climate for mining has also been damaged by a series of high profile disputes involving international mining companies. Although the Newmont environmental dispute was partly resolved in mid-February 2006 with a US$30 million "goodwill" out-of-court settlement, there is still an ongoing criminal case against PT Newmont Minahasa Raya. Unfortunately the Newmont settlement was quickly overshadowed by a three-day forced closure of PT Freeport Indonesia's copper and gold mine in Papua following a dispute with illegal miners in late February, and by attacks aimed at Freeport's office in Jakarta. The blockade, along with nationalistic statements by senior Indonesian politicians suggesting that the terms of Freeport's contract might be reviewed, were reported to have caused PT Freeport Indonesia's share price to drop by 18 percent between February 6 and February 22, 2006.[16] In mid-May 2006 the minister of Energy and Mineral Resources indicated that the government would ask PT Freeport to "sit down with us to renegotiate the contract, probably in the next two months."[17]

Reversing the collapse of mining investment in Indonesia will require creation of a secure working environment for mining companies, settlement of outstanding high profile disputes, and a comprehensive new policy approach that should be approved and coordinated at the Cabinet level. Elements of the new approach should include:

- Passage of a new mining law that provides legal certainty, security and predictability for investors while maintaining the attractive features of the CoW system.
- A competitive taxation and royalty system, including a return to the rates for production contribution (royalty) that existed under the 7th CoW; restoration of VAT zero rating for coal, gold and silver producers; and removal of the new 5 percent export tax on coal.[18]
- Clear delineation of central and local authority with respect to mining to remove overlapping powers.
- Control of local taxes, levies and fees through revision of Presidential Regulation 25/2000 and creation of a positive list for such fees in place of the current negative list.
- Clarification of environmental and land use rules, including rules for mining in protected forests.
- Action against illegal mining.

3.7 The Investment Climate at the District Level

Large firms represent less than 10 percent of the country's enterprises; the vast majority of the enterprises in the country are small, often informal firms operating outside the major cities. The issues faced by these firms can be rather different to those faced by their much larger counterparts. Many of these firms are not registered with the tax authorities, neither import nor export, and do not make investments of a size that requires any interaction with provincial investment boards (BKPMD). Such firms are responsible for employing the majority of workers including the vast majority of poor workers, so it is

[16] Bisnis Indonesia, "Ada apa dengan Freeport," March 1, 2006.

[17] As quoted in the *Jakarta Post*, "Minister hints at renegotiation of Freeport contract," Monday, May 15, 2006.

[18] Improvements in the mining fiscal regime are further discussed in *Attracting New Mining Investment*, World Bank, January 2005.

important that policy also considers how best to improve the investment climate for smaller firms at the district level.

A forthcoming study on the Kabupaten Investment Climate points to five areas in which action is needed (World Bank, forthcoming)[19]:

- **Kabupaten roads are in terrible condition** – much worse than provincial or national level roads. In 2002 only 50 percent of the Kabupaten road network was rated as being in a sound, maintainable condition, and only 19 percent was rated as being in good condition. While central funding has been adequate for keeping the national/arterial network in satisfactory and sustainable condition, there is a large backlog of preservation and upgrading needs on the provincial road network and a very large backlog on the kabupaten network. But lack of money is not the reason for the poor quality of local roads, as local governments are in fact running substantial surpluses. Stronger community input on spending priorities, better road planning tools, and improved institutional incentives for higher maintenance expenditures, will be needed to overcome these problems.

- **There remains a large untapped market for credit to small businesses –** the growth of innovative new small business credit providers such as Danamon Simpan Pinjam (DSP) shows that there is a large untapped market for small business credit. DSP's own research claimed that of the 19.5 million micro and small businesses in Indonesia, 94 percent needed loans, but only 36 percent had borrowed from commercial banks, and 5 percent had borrowed from a BPR. The Rural Investment Climate Assessment (World Bank, forthcoming) also suggests that there is enormous potential from profitably expanding credit to micro and small enterprises. But information constraints (such as high upfront costs of identifying potential borrowers), the lack of suitable rural savings instruments, and the BPD quasi-monopoly on lending to civil servants, tend to constrain lending to small businesses. Developing a P4K[20]-style outreach program to finance the household enterprises of rural low-income households could help to connect new micro-borrowers to the financial system.

- **District level formal and informal labor regulations are harming local employment growth.** Several districts are now using their decentralized powers to issue Perda relating to local labor regulations. For example in Kabupaten Serang in Banten Perda No.13/2003 theoretically obliges enterprises to provide after-work accident insurance for workers and workplace facilities, such as canteens, praying and sports facilities. If strictly applied such laws can be a significant burden on local businesses. Similarly, firms face a range of informal labor practices including pressure from local communities to hire local workers regardless of whether they are appropriately qualified. Data from the Rural Investment Climate Survey suggest that micro and small firms regard this as a big problem. Firms also report having to make payments to both local officials and preman to "solve" such problems, whilst workers

[19] World Bank (forthcoming), "Revitalizing the Rural Economy: an assessment of the Rural Investment Climate in Indonesia", World Bank Office Jakarta.

[20] Pembinaan Peningkatan Pendapatan Petani Nelayan – a successful credit program run by Ministry of Agriculture and BRI.

sometimes have to make large payments to local "labor agents" to obtain employment in local factories.

- **The local administration of business licensing is a major hassle for many businesses – but some Kabupatens have shown that it can be dramatically improved.** The costs, delay and inconvenience of business licensing is one of the most commonly mentioned criticisms of the local investment climate. But the 10,000 or so new or revised taxes and charges since decentralization generate less than 7 percent of local government revenue and in 10 percent of local governments the cost of administering these taxes is greater than the revenue collected. But some local governments have shown the way forward. For example, Kabupaten Solok's Satu Pintu Plus has dramatically reduced both the time and cost required for issuing 25 different types of business licenses and civil certifications. The reason for its success appears not to be merely setting up a One Stop Shop – there are numerous examples of inefficient and corrupt One Stop Shops – but rather strong government leadership demanding transparency and continuous improvement in service quality.

- **The movement of goods within Indonesia is still not free.** Although illegal, restrictions in the movement of goods across Kabupaten and Provincial borders still exist and impose additional costs and delay to the distribution of goods. For example, one study found that a truck transporting 8 tons of oranges from Karo to Jakarta had to pay Rp.159,500 in legal levies at 28 different collection and a further Rp.31,000 in illegal levies at a further 17 collection points (Siringoringo et al, 2004). Many of the newly introduced taxes and retribusi restrict or tax trade within or between kabupaten and provinces as these charges are easy to implement. These taxes and restrictions interfere in domestic trade and undermine internal market efficiency.

3.8 Infrastructure

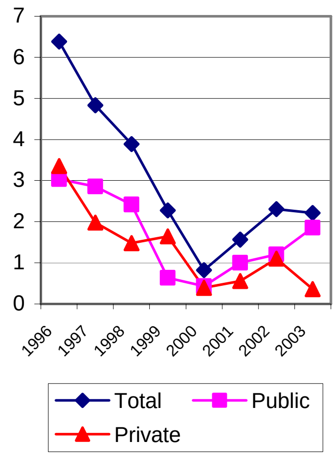
The government has made infrastructure a major economic priority. Soon after taking office in November 2004, one of the first acts of the new President was to attend the Infrastructure Summit in January 2005. The Coordinating Ministry for Economic Affairs has recently (Feb 2006) announced an Infrastructure Policy Package outlining more than 150 policy reform items that will be addressed by end-2006. The Ministry of Finance has aggressively supported the infrastructure agenda, with the establishment of a risk management unit and the framework for the creation of a guarantee fund to provide public support for private investment in infrastructure.

3.8.1 Indonesian Infrastructure: An Overview

Indonesia has among the lowest levels of access to infrastructure in the region.

- Infrastructure performance has actually deteriorated in some sectors (water, provincial and local roads), and there has been a dramatic decrease in infrastructure investment since 1996 (Figure 3-5).
- While public spending in infrastructure has bounced back since 2000, the private sector is yet to return.
- Additional infrastructure investment of US$5 billion is required annually to reach a 6 percent medium-term growth target.

Figure 3-5: Infrastructure Investment (%GDP)



Note: Public investment does not include SOE investment.
Source: Draft Infrastructure PER (2006)

A poor response to the first Indonesian Infrastructure Summit led the government to address reform measures to improve the public management of infrastructure and to facilitate increased private investment in infrastructure. The postponing of the Second Infrastructure Summit was timed to ensure that most of the reform measures could take place before returning to the market.

- The National Committee on Policy for Accelerating Infrastructure Provision (KKPPI) was established in 2005. The KKPPI, which is an inter-ministerial committee, chaired by the Coordinating Minister of the Economy, is tasked with increasing both public and private investment in Indonesian infrastructure. In particular, the government is looking to finance public investment shortfalls through joint public-private projects; for example, toll road development or independent power plant construction. A Public Private Participation (PPP) Unit is being established within the KKPPI as a center of technical expertise in project preparation. The new unit will be responsible for ensuring that projects proposed by the government's line ministries for possible private sector investment meet stringent international best practice guidelines. Further, a Risk Management Unit (RMU) has been established at the Ministry of Finance, with the aim of ensuring appropriate risk sharing between the public and private sectors. When effective this unit will evaluate projects prepared by the afore-mentioned PPP Unit in order to consider the possibility of government financial support; for example the guaranteeing of certain revenue streams, such as utility tariffs, to allay private sector concerns for long term financial viability of projects. A Ministerial Decree outlining the type and extent of government support has been issued (May 19, Minister of Finance Decree No.38/2006). Both the PPP & Risk Management Unit are part of an overarching legal framework for public-private investment that includes complimentary ministerial decrees that satisfy the requirements set out in Presidential Regulation 42/2005 meant to jumpstart Indonesia's infrastructure rehabilitation.
- In order to inform the public and advise potential investors of the reforms being taken by the government to stimulate infrastructure development, the Consolidated Indonesia Infrastructure Forum (CIIF) is being established as the public relations arm of the KKPPI to engage private investors and take in feedback on reform priorities.

Despite positive developments, serious weaknesses remain.

- The 91 transactions offered during the First Summit have met very limited private sector response, suggesting the need for greater adherence to international best practice standards and greater preparation in terms of both transaction specific details. Too many transactions continue to by-pass the KKPPI, opting for direct negotiations through non-transparent and non-competitive bidding processes.
- Retail tariff levels remain below costs in almost all infrastructure sectors, this impediment to cost recovery leads to limited investment in new facilities and/or expansion of service networks for critical sectors such as power and water.
- Sectoral policies (e.g. pricing, governance, institutions) that hinder infrastructure development continue to limit access, in particular in the power and water & sanitation sectors.
- Decentralization has not lived up to its full potential. While significant funds have been made available to regional governments through the intergovernmental transfer system to finance local infrastructure service delivery, regional governments have not put those funds to good use in building needed infrastructure. In addition, regional borrowing mechanisms remain underdeveloped and this further constrains infrastructure finance and public service delivery.

3.8.2 Energy

Indonesia's growth is highly energy dependent and demand is expected to grow by about 5 percent each year – more than twice the pace of the rest of the world. With rising international oil prices, the government increased fuel prices in October 2005 by 114 percent. However, prices in the energy sector remain distorted due to remaining subsidies and differential prices. In some instances, higher fuel costs have yet to be transferred to final consumers in government controlled sectors such as electricity (PLN). A *rational long-term energy pricing policy* that is also able to absorb international price volatility is needed.

Energy investments have been lagging for a number of years despite momentous needs. Investment of more than US$5 billion annually is needed for power, gas, and coal development (Table 3-3). While recent investments have been funded through public channels, attracting private investors is the only viable way forward in the sector.

Table 3-3: Energy Sector Investment Needs (Estimates per year: now-2014)

Sector	Estimate (billion/year)
Traditional Power Sector	≈ $ 3.5-$4.0
Increasing Electricity Access	≈ $ 0.3-$0.5
Downstream Gas Sector	≈ $ 0.5-$0.7
Coal Sector Development	≈ $ 0.2-$0.4
TOTAL	**≈ $ 4.5-$5.6**

Source: The World Bank

Environmental concerns are high and growing (Table 3-4). Indonesia relies heavily on oil and is increasing its coal consumption (from 14 to 33 percent). With rapid addition of vehicles, environmental degradation is a growing issue in Indonesia. The Government's plan to also diversify towards the use of natural gas (expected to increase to 31 percent) is more environmentally friendly, but key *infrastructure investments in developing gas fields and pipelines* are needed to ensure supply reliability. Policies to catalyze *greater renewable energy production* (planned from 5 to 10 percent), *utilization of cleaner fossil fuels*, and *enhanced energy efficiency* will also be vital to mitigate adverse environmental impacts.

Table 3-4: GHG Emissions

	1971 (Mt CO2)	2003 (Mt CO2)	Change since 1990
The World	13,958	23,579	18%
Developing Countries	1,995	8,226	56%
OECD Countries	9,378	12,446	13%
China	809	3,307	45%
India	199	1,016	71%
Indonesia	25	303	**119%**

SOURCE: IEA World Energy Outlook, 2004

Access to electricity will remain illusive for the rural poor under present circumstances. Indonesia made significant strides in expanding electricity access - from less than 6 percent of the population to over 67 percent during the past three decades (Table 3-5). Despite these developments, Indonesia lags behind many of its neighbors. A staggering 70 million people do not have access to electricity, and this is regressive as over 80% live in rural areas where 3 out of 4 poor live. Since expanding in more remote areas is costly, PLN has little ability to recover these expenses; hence, new and innovative electrification schemes are needed. It is important to develop and mainstream a sound *strategy for increasing electricity access*, especially to poor rural areas. This strategy should include electrification options that take advantage of the recent decentralized governance structure in Indonesia, and address issues of cost-recovery and financing with properly prices services and well targeted public support to assist the poor.

Table 3-5: Regional Electrification Rates

Country	1994	2003
Singapore	100	100
Philippines	87	82
Vietnam	15	84
Indonesia	**39**	**67**
China	92	96
Thailand	87	95

3.8.3 Road Transport

Roads are the primary means of transportation in Indonesia.

- **Road quality.** The national roads network (about 34,000 km) is in relatively good condition (95 percent paved and 88 percent in good or fair condition in 2003); the provincial road network is also predominantly in good/fair condition (although 20 percent of its length is unsealed); the district and urban road networks are of much poorer quality and generally in poor/bad condition. The situation is worst in Eastern Indonesia.
- **Road congestion.** While conditions are good on the main heavily trafficked roads, 43 percent of the network on Java, and more in Jakarta, is currently congested with related high travel times and costs. Congestion is expected to increase to 55 percent of the network by 2010.

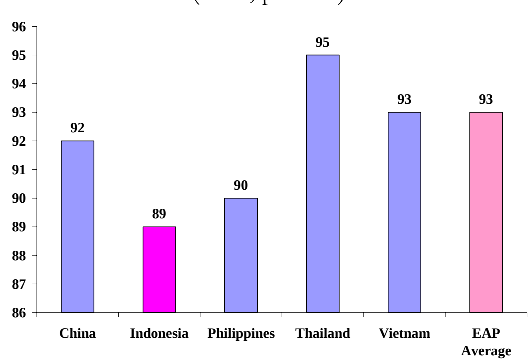
Financing of the road sector falls short of what is needed by about Rp.19 trillion a year.

- **Recent spending patterns reflect dependence on and vulnerability to public budget.** After substantial investments in upgrading/expanding through the 1980s-90s, expenditures have fallen since the 1997 crisis and are now almost exclusive dependent on public funds.
- **Financing of a suitable network cannot be met by the public sector alone and requires a blend of users paying a larger share of road service costs and public-private financing of projects.** The Ministry of Public Works (MoPW) is committed to private sector participation and wants to develop a freeway system (1,500km in new express roads). However, their track record is not promising. MoPW has a number of "abandoned" projects (with signed 1997 concession agreements), which are being revived with the 'original' consortia. These were not bid using transparent, competitive selection procedures, and it may be better to cancel and restart the process with new concession arrangements; this decision ultimately lies with the Ministry of Public Works and BPJT. To try to restore the interest and confidence of the private sector and attract serious international private sector bidders, MoPW has developed and a new "Draft Toll Road Model Concession Agreement" (November 2005). One of the key issues for the failure of the PPP project has been funding of land acquisition. Establishment of a "land fund" with clear governance structure is under development.

Corruption Road sector projects have had ongoing problems of corruption despite anti-corruption action plans (ACAP). The ACAP in the road sector in Indonesia are ahead of what the Bank has in other countries. Still, corruption remains a serious constraint. Corruption in the road sector is predominantly in the public procurement process. Despite the new law on procurement, there are still a number of implementation problems in MoPW, in spite of MoPW's new willingness and commitment to address these issues.

3.8.4 Water Supply and Sanitation

Figure 3-6: Urban Access to Improved Water
(2002, percent)



Source: World Development Indicators

Inadequate sector policies and allocation of responsibilities. Local governments have historically had significant responsibility over water and sanitation services. A particular problem since decentralization has been sector financing, especially for water. Many PDAMs are in arrears on past loans from the central government and are now prohibited from borrowing again for infrastructure development. Plans for restructuring, rescheduling, and/or writing off PDAM debt, which would allow renewed borrowing for infrastructure development, have been slow to evolve. In any case, the inadequacy of services and low coverage is of particular concern to national policy makers, who have pledged to reach the Millennium Development Goals (MDGs) of halving the proportion of people without sustainable access to safe water and basic sanitation by the year 2015.

Only 17 percent of Indonesians have access to piped water. Access to water supply in Indonesia is among the lowest in the region, and financing is insufficient. Investments in the water sector have sharply declined since the financial crisis, from an average of US$400 million in 1990s to under US$45 million in 2005. Government spending for the sector is about ten times lower than needed to achieve 2015 MDG targets.

- The average water tariff for low-income households in Indonesia is less than 50 percent of the lowest tariff in Vietnam, and far below those of other ASEAN countries.

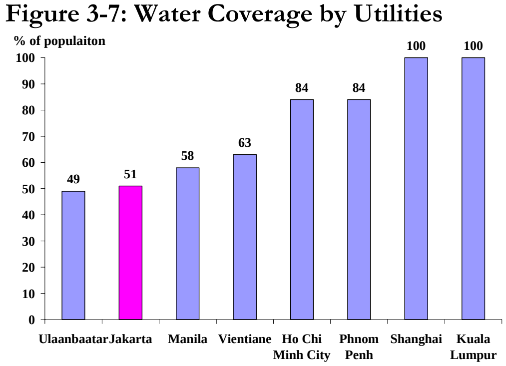
Table 3-6: Water Tariffs in Indonesia and other ASEAN Countries, USD (2005)

Country	Lowest urban water tariff	Breakeven tariff
Philippines	0.20	0.35
Malaysia /a	0.15	0.30
China	0.12	0.50
Cambodia	0.12	0.25
Vietnam	0.10	0.50
Indonesia	**0.03**	**0.25**

Source: World Bank (2005)

- There are over 315 public water utilities (PDAMs) operating in Indonesia - many are too small, with limited customers, low tariffs, weak management, and lack of access to finance for investments. The result has been unpaid debts, arrears accumulation, deferred maintenance, and deteriorating services. About 65 percent of PDAMs loans with the MOF are in arrears or in default, accounting for US$500 million in debt
- Currently, PDAMs are owned by local governments. Tariffs are set well below cost recovery levels by local governments and their parliaments; and often fees generated are not even enough to cover O&M costs.
- A key sector priority is tariff reform and debt restructuring of water utilities.
- A more market-based system of financing PDAM infrastructure, perhaps using non-public financial intermediaries and/or various forms of credit enhancements, needs to be developed.
- Impact of inadequate access is particularly adverse on the poor who suffer from a high incidence of water-borne diseases. Performance based subsidies (Output Based Aid) should be developed to target the poor and to increase efficient service provision.

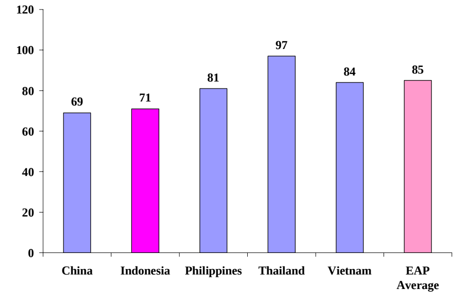
Figure 3-7: Water Coverage by Utilities



Source: ADB (2004), Water in Asian Cities

Sanitation challenge. While access to improved sanitation (including on-site facilities) is estimated at 71 percent, actual sewerage coverage (estimated at 1.3 percent) is among the lowest is Asia.

Figure 3-8: Urban Access to Improved Sanitation



Source: World Development Indicators

- Public awareness for sanitation and environment, as well as public health and hygiene training should be launched with a strong focus on the responsibility of local governments to improve sanitation services, treatment and disposal, and to facilitate the development of sustainable service delivery.
- A range of new models exploring sanitation marketing, hygiene and communal solutions to meet the requirements of urban and peri-urban areas should be developed.
- Community-based sanitation system, piloted over recent years, provides an Indonesian model for urban sanitation that is feasible and affordable and can be developed alongside more conventional approaches and on-site sanitation.

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Chapter 4: Indonesia's Governance Agenda

Key Messages

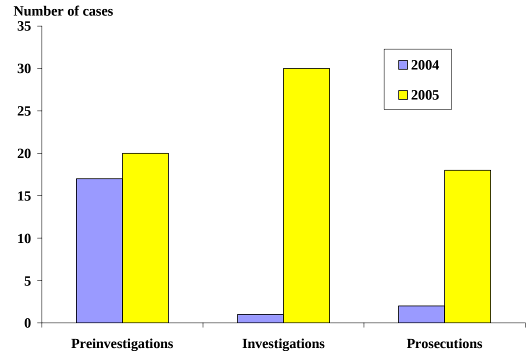
- The SBY administration has sparked genuine momentum in the fight against corruption and governance indicators are starting to improve. A new institutional framework to investigate and prosecute corruption cases is fully up and running and already showing results
- There has been less progress in implementing a strategy of institutional and policy reforms to prevent corruption and make sustainable improvements in governance
- The critical bottleneck preventing a real breakthrough on governance remains civil service and administrative reform. The Government is launching some promising openings in this area
- Legal and judicial reform is still progressing slowly. Implementing the Blueprints represents the best opportunity for achieving results
- "Money politics" weakens the link between greater political competition and good governance. The governance agenda should be expanded to address illicit financial flows through electoral and political party financing, legislative corruption, and quasi-state foundations (*yayasans*)

4.1 Indonesia's Governance Context

Indonesia's governance challenges exist in a framework of tremendous political and institutional changes that have marked its transition to a more open, competitive society. Constitutional reforms securing direct elections have created a new accountability framework at all levels of the political system. Decentralization is bringing control over resources closer to the clients, providing new opportunities for participation and monitoring of service delivery. The opening of the media and surge of new collective organizations within civil society are giving rise to powerful demands for good governance. The results of these remarkable changes are evident in a new level of competition in public life. Yet these gains in participation, competition and transparency are not yet leading to demonstrable improvements in the overall quality of governance.

Since its election in October 2004, the Yudhoyono administration has sparked genuine momentum in the fight against corruption. To gain credibility, the Government focused initially on a high-profile anti-corruption campaign. Rather than targeting individuals, the Government strengthened the institutional framework for anti-corruption. New institutions such as the Anti-Corruption Commission (KPK), Anti-Corruption Court, the Interagency Task Force (*TimTasTipikor*), the Hunting Team (*Tim Pemburuan*), the Judicial Commission, the Police Commission, and the Prosecutorial Commission have been given considerable autonomy and authority; most have begun to deliver tangible results. Existing institutions like the Supreme Audit Commission, the Financial Transaction and Analysis Centre (PPTAK), and the Attorney General's Office have become more active. High profile corruption investigations have been launched at every level of government and even among some state-owned enterprises. These have led to a number of successful prosecutions (Figure 4.1).

Figure 4.1: KPK Investigations and Prosecutions

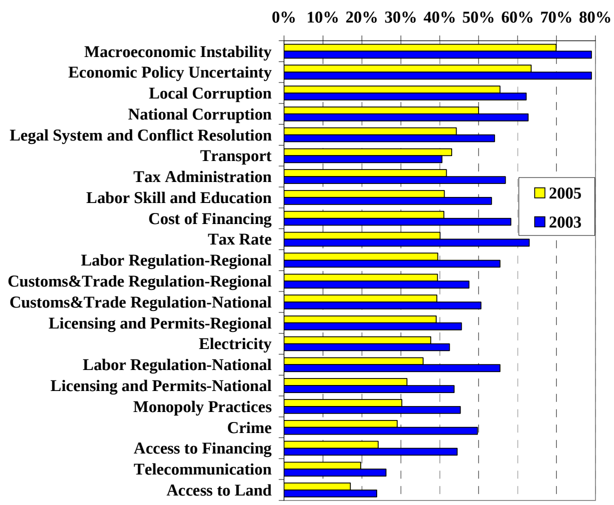


Source: "Report to Commission III DPR-RI", KPK 2006

The Government is now turning to deeper institutional reforms to prevent corruption. But despite the initial success in prosecuting corruption, there has been less progress in developing and implementing a coherent, well-focused strategy for corruption prevention. This will require a serious approach to civil service and administrative reform, legal and judicial reform, accountability measures at the local government level, as well as the more sensitive issues of political party and electoral financing and the role of quasi-public foundations (*yayasans*). Without progress in these areas, the early gains from the government's anti-corruption drive may not be translated into sustainable improvements in the quality of governance.

Figure 4-2: Major Obstacles Faced by Businesses

(% of firms reporting constraint to be moderate, severe or very severe)



Source: Investment Climate Survey 2005

Corruption and governance indicators are slowly improving. Though most global governance and corruption surveys still place Indonesia near the bottom on a range of indicators, there are recent signs of progress. Comparing results of firm level surveys of the Indonesian investment climate from 2003-2005 (Figure 4.2), the respondents were less likely to cite as obstacles to doing business a wide range of governance categories, including corruption, legal system and conflict resolution, and tax administration. The improvement was particularly pronounced in the areas of national level corruption. And the signs for the future are encouraging. The 2005 TI Global Corruption Barometer found that 81 percent of Indonesians surveyed believed that corruption would decrease next year – the largest share of optimists of 69 countries surveyed (Transparency International 2005).

4.2 Political and electoral accountability is improving with the local elections

Figure 4-3: Governor Races Planned in 2006

Central Sulawesi (held in January)
Gorontalo
West Sulawesi
Nanggroe Aceh Darussalam
West Irian Jaya (held in March)
Papua (held in March)
Banten

Successful national and sub-national parliamentary elections and the first direct presidential election in 2004 were landmarks for accountability. Direct elections have been introduced on a rolling basis for governors, bupatis and walikotas in 33 provinces and over 420 districts. In 2005, elections were held in 5 provinces and 221 kabupaten and kota. In 2006, an additional 7 provincial elections and 74 district level elections are in process (Figure 4-3). Initial results show a strong backlash against incumbents, implying that the electorate is holding their leaders accountable for past performance. The local elections are proceeding smoothly with only isolated irregularities.

Direct elections for local leaders will reduce the non-transparent bargaining across political parties that characterized previous procedures for selecting local executives. Importantly, it also provides the local electorates with a direct ability to change non-performing incumbents.

However, the **local electoral process also presents a number of challenges.** The relatively weak party system and malleable party coalitions at the local level reduce the available mechanisms for the national administration to push for the implementation of centrally initiated reforms in the regions. In addition, money flows both to political parties to secure places on electoral lists and to voters to secure their votes remain a serious problem at the local level.

4.3 Indonesia's anti-corruption prevention efforts

Figure 4-4: Key areas covered by the INPRES 05

- All high-ranking officials must file wealth reports
- Attorney General's Office (AGO) and police must optimize investigations and prosecutions
- Reforming the civil service and improving service delivery
- Introducing reforms to reduce corruption and leakage in tax and customs collection
- Formulation of a National Action Plan for the Eradication of Corruption.

Source: INPRES 05. Presidential Instruction of the Republic of Indonesia, Number 05 2004 to "expedite Corruption Eradication Efforts".

The Government has laid out an anti-corruption strategy in two documents -- INPRES 5/December 2004 and the National Action Plan for the Eradication of Corruption (RAN-PK) from February 2005 (Figure 4-4). INPRES 5 is SBY's anti-corruption instruction to the executive. It instructs all executive branch institutions of the government to expedite efforts to eradicate corruption. The National Action Plan collects detailed policy and reform measures from each institution to implement the presidential instruction. Both documents are comprehensive in scope, covering prosecutions, prevention and education. However, neither document specifies any deadlines or sanctions. And MenPAN, the ministry tasked with coordinating, monitoring and evaluating implementation, has only limited authority. To date, implementation of these anti-corruption strategy documents has been weak.

There are several important corruption-prone arenas of governance that are not by these documents, including: 1) the judicial sector; 2) supervision of the financial sector; 3) political parties and parliaments; and 4) military procurement and military-owned businesses. Addressing corruption in all four of these areas is critical to the overall fight against corruption.

The KPK is becoming a catalyst for institutional reforms to attack the roots of corruption. It is using prosecutions as the cutting edge for implementing broader institutional reforms in key sectors, such as the judiciary (especially the Supreme Court) and the civil service. But though the KPK can spur the momentum for reforms, it does not have the authority and capacity to engage in the design and implementation of complex institutional reforms of other institutions.

The KPK also has a critically important responsibility in the area of corruption prevention – **management and implementation of the wealth reports of public officials.** Yet performance has been lagging. By end of 2005, only 54 percent of senior government officials had submitted their declarations and only a small share of these have been properly audited. The impact of these declarations is limited by the fact that they are not fully available to the public, as in most countries. This represents some backtracking from the previous policy of the once independent KPKPN. In addition, it is necessary to amend relevant legislation to establish a criminal offence for intentional illicit enrichment

The legal framework for preventing corruption should be considerably improved with the passage of **laws on freedom of information and witness protection**. Both laws have been with the DPR for some time. There are risks that the freedom of information law could be passed with a limited scope (e.g. not including state-owned enterprises) and long implementation period (up to 5 years) that could reduce its impact. Moreover, there are potential contradictions between the law and the draft law on state secrets, also under consideration, which need to be addressed. Of course, the passage of laws is just the beginning and a strong framework to implement the freedom of information law will be critical to ensure genuine access.

4.4 Civil service reform is coming on to the national agenda

While new Government has passed a number of very encouraging policy packages in a wide range of areas, confidence in the effective implementation of these packages remains weak. The main reason is the **lack of administrative capacity and distorted incentive structure in the government bureaucracy.** Civil service reform and administrative reform are the essential next steps for the Indonesian government to move forward decisively on the Government's ambitious governance and anti-corruption agenda. Though this challenge has been widely recognized for many years, progress to date has been slow. But recently, there are very encouraging signs that the Government is ready to seriously consider a more comprehensive reform program in this area.

The challenges in reforming the civil service are well known and encompass several areas:

- **Organizational structure:** A large number of agencies with overlapping authority share responsibility for management and oversight of various aspects of the civil service: National Civil Service Agency (BKN), State Ministry for State Apparatus Reforms (MENPAN), Ministry of Home Affairs, National Institute of Administration (LAN), Ministry of Finance, sectoral ministries, and local governments. Yet no single agency is proactively managing the structure and shape of the civil service. And no agency has the recognized authority to undertake comprehensive civil service reform.

- **Staff allocations and right-sizing:** Indonesia's "big bang" decentralization of 2001 transferred over three million civil servants from central to local authority, but did not give the local governments adequate powers to determine the size and allocation of civil servants within their jurisdictions. The result has been that, since decentralization, there is a misallocation of civil servants across levels of government. A comprehensive process of job classifications and right-sizing is urgently required.

- **Recruitment and promotion:** Though demand for civil service positions is high, there is a flawed recruitment system with informal payments to enter the system and to get promoted. Performance criteria for promotion are weak, and there few credible sanctions for low performance and corruption.

- **Compensation:** Though civil service base salaries are low relative to private sector and international benchmarks, the overall compensation package is characterized by a wide range of allowances and honoraria many of which are non-transparent, discretionary and highly prone to abuse. Once the total compensation package is considered, studies show that many segments of Indonesia's civil service have not been systematically underpaid compared to workers in the private sector.[1] The problem in motivating high performance, therefore, may not be the level of pay, but the opaque and discretionary system for determining overall compensation and its weak link to either personal or group performance.

Recently, the Government has begun to undertake a series of initiatives that suggest one of **the most promising openings for civil service reform in years**. A key first step has been the effort to design a new remuneration policy for high-ranking state officials, so-called "pejabat negara" (e.g. ministers, legislators, judges and heads of special commissions and agencies). The Minister of Finance has set up a task force to examine the entire compensation package with the goal of creating a more transparent, systematic and coherent framework of pay and allowances linked to a comprehensive review of job classifications and categories. This is intended to lead to an independent remuneration commission to

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[1] Nunberg, Barbara et al, "Priorities for Civil Service Reform in Indonesia", The World Bank, EASPR, 2000, and Stedman, David & Kenward, Lloyd, "Civil Service Reforms at the Regional Level - Opportunities and Constraints", The World Bank Indonesia, 2005.

recommend both the level and structure of the compensation package to Indonesia's highest ranking political officials. Such an approach would be followed by a similar comprehensive review of pay issues for the larger civil service.

Individual ministries are considering important initiatives which could serve as a model for a more comprehensive civil service reform. A new proposed Teacher's Law would offer increase a dramatic increase of the total take-home for teachers on the basis of merit and qualifications through special "professional allowances" for those passing through a certification process. The Ministry of Finance is considering a comprehensive reform of its own civil service integrated with a restructuring of the Ministry's core serves in treasury execution, taxes, and customs.

Finally, the **legal framework for the civil service is being reviewed and revised**, including the basic Civil Service Law of 1999, the Law on Government Organization and the Law on Pensions. Included in this review are a range of government regulations encompassing decentralization of the civil service, performance appraisal, separations, and civil service discipline.

There are also **strong civil service reform initiatives in several *regional* governments**, including in such areas as performance budgeting, one-stop public services, productivity improvement measures and transparent recruitment for key positions. Promising initiatives have been launched in Yogyakarta, Jembrana on Bali and Solok in West Sumatera.[2] Yet there is a real need to clarify functions between the different tiers of government.

4.5 The judicial and legal sectors continue to face significant challenges

Indonesia's legal system continues to be identified as one of the most serious obstacles to investment. For many years the system has been weakened by inadequate funding, ineffective procedures, and inconsistent decision making. There has been a systematic demoralization and "deprofessionalization" of judges, police officers, prosecutors, and other key players in the legal system, which, in turn, further hampers efforts to reform and improve these institutions.

As a result, there was considerable enthusiasm for the **Supreme Court Blueprints**, which provided a comprehensive assessment and strategy for reform developed by a broad alliance of actors across the judiciary, the government, civil society partners and donors. These Blueprints, prepared in 2001 and 2002, still constitute the backbone of the reform process. To date, nine Blueprints have been produced. These include the Supreme Court itself, judicial personnel management, court financial management, permanent education and capacity building, the Judicial Commission, the Commercial Court, the Anti Corruption Court and the Human Rights Court. The ninth Blueprint again starts with the commercial court as a pilot; it lays out the basic budgetary and personnel mechanism for civil service reform of the Judiciary, and is known as the Needs Assessment.

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[2] "Making Service Work for the Poor – 9 case studies", The World Bank, Indonesia, 2006 (forthcoming).

In 2004 the Supreme Court established **a judicial reform team to help manage the implementation of the Blueprints** and to coordinate funding efforts. A secretariat, called the Supreme Court Reform Office, assists the judicial reform team and is permanently staffed by civil society experts on legal and judicial reform. But despite the progress in formulating the Blueprints, and thus putting an overall strategic framework in place, implementation remains lackluster. Thus, the challenge remains to translate the Blueprint plans into action.

In a high profile meeting in December 2005, **the President launched a proposal for court reform**, spurred by a high profile sting operation by the KPK that netted a Supreme Court civil servant accepting a US$600,000 bribe. The proposal, the details of which are still being worked out, involves an inter-departmental committee directed to push forward reforms that in part were identified in the Blueprints (notably the 9th Blueprint, the Needs Assessment). This will be a very challenging undertaking. Examples of civil service reform of courts abroad have hardly ever taken less than 10 years, in conditions more favorable than faced in Indonesia now. But positive opportunities for change now exist as the establishment of the Judicial Commission shows.

A further impetus for reform across the legal sector has been the creation of a series of independent oversight commissions for the Judiciary, Attorney General's Office (AGO) and the Police (see Fig 4.5 for a more detailed description). In addition, the AGO has launched the ambitious **2005-2006 Republic of Indonesia Prosecution Service Reform Agenda**. But again the key challenge will be effective implementation.

Finally, institutional reform of the justice sector requires consideration of the demand for change as well as the supply. To be relevant to the population, the **legal system needs to be made more accessible, transparent and accountable, particularly to the poor**. The Government has made efforts with the support of donor programs to enhance community legal awareness and to strengthen village level dispute resolution processes

Figure 4.5: The Judicial Commission: Safeguarding Accountability in the Justice System

The Judicial Commission was established as an organization through recent amendments to the Constitution. It will supervise the appointment and monitor the behavior of the Justices of the Supreme Court, its subordinate and specialized courts, and the Constitutional Court. The Judicial Commission can not formally overturn rulings, but it can investigate judges and suggest punishments. Although its commissioners were recently appointed in August 2005, it has demonstrated its potential influence on the judiciary through its investigation into the controversial West Java High Court ruling on the dispute of the election results for the mayoral election in Depok, West Java. The Judicial Commission tried, with less success, to have 49 Supreme Court judges face "re-selection". The Commission proposed to the President the issuance of a government regulation in substitute of a law (PERPU) that would significantly increase the Judicial Commission's authority vis-à-vis the judiciary. This triggered resistance from the Supreme Court and DPR.

A Prosecutorial Commission and a Police Commission have also been approved with a similar mandate over their respective institutions.

Source: Law No. 22/2004

and out of court mediation services. These build upon recent civil society efforts to promote legislative recognition of the right to Legal Aid, a key priority to improve access to justice, especially for the poor.

4.6 The problem of "money politics"

The main driver of the increased momentum on anti-corruption and governance reform is the continued transformation of Indonesia's political system. With direct elections for executive positions at all levels of government, competing candidates are jockeying to demonstrate to voters their commitment to good governance and the fight against corruption – issues that remain very high on the agenda of the Indonesian electorate. This is leading many politicians to search for innovative approaches that could make demonstrable progress on these difficult issues.

But the link between political competition and incentives for governance reform is most threatened by corruption in the very process of political competition itself – what is commonly referred to as **"money politics"** in Indonesia. By weakening the channels of accountability between competing politicians and the voters, money politics undermines the very drivers of the broader governance and anti-corruption agenda and distorts the entire process of policy-making in Indonesia. But the key areas of reform that could have an impact on reducing money politics are not yet a major component of the governance reform agenda.

To combat money politics, further reforms in three main areas will be required:

- **Electoral and political party financing:** With the advent of direct elections, the financing of election campaigns has taken on critical importance. Anecdotal reports suggest that payments by potential candidates to political parties to be included on party lists are still a widespread practice. And small incentive payments to voters from competing candidates are also common. International experience suggests that a strong regulatory framework to ensure the transparency of election financing and political party finances is essential including published and audited accounts of political parties and political contributions. The recent high profile corruption case against commissioners of the Central Elections Commission (KPU) presents an opportunity for pushing broader reforms in these areas.

- **Legislative corruption:** The issue of money and influence in the legislative process is a problem that even the most advanced democracies continue to grapple with. Recent revelations of payments by a government ministry to the national legislature highlight that such practices are still quite common in Indonesia. The problem has been compounded, though, with the rising importance of local legislatures – DPRDs – in the decision-making on budgets and service delivery across Indonesia. Local legislatures generally face less public and media scrutiny than the national legislature and, therefore, may be more prone to such practices. Currently, there is no strategy to address the problem of legislative corruption in Indonesia, though it is critical to the overall governance agenda.

- **Foundations (*yayasans*):** The network of *yayasans* or quasi-state foundations closely linked to existing state institutions provides a key off-budget channel for funds flows from the government back into electoral and legislative processes. Tighter regulation of these foundations to promote greater disclosure and regular audit of their activities would place stronger controls on this key pillar of money politics.

By placing reforms in these key areas on the agenda, the Government would begin to address some of the basic roots of corruption in Indonesia, providing a stronger foundation for building good governance practices. The challenge now is to build on the momentum already generated by the Government through its enhanced anti-corruption efforts by deepening and accelerating the institutional and policy reforms that will contribute to preventing corruption over time.

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Chapter 5: Progress in Poverty Reduction and Public Service Delivery

Key Messages

- **Reallocation of the fuel subsidy in 2005 has increased the pro-poor focus of expenditures while also working to mitigate the impact on the poor. The** fuel price increase in 2005 resulted in a reallocation of some US$10 billion on an annualized basis from a regressive commodity subsidy to more pro-poor programs. These included 4 major programs in health, education, village infrastructure, and social protection (an unconditional cash transfer program).

- **The unconditional cash transfer program (UCT), the largest such program in the world, compensated poor and near poor households for losses incurred due to the fuel price increase.** The UCT initially covered 15.5 million households (or 28 percent of the population). The cash transfer would more than compensate the losses from the fuel price increase among poor households that receive the transfer. The Government is correctly undertaking detailed assessments of the major poverty programs financed by the reallocated fuel subsidy funds for design and implementation of future programs.

- **The sharp increase in rice prices in early 2006, due in part to restrictions on imports, may have moved over 5 million people temporarily below the poverty line.** The nominal price of rice increased by 30 percent between March 2005 and March 2006, higher than overall price increase by 15 percent (headline CPI). Moreover, domestic prices in March 2006 were also 30 percent higher than international prices. With rice accounting for almost a quarter of the expenditure of households near the poverty line, policy induced increases in the price of rice increase poverty.

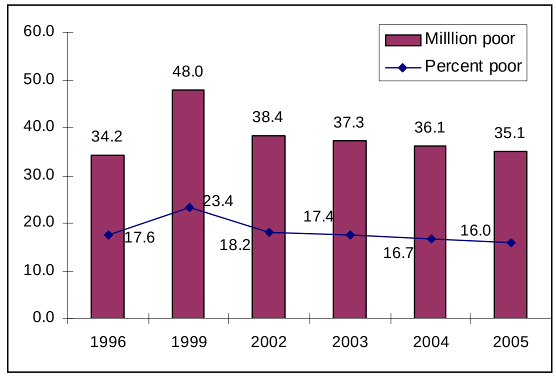
- **Indonesia now faces the challenge of improving public services and reducing inequalities in accessing them.** Despite increased public spending in health and education post decentralization, progress in service delivery is mixed. Rather than focusing solely on increasing public spending, there is merit to a three pronged approach that (i) increases the accountability and incentives of government agencies and providers (ii) strengthens the role of clients in service delivery and (iii) makes inter-governmental relations work.

5.1 Recent Developments

To mitigate the impact of fuel price increase and to increase and improve spending on the poor, the Government redirected savings from reduced fuel subsidies to four major programs in the areas of health, education, village infrastructure, and social protection. These developments, and an assessment of public service delivery, are the focus of this chapter. It draws on material from two related forthcoming World Bank reports, one on ***Making Services Work for the Poor in Indonesia*** and a ***World Bank Poverty Assessment*** report.

There has been significant progress in reducing poverty. In 1999, at the peak of the economic crisis, 23 percent of the population had insufficient spending to support basic needs. By February 2005, this figure dropped to 16 percent – equivalent to 13 million fewer poor individuals – and below the pre-crisis level of 17.6 percent (Figure 5-1).[1] Since this study was done in early 2005, the poor have been affected by increases in two key prices – fuel and rice – as well as the redirection of fuel subsidy expenditures toward social services and a major cash transfer (social protection) program.

Figure 5-1 Poverty Trends

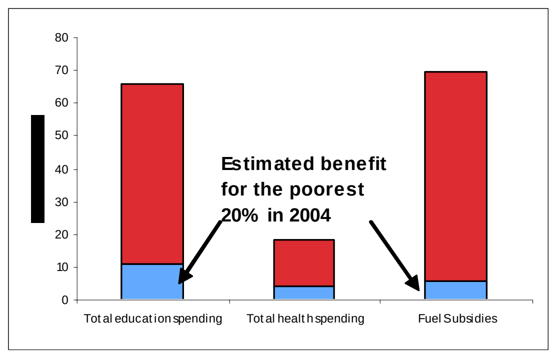


Source: BPS, World Bank

5.1.1 Fuel Subsidy Reduction

In response to the increase in global oil prices, the government raised domestic fuel prices in March 2005 by 29 percent and then again in October 2005 by an additional 114 percent.[2] By 2004, global price increases had resulted in spending on subsidies approximately equaling total public spending on education (Figure 5-2). In 2005, had there been no adjustments to fuel prices, the subsidy would have increased to some US$ 15.5 billion. Moreover, analysis has shown that fuel subsidies in Indonesia are highly regressive, benefiting mostly the relatively wealthy (Figure 5-2). The Government's bold move to increase prices thus represented an opportunity to reallocate spending in a more progressive fashion.

Figure 5-2: Public Spending on Health, Education and Fuel Subsidies in 2004
(Rp. Trillion)



Source: World Bank

Savings from the fuel subsidy reduction were used to fund compensation programs targeting the poor. In particular, the Unconditional Cash Transfer (UCT), was designed to protect the poor against the short-term impact of the price increase. The UCT began in October 2005 and targeted 15.5 million poor households, or 28 percent of the population with quarterly cash grants of Rp 300,000. The coverage of the program was designed to be higher than the number of poor households to ensure that transfers reach the vast majority of the poor and near poor. The Government provided about Rp.4.6 trillion in funds for the first tranche of the program with three tranches planned for 2006.

[1] The 2005 poverty headcount index was determined in February 2005.
2 Detailed analysis on the fuel price increase is in the "Economic and Social Update of October 2005".

For poor recipients, the cash transfer should more than compensate for the losses incurred due to the fuel price increase. Given the size of the transfers (Rp.300,000 per quarter per family) poor households that receive the UCT would end up with enough additional income to overcome the short-term negative impact of the price hike and induced inflation. Ex-ante simulations indicate that recipients in the poorest decile would benefit from an 18 percent net increase in their consumption level while those from the second decile would get a 13 percent net increase in consumption. In the absence of the these transfers, the impact on the consumption of these poorest deciles would have been a reduction in spending of 6 percent[3] and the poverty head count ratio would have increased by 6 percentage points to 22 percent. Simulations also show that perfect targeting of the UCT would reduce poverty by 4 percentage points, other things being constant.[4] These calculations also focus on short-term impact, not taking into account the recovery of nominal and hence real wages over the medium-term.[5]

Considering that the program was prepared in a few months, the UCT performed remarkably well. Early assessments by SMERU[6] and LP3ES[7] indicate that in the first round the regional targeting and transfer of funds to beneficiaries was reasonably successful. In particular, recipients generally received funds on time. Given the scale of the UCT and the timeline to create it, this is a remarkable achievement. Beneficiaries expressed high satisfaction with the program and the fact that the sharp increase in fuel prices passed without major public protest is further evidence that the program largely achieved its objectives. On the other hand, the assessments note many problems in local targeting. In particular, there was insufficient communication of rules and complaint mechanisms to recipients. The government has now responded with public hearings (of program beneficiaries) to improve the logistics at distribution centers (post offices), as well as socialization and complaint resolution. Households that consider themselves poor, but were not included in the beneficiaries list during the first tranche were given the opportunity to apply for benefits. As a result, approximately 4.3 million additional households were added as beneficiaries for the second tranche.[8]

The Government also allocated Rp.12.5 trillion per year of the fuel subsidy savings to programs in education, health and village infrastructure. Two programs were developed for the education sector: the BOS (Operational Fund for Schools), which offered schools additional income if they eliminated or reduced school fees for poor students; and, the BKM (Scholarship Program for Secondary School Students). The village infrastructure

[3] World Bank (2006) "Poverty and Social Impact Analysis for Fuel Subsidy Reduction in Indonesia". The simulation also takes account of the impact of the fuel price rise on transportation and general inflation.

[4] Assumes everything else constant does not take into account the concurrent increase in the price of rice, which is expected to have an negative impact on poverty.

[5] As discussed in Chapter 1, real agricultural wages were down only 2 percent by March while some urban wages were down by 8 percent.

[6] SMERU (2005) "Rapid Appraisal, Implementation of the Direct Cash Transfer Program in Indonesia"

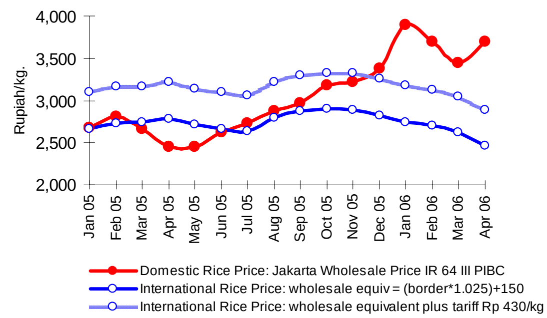
[7] LP3ES (2005) "Unconditional Cash Transfer Rapid Assessment"

[8] With approximately 0.6 million cards annulled following verification processes, the total number of UCT beneficiaries currently stands at approximately 19.2 million households as of the second tranche. As of end May approximately 70 percent of the second tranche had been disbursed (due to disbursement problems in specific regions, including the decision to wait until newly enrolled households were issued cards) while disbursement of the third tranche has commenced.

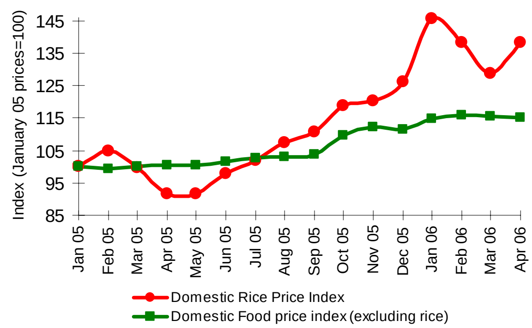
program was designed to improve village infrastructure and to provide employment through a participatory decision-making process. At present there are 12,800 beneficiary villages, each receiving Rp.250 million. The health program supports basic health care through grants to puskesmas (community health centers) and health insurance for the poor to receive free treatment in both puskesmas and hospitals.

Figure 5-3: Recent Trends in Rice Prices

As of December 2005, domestic price of rice has exceeded comparable international rice prices plus the tariff rate.



While other food prices in Indonesia have not increased at the same rate in the same period.



Data Sources: FAO, Border prices wholesale equivalent for Vietnam rice 25%, Jakarta wholesale price IR 64 III PIBC - Conversion Factors: $20/ton shipping and handling, $5/ton importer profit, 2.5% PPh, Rp 150/kg cif-wholesale margin

Government identified the need to assess these sectoral programs with a view to improving their effectiveness. These programs use innovative features that warrant consideration in future programs: they directly channel money to the providers (thereby reducing the scope for leakage of funds) and are explicit in what providers have to provide in return (e.g. free services to the poor). At the same time, Government recognized the need to undertake assessments with a view to improving their design. Rapid appraisals were carried out by SMERU (Education), LP3ES (Village Infrastructure) and PusKa UI (Health). These assessments will be available in July 2006. Preliminary results point to the need for improvements with regard to socialization, targeting, complaints resolution, and transparency in funds utilization. For example there appears to have been very little program information made available to beneficiaries or the community in general.

5.1.2 Rice Price Increase

Between March 2005 and March 2006, the price of rice increased by about 30 percent. Such increases are extremely difficult for the poor since rice accounts for 24 percent of their total consumption**.** Based on simulations, the rice price increase in excess of the overall inflation rate (about 14 percent) may have moved over 5 million people temporarily below the poverty line.

An inadequate supply of rice rather than the fuel price increase is the main factor for the rice price increase. Otherwise, we would expect to see a similar price hike for other foodstuffs during the same period as the rise in fuel prices. After the October 2005 fuel price increase, food prices (excluding rice) increased, but much less than rice prices (Figure 5-3). Current data on rice production and consumption do not provide a clear picture regarding the supply of rice, but the dramatic rise in the price suggests that supply was increasingly inadequate towards the end of 2005 and early 2006. At the same time, quantitative restrictions on rice imports prevented automatic price stabilization. Rice prices on the international markets fell during the period that Indonesia's domestic price for rice increased. In March 2006 the domestic price of rice was about 30 percent higher than the international price of rice.

Reducing restrictions on rice imports would have helped offset the supply-driven price rise. The quantity of rice imported in 2005 was small, at around 0.45 million tons, while Indonesia's imports prior to the ban averaged 1.9 million tons per year. The Government's alternative approach would have been to release rice from its stockpile in locations when rice prices were rising too quickly (*operasi pasar, OP*). However, OP currently suffers from two drawbacks: first, it offers little relief from high prices since the quantities dispersed are too small. Second, and more seriously, the formula used to determine whether an *OP* is necessary is flawed.[9] If the government wishes to use the OP to stabilize rice prices a more appropriate formula would be to set a domestic rice price ceiling some percentage points above the world rice price. Then allow imports for a set period when the price of rice exceeds this ceiling. However, it would be easier and more efficient for the government to impose a tariff and allow general imports of rice. This would maintain some degree of protection whilst ensuring that local prices do not rise significantly above the world price as occurred in late 2005 and early 2006.

5.2 Achieving structural progress in service delivery and poverty reduction

The above section has dealt with two major price-related policy issues that arose in 2005 and how Government dealt with them. It does not address some of the structural problems of low income and lack of access to quality services. That is the focus of this section of the chapter, based on two forthcoming World Bank reports.[10]

5.2.1 Making services work for the poor in Indonesia

Indonesia has made great progress in service delivery over the past decades. Historically, Indonesia's progress in service delivery and its impact on human development have been remarkable. In 1960 under-five mortality was more than 200 per 1,000—more than double the rate in the Philippines or Thailand. By 2005 the figure had fallen to less than 50 per 1,000, representing one of the largest declines in the region. A child born in 1940 had about a 60 percent chance of attending any school, a 40 percent chance of completing primary school, and a 15 percent chance of completing lower secondary school. In contrast, more than 90 percent of children born in 1980 have completed primary school and close to 60 percent have completed lower secondary school.

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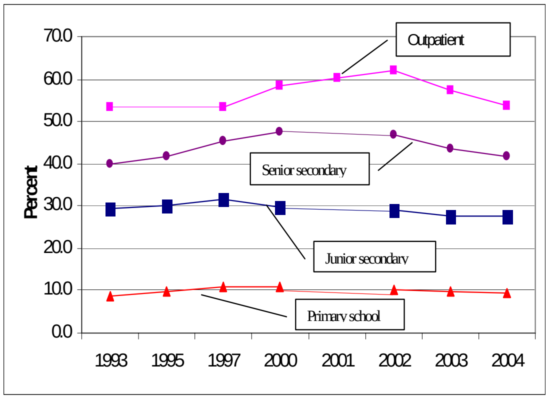
[9] The formula recommends *OP* when rice prices rise by more than 15 percent above the average price of the last three months. This in theory could allow rice prices to rise by 213 percent in the course of one year without triggering *OP*.

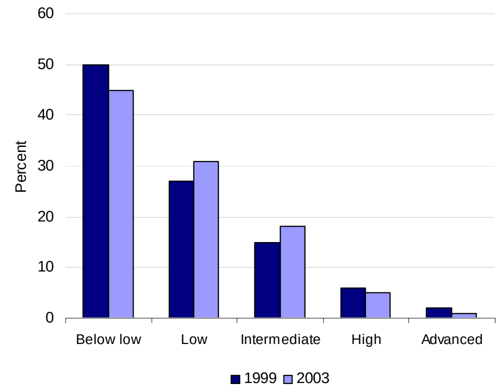
10 Making Services Work for the Poor in Indonesia and the Indonesia Poverty Assessment.

Figure 5-4: Share of Public Private Sector in Education and Health



Source: World Bank, Susenas surveys

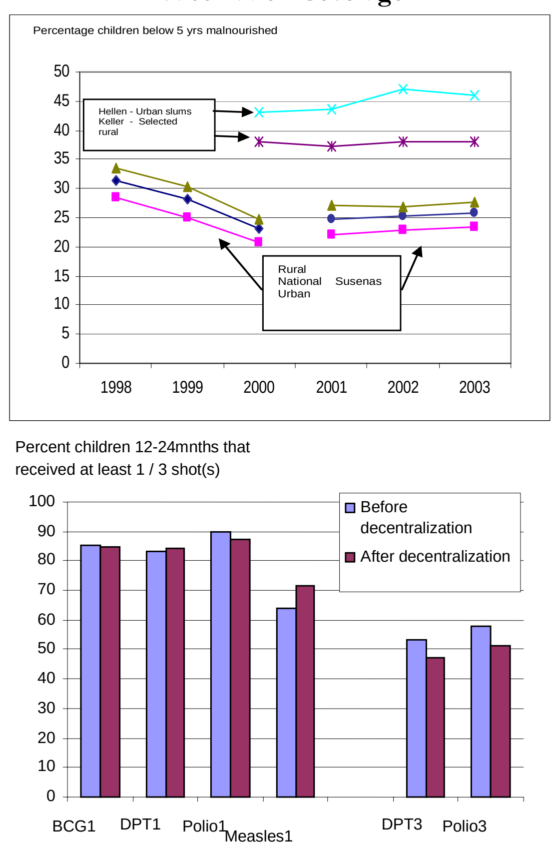
Figure 5-5: Test Scores before and after Decentralization



Source: Test score data from Mullis, Martin, Gonzalez, Chrostowski (2004) "TIMSS 2003 International Mathematics Report. TIMSS & PIRLS International Study Center, Lynch School of Education, Boston College".

Contrary to popular belief, decentralization did not lead to widespread deterioration in service delivery. The evidence suggests that since the 2001 decentralization, some aspects of service delivery and human development outcomes have improved. After decentralization, the share of the public sector in primary, junior secondary and senior secondary school, as well as outpatient health care utilization all started to increase, reversing a downward trend of the public sector share (Figure 5-4). Achievement in some outcomes, such as test scores, has improved marginally (Figure 5-5). Perception surveys indicate a slight positive improvement of public services.

Figure 5-6: Trends in Malnutrition and Vaccination Coverage



However, some less visible trends show a marked slowdown in progress since decentralization (Figure 5-6). Malnutrition, as measured by weight for age in the Susenas household survey, after years of continued decline, started to increase slightly since 2001. Access to vaccinations, as measured by the percentage of children that received at least one shot, stayed about the same compared to pre-decentralization. However follow-through on vaccinations has started to fall behind.

These more recent mixed achievements took place during a period when public spending in health and education increased rapidly. One would expect major improvements given such a sharp rise in spending. (Figure 5-7). Between 2001 and 2003, consolidated education expenditures rose by 40 percent while public health spending increased by 47 percent in real terms. Most of the increase was a result of increased development expenditures– 59 percent for education and 85 percent in health. In both sectors, central and local governments raised their spending at similar rates. In the education sector, schools also received more resources from parents. In the health sector the opposite occurred: the increased use of public sector facilities appears to be reducing private spending.

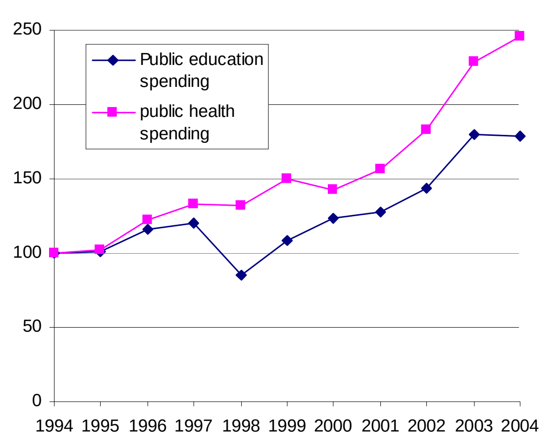
Indonesia now faces the challenge of improving service quality and reducing remaining inequalities in access. These have to be addressed in a democratic and decentralized Indonesia rather than through the more centralized approaches of the past. Three approaches are suggested by the ***Making Services Work for the Poor in Indonesia*** report:

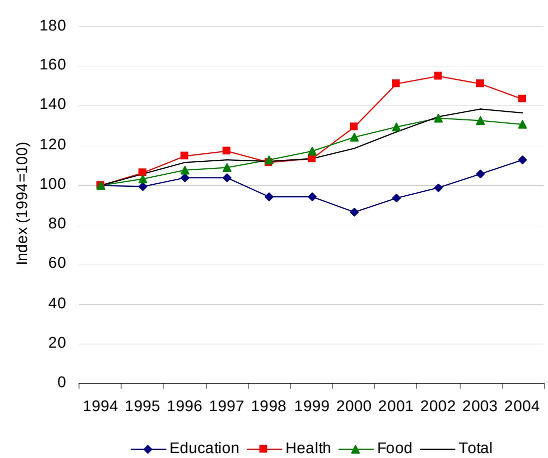
- Increasing the accountability and incentives of government agencies and providers.
- Strengthening the role of clients in service delivery.
- Making inter-governmental relations work for improved service delivery.

Service providers and government agencies need to become more client and output oriented. This can be achieved by adopting and promoting the use of service agreements (see Box 5.1 for an example) whenever it is practical to do so and where it is possible to institute complementary measures to ensure adoption of good practices. Specific actions for doing so would include the following:

- Developing schemes that make transparent deliverables and put resources at providers' disposal to achieve them—that is, clarifying what providers can be held accountable for.
- Establishing practical schemes by which users and governments can monitor providers' delivery of outputs and their compliance with agreed upon standards.
- Letting providers assume greater responsibility for operational planning over time, as accountability relationships and capacity improve. Granting greater provider autonomy through clear service agreements and tight monitoring of outputs would allow providers

Figure 5-7: Public (left) and Private (right) Health and Education Spending (indexed, 1994=100)





Source: World Bank

to better tailor services to local needs and bring decision making closer to users.

Local governments need to facilitate improvements in the quality of services provided by the private sector and in the ability of private providers to deliver basic services to poor communities that are unserved or underserved. The private sector already delivers many services to the poor, but these services are often of low quality. Governments, especially local governments, need to work with private providers as partners in delivering services to the poor. Collaboration could focus on the following activities:

- Increasing access to training opportunities (on quality assurance, for example) for qualified private providers.
- Educating and informing users to enable them to demand that private providers comply with good practice guidelines.
- Making private providers eligible for demand-side subsidies.
- On a selective basis, piloting the contracting out of services to private providers, in particular for services and communities that inadequately served by the public sector.
- Increasing the transparency of public providers' deliverables, actual outputs, and the cost of producing them in order to make them more accountable and help level the playing field between public and private providers.

Involving users more in service delivery is critical. Clients are the ones who benefit most from service improvement and should therefore care most about it. Governments can support users to improve services by:

Box 5.1 Service agreements in Indonesia.

Service agreements have been used in Indonesia. For example, the operational Aid for Schools Program (BOS), the agreement between the Ministry of Education and schools states that in return for a block grant, schools must abolish all fees for poor students. As the program's manual indicates, the program "aims at providing aid to schools in the frame of relieving pupil's contribution, but allowing the school to maintain the quality of educational services to the community…. All public and private schools have the right to receive BOS…. the school must relieve all poor pupils in said school from the school fee…. The BOS Fund is then channeled to the BOS recipient school through the assigned Post Office/Government…. In general the aim of the monitoring and supervision is to make sure that … funds are received by the rightful beneficiaries in the correct amount, time, method and utilization…. Sanctions in respect of abuse of competencies that may be damaging to the State and/or the school and/or the students will be imposed by the competent apparatus/officials"

The BOS agreement represents a break from the past in that it does not specify how the school has to achieve this objective. It does not, for instance, specify that all the money has to be used to reduce school fees for poor students or to provide scholarships. In this sense it provides unusual autonomy to the schools to achieve their objectives in the most cost-effective manner. This idea has yet to be applied to the bulk of the money allocated to education. Early assessments also indicate that this service agreement was weak in terms of socialization, hindering effective monitoring of the agreement.

Source: (Ministry of National Education and Ministry of Religion 2005), "Kajian Cepat PKPS-BBM Bidang Pendidikan Bantuan Operasional Sekolah (BOS) 2005" Lembaga Penelitian SMERU, Draft Awal, 3 Mei 2006.

- Appropriately assigning service delivery responsibilities and resources to communities or to partnerships between providers and communities.
- Involving communities directly in frontline service provision.
- Using vouchers or conditional cash transfers to stimulate demand for services by the poor.

Indonesia has wide experience with community-driven programs, from which it can draw valuable lessons. Communities are well equipped to build and maintain village infrastructure and increasingly could take on responsibility for other aspects of service delivery. Community driven approaches yield cheaper local infrastructure. Table 5-1 summarizes the evidence on realized cost savings from four large community development projects. The table measures community versus contractor-built infrastructure holding constant designs and quality standards. It shows considerable cost savings through community managed basic infrastructure.[11] Lessons learned from local experience point to the need to match responsibilities to communities' comparative advantage, work with existing local institutions, invest in facilitation and transparent and informed decision-making, transfer funds directly to local beneficiary accounts, and monitor performance.

Table 5-1: Economic Benefits from Community Managed Basic Infrastructure

Project names	Total value (US$ million)	% community contributed	% cheaper than contractor-executed construction
Water Supply for Low Income Communities 2	106.7	23%	23%
Kecamatan Development Projects 2	310	21%	55%
Urban Poverty Projects	100.0	35%	66%

Source: Findings of Post-Construction Economic Impact Analysis, Bappenas, Jakarta, 2005. TF-05382IND. (is this on a website?)

Vouchers and conditional cash transfer programs are powerful and appropriate instruments for dealing with income-related inequalities in access to services. If Indonesia decides to adopt these types of programs, they should be designed so that they promote choice, increase the power of clients, and consider supply-side constraints in areas where provision of services is falling behind. These programs have been successfully implemented in many countries, where they have had remarkable success reducing income poverty and improving human development outcomes.

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[11] The cost saving were calculated by estimating how much infrastructure would have costed if it were constructed by contractors.

Chapter 6A: Aceh and Nias after the Tsunami: Reconstruction, Finance and Development Outlook[1]

Key messages

- Aceh and Nias are clearly on the path to recovery, though many challenges still remain
- Though there are enough funds available for reconstruction, allocation across sectors and regions is inconsistent and may not meet the minimum needs in each area. There are clear gaps in mid-level infrastructure, in particular roads
- Local governments are not yet full participants in their own reconstruction and should play a more important role
- Now that large flows of money are being disbursed, an effective monitoring and evaluation mechanism to prevent and detect corruption and to measure results is absolutely critical
- The peace process is progressing smoothly but a number of events in 2006 will test its robustness.

Nearly a year and half after the tsunami, Aceh and Nias are clearly on the path to recovery. Houses are being built in large numbers, farmers and fisher folk are returning to their livelihoods, the school year has started normally, and health services are available across the affected areas. Nearly US$1.5 billion has already been disbursed for rehabilitation and reconstruction by the Indonesian Government and a wide array of donors and NGOs. And the peace agreement between the Indonesian Government and GAM – Aceh's greatest hope for a sustainable recovery -- is being implemented without major disruptions.

Of course, many challenges still remain. The pace of infrastructure repairs is lagging behind the housing program. Land titling is facing administrative bottlenecks. The coordination of housing reconstruction is proving more difficult than planned. Inflation and unemployment are stubbornly high. Local governments are still not fully engaged in their own reconstruction programs. And there are serious recovery imbalances across sectors and among regions, with Nias lagging particularly behind. With so many activities ongoing, yet so many gaps remaining, 2006 will be a crucial test for the leadership of the BRR and the local governments of Aceh and Nias to coordinate what is one of the most complex and extensive rebuilding programs in the world.

6A.1 Progress to date

After a slow start, the pace of reconstruction has picked up markedly since September 2005. Faster than expected progress has been achieved in getting children back to school, restoring the health care network, replacing fishing boats, and restoring farmland

[1] This section represents an updated summary of the report: "Aceh and Nias one year after the Tsunami: The Recovery Effort and Way Forward" (BRR and international partners), December 2005.

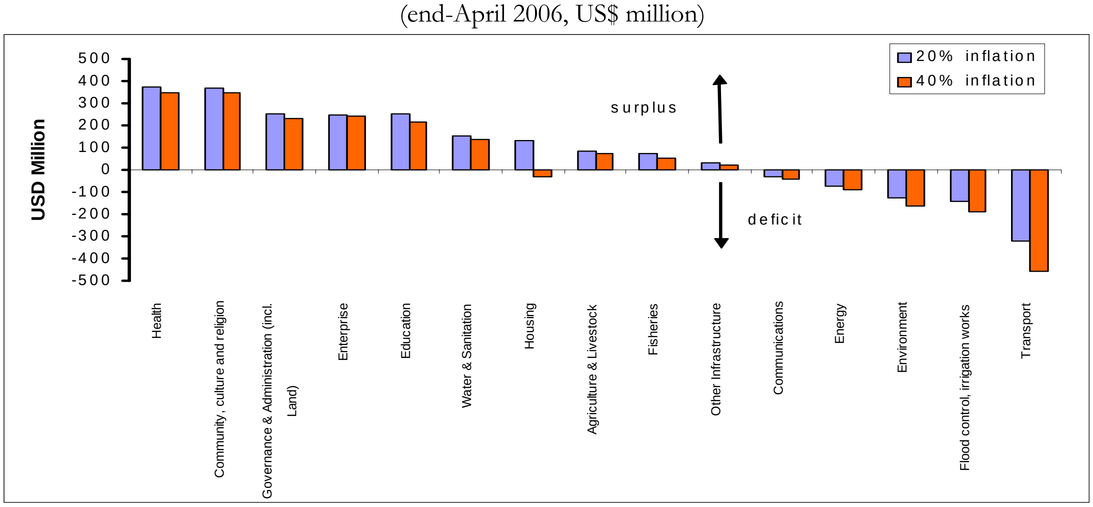
and fishing ponds. Progress is also visible in the crucial housing sector. About 41,700 houses are reported to have been completed by end-April. Each month, about 3,500 – 5,000 houses are now being built. BRR has set an extremely ambitious target of 78,000 new houses in 2006, a target that is achievable only if the pace of construction accelerates further.-

However, critical gaps are still apparent. Transitional shelter, in particular, remains a severe problem. Though the population in transitional shelter has roughly halved in the last six months, about 15,000 to 20,000 families still remain in tents and another 25,000 to 30,000 families in barracks. IFRC plans to build up to 20,000 additional transitional houses starting in early-May following lengthy delays due to a shortage of legal timber. Many infrastructure sectors, particularly transport, still remain under-funded and the fulfillment of housing pledges by donors remains particularly vulnerable due to inflation (Figure 6-1).

Though the construction sector is booming, livelihoods remain a serious problem, particularly for women who face a 21 percent unemployment rate (50 percent higher than the national average for women). The unemployment rate for men is much lower but still significant at 7 percent (although lower than national average of 8.3 percent). There is a serious risk that once the construction boom subsides, unemployment rates could spike considerably higher. As yet there is no clear sustainable economic development strategy for Aceh and Nias beyond the reconstruction period.

Working with local governments to restore infrastructure while building their capacity to maintain that infrastructure over time is now the highest priority. There remains a "missing middle" of infrastructure at the district level that is not keeping pace with housing construction, including local and feeder roads, drainage, water and sanitation, waste management, power connectivity, and sea defense. While sufficient overall funding has been pledged to rebuild Aceh and Nias, there is an increasingly serious imbalance of funds across sectors, so that some critical sectors, such as transport, remain severely under-funded simply to build back to the pre-tsunami standards. This is becoming even more serious as the costs of construction materials and labor continue to rise (Figure 6-1).

Figure 6-1: Allocation of Funds Compared to "Core Minimum Needs"
(end-April 2006, US$ million)

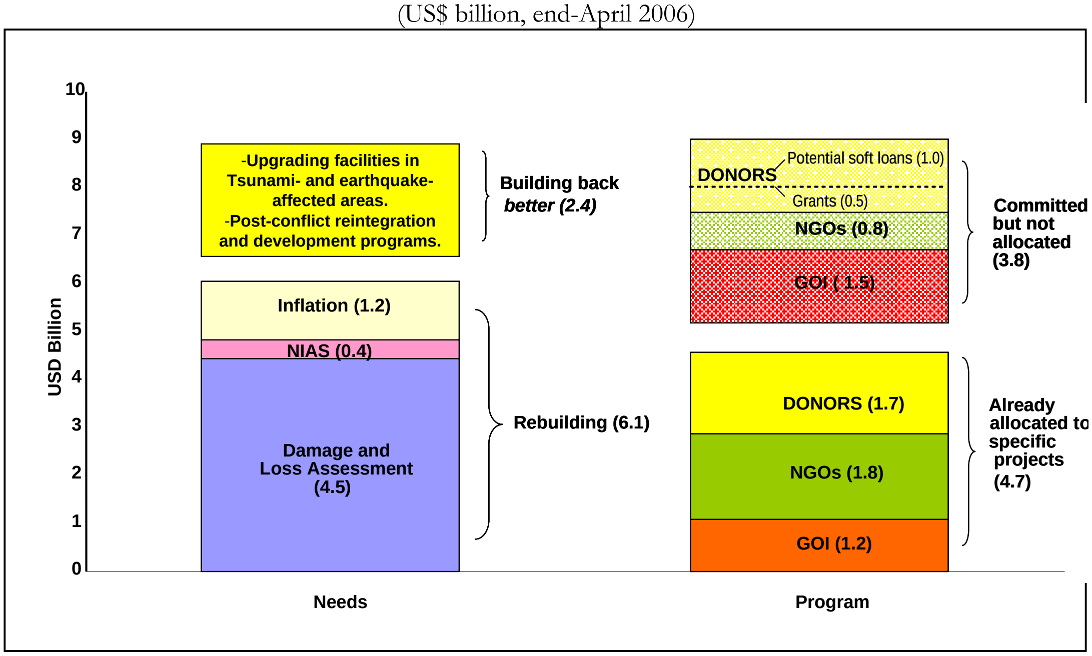


Source: BRR/World Bank staff

6A.2 Financing the Reconstruction Program

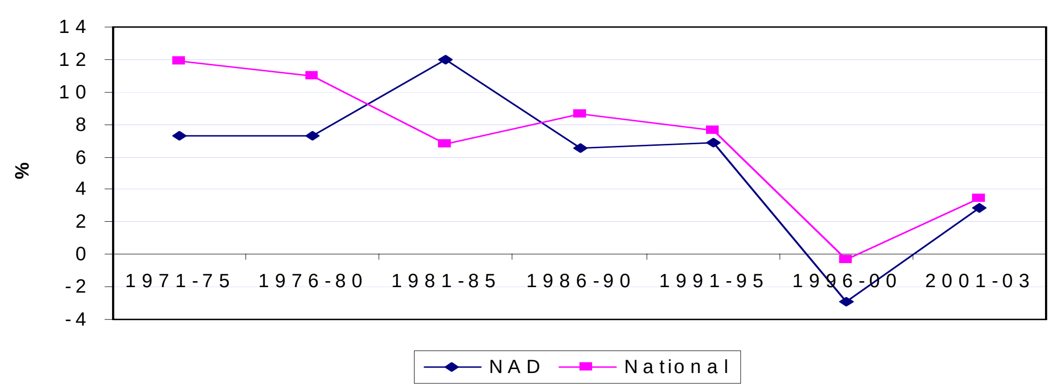
There are sufficient resources to maintain the overall pace of reconstruction. By end-February 2006, US$4.7 billion has been allocated to specific projects: US$1.1 by the Government, US$1.8 by NGOs, and US$1.9 by official donors (Figure 6-2). Out of the total allocated, US$1.5 billion was spent by end-February 2006. The rate of disbursements has increased substantially since September 2005 to an estimated US$ 200 million per month. If momentum continues to the end of the year, more than US$6 billion would be allocated to specific projects and about half of this amount would actually be spent.

Figure 6-2: Reconstruction Needs and Commitments
(US$ billion, end-April 2006)



Source: BRR/World Bank staff

Figure 6-3: Aceh has Consistently Underperformed
(GDP growth, Aceh vs. national average)



Source: BPS, World Bank

There is an opportunity to *build back better*. Total pledges for reconstruction and development in Aceh and Nias amount to about US$8.5 billion. The Government of Indonesia, donors, and NGOs are each expected to contribute US$2.5-3.5 billion. Since Aceh and Nias need US$5.8 billion to replace the assets lost or damaged, additional resources of about US$2.4 billion are available build back Aceh and Nias beyond the pre-tsunami standards (Figure 6-2). For this to happen, all partners need to fulfill their commitments and implement their projects. Given that Aceh and Nias are among the poorest regions in Indonesia[2] with growth rates that have consistently lagged behind the national average (Figure 6-3), there is an opportunity to make serious inroads into poverty reduction in this region.

6A.3 The Peace Dividend

So far, the peace process is progressing smoothly but a number of events in 2006 will test its robustness. The peace accord has been widely hailed by Acehnese people as an important new opportunity – a silver lining to the dark clouds of the past 15 months. Previously insecure areas, particularly in the highlands, are now easily accessible. The number of reported armed incidents has declined dramatically since the peace agreement. Since January 2006, for the first time ever, no incidents of GAM-GoI conflict were reported. The monitoring of the reintegration process also indicates minimal tensions, although the number of GAM returnees are higher than expected, straining reintegration plans and mechanisms. [3]

The upcoming elections for the governor of Aceh and most district heads, scheduled for later this year, will be an important test for the consolidation of the peace process and democracy in Aceh. Representatives from Aceh and Jakarta are still in the process of discussing the *Aceh Governance Law* that aims to codify the provisions of the MoU between the Government of Indonesia and GAM. The passage of the *Law* is eagerly awaited since it will provide a legal framework for political and fiscal framework in the region. However, there are lingering concerns that the different interpretations and approaches to implementing the MoU among political factions, as well as the prolonged delay in passing the law, could spark renewed tensions.

6A.4 Challenges Ahead

Local governments are not yet full participants in their own reconstruction and could play a more important role. Not counting any of the resources associated with the post-tsunami reconstruction, Aceh's local and provincial governments have never had so much money. Decentralization coupled with high natural resource prices has been a boon to Aceh's local governments which will have more than US$ 5 billion to spend in 2006-09, *above and beyond reconstruction projects funded by the BRR, donors, and NGOs*. However, despite these

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[2] BPS (2004), *Data dan Informasi Kemiskinan*.

[3] See World Bank/DSF, Aceh Conflict Monitoring Update, April 1-30. Available on-line at www.conflictanddevelopment.org and World Bank (2006), *GAM Reintegration Needs Assessment*, Jakarta: World Bank/DSF.

windfall transfers, local governments have actually been *cutting* the share of their capital expenditures in response to the tsunami (from about 50 percent before the tsunami to 42-45 percent after the tsunami), anticipating assuming that the BRR and donors will cover the costs of reconstruction. Instead, local governments have been spending a larger share and absolute volume of their own resources on their local government apparatus at the expense of development spending. This is worrisome, as it suggests that local governments are disengaged from the reconstruction process, which poses major risks to the sustainability of this process and the maintenance of the rebuilt infrastructure after the BRR exits in 2009. Another critical issue is a widely perceived lack of capacity on part of local governments to effectively utilize the growing public resources.

It will be critical to increase local governments' contribution to the reconstruction process. The most effective approach to engaging local governments is to use incentives to link up their own resources with those of the BRR and other donors to co-finance coherent, locally-driven reconstruction programs. A matching funds scheme is under development by the BRR and Multi-Donor Fund to match counterpart contributions by local governments to the reconstruction of critical kabupaten level infrastructure projects. Just as important is a systematic approach to building local capacity to plan, build and maintain local infrastructure through a "learning-by-doing" approach. The 2007 budget process will provide an important signal of the province's and local governments' readiness to play a stronger role in the reconstruction process. Monitoring and evaluating local government spending will be important for ensuring that public funds are properly spent.

Now that large flows of money are being disbursed, an effective monitoring and evaluation mechanism to prevent and detect corruption is absolutely critical. The first year of the reconstruction effort was devoted to getting projects up and running. With reconstruction in full swing and disbursements reaching $200 million a month, the challenge now is to ensure that this money is spent well, i.e. that it is reaching the intended beneficiaries and meeting quality and safety standards. Implementing an eventual portfolio of over US$ 2 billion in investments of GoI funds, the BRR risks being overwhelmed by the sheer magnitude of monitoring such an extensive range of its own projects. This will leave all the other actors in the Aceh reconstruction to apply their own M&E frameworks to their projects. With so many actors engaged in reconstruction projects – many of whom have little experience working in Indonesia – the risks of corruption are very high. And isolated cases are already coming to light. Fortunately, there is an active media and civil society presence in Aceh closely monitoring many aspects of the reconstruction. But a comprehensive M&E framework for the reconstruction led by the BRR and GoI is warranted that encompasses all donor projects to ensure common standards and the highest anti-corruption safeguards. Large scale corruption in the reconstruction process will not only harm the already suffering victims of this terrible tragedy, but could have a negative impact on the ability to raise funds for future disasters in other parts of the world.

Annex: Progress indicators (as of April 2006)

Category	Damages/Needs	Recovery Progress (as of April 2006)
Housing	120,000 units	42,000 units
Schools	2,006 units	524 units
Teachers	2,500 died	2,400 new teachers/replacements
Health Facilities	127 units	113 units
Roads	3,000 km.	490 km.
Bridges	120	41
Sea ports	14	2 (complete), 3 (under construction)
Airports	11 airports/air strips	5 airports/air strips
Fishing boats	7,000 units	6,160 units
Fish ponds	20,000 hectares	9,258 hectares (rehabilitated)
Rice fields and plantations	60,000 hectares	37,926 hectares

Source: BRR

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Chapter 6B: Update on Avian Influenza

> **Key Messages**
>
> - Indonesia's strategy to respond to the challenge of Avian Flu is sound, but the implementation arrangements are still not fully developed. These need to be given high priority.
>
> - The current strategy is estimated to cost US$900 million over three years, but the financing gap remains significant. A more realistic financing plan should be developed taking into account reasonable budget projects and donor financing.

Among affected countries, Indonesia has among the highest HPAI (Highly Pathogenic Avian Influenza) risks and lowest capacity to respond.[1] The H5N1 virus is now considered endemic in poultry in most provinces in the country, but surveillance coverage is limited and generally unreliable to detect outbreaks. Control measures, including vaccination and culling of infected stocks, are seriously underfinanced and fraught with implementation problems.

The related human health risks are high. In the first half of 2006, over a third of human cases (31 of 80) and nearly half of human deaths (25 of 51) attributed to HPAI worldwide have been in Indonesia.[2] The recent cluster of cases in Medan, for which the source of infection remains unknown and human-to-human transmission cannot be ruled-out, has highlighted the weaknesses in human surveillance, case management and follow-up. While tests indicate that so far there has been no significant change to the virus, the probability of moving from the current phase of primarily poultry-centered outbreaks with isolated human infections, to a more efficient human-to-human transmission is considered to be significant in Indonesia.

The potential negative impacts extend well beyond the poultry sector and immediate health risks, to significant long-term health risks and economic disruption. Moreover, perceived inaction by the Government, as compared to other affected countries such as Thailand and Vietnam, is seriously threatening Indonesia's image among investors and tourists.

6B.1 BACKGROUND

HPAI is caused by the H5N1 virus that occurs mainly in domestic poultry. While typically confined to birds, there have been a total of 224 WHO-confirmed cases of human infection worldwide with the H5N1 virus since the 2003 outbreak, resulting in 127 WHO-confirmed deaths (a mortality rate of about 57 percent). Asia alone accounts for 187 cases and 110 deaths. While the number of human deaths worldwide has so far been limited, the greatest risk to humans is the virus changing to a form which is more easily transmitted from

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[1] This ranking was given separately in two major assessments by Citigroup and Hill and Associates

[2] WHO-confirmed cases and deaths as of 29 May 2006.

human-to-human and spreads rapidly. This represents what is typically referred to as a "pandemic scenario", the most foreboding of possible scenarios suggested by experts.

6B.2 AVIAN INFLUENZA IN INDONESIA

Poultry deaths are tapering off in the commercial sector, but concern over under-reporting remains regarding "backyard" poultry: Since the first recognized outbreak among poultry in Indonesia in August 2003, the H5N1 virus has continued to spread progressively in poultry throughout the country. Key facts include:

- The virus is now considered endemic in most provinces in the country.
- Infection has resulted in more than 10.5 million reported poultry deaths, among a total poultry stock of 1.3 billion, and has triggered relatively minor culling of less than 100,000 exposed birds.
- Reported outbreaks in poultry peaked between August 2003 and March 2004, with 9.4 million chicken deaths, mostly from large-scale commercial producers. Reported outbreaks have since been less severe and more sporadic, and confined to small-scale commercial and backyard production.

Official data is qualified by a likely under-reporting of poultry mortality, particularly in the backyard production sector, and the likelihood that some poorly vaccinated poultry may carry and spread H5N1.

Human deaths are rising: The first documented cases of HPAI in humans in Indonesia were in July 2005, almost two years after the first outbreak in poultry. Key facts include:

- There have been 48 confirmed cases, 36 of which resulted in death.[3] This represents a mortality rate of 78 percent, well above the worldwide average.
- In the first five months of 2006, 25 of the 31 WHO-confirmed cases have resulted in deaths, representing the highest rate of new infections in the world.

6B.3 GOVERNMENT RESPONSE

Strategic plan: The "National Strategic Plan for Avian Influenza Control and Pandemic Influenza Preparedness 2006-2008" was presented at the Beijing Conference in January 2006. It draws on and attempts to integrate a plan developed by the Ministry of Health with assistance from WHO, and one by the Ministry of Agriculture with assistance from FAO. However, there are three key challenges:

- **The strategy is fairly general and lacks a fully developed technical and operational implementation plan**, particularly on animal health. A multi-donor mission in April 2006 including FAO, WHO, and World Bank, made recommendations on the operational details of the plan.
- **The institutional arrangements for coordination are unclear.** The National Committee for Avian Influenza Control and Pandemic Influenza Preparedness was created by a Presidential decree and charged to clarify roles and responsibilities among ministries. Institutional arrangements to provide an effective chain of command and

[3] As of 23 May 2006

coordination from the national level to the village level need to be established as soon as possible.

- **The key going forward will be full funding to allow systematic implementation**. Currently there is a significant financing gap, as well as a mismatch between the priorities in the National Plan and the allocations of funding. The 2006 national budget includes Rp.555 billion for AI, of which one-third goes to animal health and two-thirds goes to human health. Surveillance and control in animals, which should be the top priorities, are under-funded. The current allocation of donor funds, about US$55 million, does not correct this imbalance. It is unclear how GOI intends to finance the shortfall, as the allocated national budget is insufficient, available grant funds are limited and unlikely to increase significantly, and so far GOI is reluctant to borrow for AI.

Surveillance and control in animals: To prevent and control outbreaks, the Government needs to develop an adequate surveillance system of poultry stocks to monitor circulation of the virus. Without such as system, it is difficult to properly target and undertake control measures such as culling and vaccination. Key requirements include:

- **Improve scanning surveillance for detection of suspected outbreaks** (observably sick or dead poultry) through a public awareness campaign targeted at the nearly 30 million households holding poultry, and an active community-based surveillance structure.
- **Improve outbreak investigation and response**, by establishing in every kabupaten a trained and adequately equipped outbreak investigation team capable of initiating an investigation within 24 hours of receiving a report.
- **Expand and strengthen the diagnostic capabilities** of the multi-tiered national network of laboratories for diagnosis of animal diseases.
- **Expand the culling of infected poultry** – in line with most other affected countries – in areas with outbreaks identified on the basis of improved surveillance.
- **Improve the incentive for farmer cooperation** by setting compensation for culled birds near farmers' market price and paying this compensation in a timely manner.
- **Modify the current vaccination program** by: conducting challenge tests of vaccines for efficacy in reducing shedding of virus from birds exposed and infected after vaccination; using only quality assured vaccines; improving post-vaccination monitoring to ensure desired level of immunity; culling, instead of vaccinating, already infected flocks; and funding fully vaccination implementation.
- **Restructure poultry production and marketing systems** that have contributed to the virus becoming endemic here and that pose the potential for mutation. Measures include restricting and regulating high-risk farming practices, extensive holding of poultry in densely populated metropolitan areas, extensive movement of live birds between farms and markets, and location of production facilities in populated residential areas.

6B.4 ECONOMIC CONSEQUENCES

Possible economic effects depend on the future direction of avian influenza. Two scenarios depict stark differences. One entails a situation in which the flu remains transmissible only from birds to humans or becomes more benign, while another depicts the virus remaining lethal and becoming easily transmissible between people. A recent analysis[4] finds that even a mild pandemic would have significant consequences for global economic output. This scenario is estimated to lead to up to 1.4 million deaths and close to 0.8 percent of GDP (approximately US$330 billion) in lost economic output. As the scale of the pandemic increases, so do the economic costs. In the worst case scenario, over 140 million people could be killed causing a massive global economic slowdown and losses of up to US$4.4 trillion. The impact would trigger a significant shift of global capital from the affected economies, predominantly in the South, to the less affected safe haven economies of North America and Europe.

The potential impact in Indonesia should be assessed according to two case scenarios: [5]

The base case scenario is "bad for poultry farmers, but marginal effects elsewhere." If bird flu continues to spread but the means of transmission to human remain relatively rare, then the direct impact to the Indonesian economy would center on the loss to poultry farmers of their livestock and the follow through to exporters, domestic traders, and consumers. It is estimated that the livestock industry accounts for 2.1 percent of Indonesia's GDP. However, not all livestock are chickens and not all provinces are infected. The impact on exports from poultry bans and culling is likely limited since poultry exports represent a relatively small share of total exports.[6] Beyond agriculture, lost trading revenue from declining chicken sales is likely to be marginal at the macroeconomic level. The base case entails a potential 0.5 percent loss of GDP in Indonesia

In a worst case scenario of significant human-to-human transmission, Indonesia would be the hardest hit among affected Asian countries. Like SARS, an avian influenza pandemic would have large demand effects, hampering services like tourism, hotels, restaurants and other activities that entail face to face meetings. The rise in uncertainty and fall in sentiment would also crimp investment, thus lowering growth. Higher medical and fiscal spending would only partially offset this. Unlike SARS, people-to-people transmission would almost certainly disrupt supply through the loss of workers. For Indonesia, such a scenario could result in a projected 2.8 percent decrease in GDP, a 3.1 percent decrease in industrial output, and a 2 percent increase in inflation, though these costs are still speculative.

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[4] *Global Macroeconomic Consequences of Pandemic Influenza,* Lowy Institute for International Policy, February 2006.
[5] *Avian Flu Update,* Equity Research: Asia Pacific, Citigroup Global Markets, February 2005.
[6] Thailand has the largest share of chicken exports, accounting for a mere 0.5 percent of total exports.

STATISTICAL ANNEX [a]

List of Tables

Social Indicators

National Income Accounts

International Trade & Balance of Payments

External And Domestic Debt

[a] The Statistical Annex is a compilation of official data from Government sources, World Bank, IMF and other International Agencies. In some instances, these data may differ from data in the main text due to different Bank definitions and methodologies in constructing the statistical series.

Public Finance

Monetary and Financial Statistics

Agricultural Statistics

Industrial Statistics

Prices

Investment Statistics

Table 1. Selected Social Indicators, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
Demography /a							
Population (million)	206.5	205.8	208.6	211.4	214.3	217.1	219.9
Population ages 0 - 14 yr old (%)	31.7	30.7	30.2	29.7	29.2	28.8	28.3
Population ages 15 - 64 yr old (%)	64.0	64.6	65.1	65.6	66.0	66.4	66.7
Population ages 65+ yr old (%)	4.3	4.7	4.7	4.7	4.8	4.9	5.0
Population growth rate (%)		1.36	1.34	1.33	1.32	1.30	1.36
Population density (per Km2)	107	109	111	112	114	115	115
Urban population, *% urban to total*	39.4	42.2	43.1	45.6	42.1	43.2	46.1
Gender ratio, *male to 100 females*	99.1	100.5	100.5	100.4	100.4	100.4	100.4
Dependency ratio (%)	56.1	54.7	53.6	52.5	51.5	50.6	49.8
Education							
Elementary school net enrollment ratio, *% of relevant aged group*	92.7	94.9	92.9	92.6	92.6	93.0	..
Junior high school net enrollment ratio, *% of relevant aged group*	59.2	60.8	60.5	60.9	63.5	65.2	..
Senior high school net enrollment ratio, *% of relevant aged group*	38.5	39.8	37.1	39.7	40.6	43.0	..
Population > 10 yr old not completed primary school (%)	35.4	34.0	34.4	31.3	30.8	29.4	..
Population > 10 yr old finished primary and Junior high school (%)	47.0	47.7	47.6	49.2	47.1	49.9	..
Population > 10 yr old finished high school and college (%)	17.6	18.3	18.0	19.5	11.5	20.7	..
Adult literacy rate	88.4	89.9	89.3	90.7	90.9	90.5	..
Health							
Life expectancy rate	65.5	68.0	66.2	66.2	66.2	68.6	..
Fertility rate, *births per woman*	2.6	2.5	2.3	2.3	2.3	2.3	..
Maternal mortality ratio, *per 100,000 live births*	307	307	307	307	..	..	..
Children < 5 yr old that have good nutrition (%)	69.7	71.1	69.1	71.9	69.6	74.4	..
Children < 5 yr old that had been immunized (%)	89.9	90.1	89.9	90.6	..	92.1	..
Public cost for health, % of total health cost							
Housing and Sanitation							
Household with access to piped water (%)	18.6	18.6	18.3	19.7	18.9	18.0	..
Household with access to own septic tank (%)	30.4	28.5	38.5	33.5	34.0	36.4	..
Household with electricity (%)	83.7	86.3	86.3	87.6	87.9	89.0	..
Labor force							
Employed (%)	62.9	63.6	63.0	61.6	59.5	60.9	61.0
Looking for work (%)	4.3	4.1	3.7	4.0	3.7	4.2	..
Labor force participation (%)	67.2	67.8	68.6	67.8	65.7	67.5	68.0
Unemployment rate (%) /b	6.4	6.1	8.0	9.1	9.5	9.9	10.3
Working children in 10-14 year old group (%)	6.9	4.6	4.6	4.0	2.8	3.2	..
Poverty and inequality							
Number of people under poverty line (million) /c	48.4	37.3	37.1	38.4	37.3	36.1	..
Population under poverty line (%) /c	23.5	19.0	18.4	18.2	17.4	16.7	..
Expenditure share of the lowest 40%, (%)	21.3	22.2	22.0	20.9	20.6	20.0	..
Expenditure share of the middle 40%, (%)	37.0	37.9	37.5	36.9	37.1	36.9	..
Expenditure share of the highest 20%, (%)	41.6	39.9	40.6	42.2	42.3	43.1	..
Gini Coefficient	0.31	0.33	0.32	0.33	0.32	0.33	..

/a 1999 population based on actual average growth rate Population census between 1990-2000. 2000 onward based on projetion 2000-2010.
/b Since 2001 Sakernas follows a "relaxed" ILO concept of open unemployment.
/c Since 1996 using Susenas 1998 definition of the poverty line (the "new" definition).

.. : Data are not available.

Source: Central Bureau of Statistics, Ministry of Health, World Development Indicators.

Table 2. Key Social Indicators

Indicator	Latest Period	Previous Period	Indicator	Latest Period	Previous Period
Poverty Rate (%)	**Feb-04**	**Feb-03**	**Literacy Rate (%)**	**2004**	**2003**
- National	16.7	17.4	- National	91.5	90.9
- Urban	12.1	13.6	- Urban	95.2	95.1
- Rural	20.1	20.2	- Rural	88.6	87.8
Inequality (Gini Coefficient)	**Feb-04**	**Feb-03**	**School Dropout (%)**	**2004**	**2003**
- National	0.33	0.32	- Primary school	1.0	1.2
- Urban	0.33	0.32	- Junior high school	1.7	2.0
- Rural	0.25	0.24	- Senior high school	2.3	2.7
Demografi ratio	**2005-2010**	**2000-2005**	**Health Facilities**	**2003**	**2002**
- Infant Mortality Rate	28.0	36.0	- Community Health Centers:		
- Total Fertility Rate	2,177	2,276	* Total number	35,684	35,952
			* Per 100,000 population	16.6	17.0
Nutritional Status of Children under Five	**2004**	**2003**	- Hospitals:		
- Good (%)	74.4	69.6	* Total number	1,234	1,145
- Medium (%)	15.6	19.6	* Number of beds	131,129	130,214
- Bad (%)	10.0	8.6	* Beds per 100,000 population	60.2	60.5
			- Medical doctor per 100,000 population	10.9	10.7
School Enrollment Gross(%)	**2004**	**2003**			
- 7-12 years old:			**Labor Force Participation (%)**	**2004**	**2003**
* National	96.8	96.4	- National	67.5	65.7
* Urban	97.7	97.8	- Urban	62.5	60.7
* Rural	96.1	95.6	- Rural	71.5	69.7
- 13-15 years old:					
* National	83.5	81.0	**Hourly Real Wages (2002 Rp)**	**2004**	**2003**
* Urban	89.6	89.3	Agriculture	2,945	2,864
* Rural	79.3	38.9	Manufacturing	3,436	3,614
- 16-18 years old:			Construction	3,519	3,708
* National	53.5	51.0	Trade	2,785	3,456
* Urban	66.8	66.7	Transportation	4,131	4,160
* Rural	43.0	38.9	Finance	5,814	5,650
			Services	4,163	5,927
			Others	5,901	6,002

.. : Data are not available.

Source: Central Bureau of Statistics, Ministry of Health

Table 3. Poverty Line and Number of People Below the Poverty Line

Year 1976-1996

Year	Poverty Line (Rp/capita/month)		Number of People Below the Poverty Line (million)			Percentage of Population Below the Poverty Line (%)		
	Urban	Rural	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
1976	4,522	2,849	10.0	44.2	54.2	38.8	40.4	40.1
1978	4,969	2,981	8.3	38.9	47.2	30.8	33.4	33.3
1980	6,831	4,449	9.5	32.8	42.3	29.0	28.4	28.6
1981	9,777	5,877	9.3	31.3	40.6	28.1	26.5	26.9
1984	13,731	7,746	9.3	25.7	35.0	23.1	21.2	21.6
1987	17,381	10,294	9.7	20.3	30.0	20.1	16.1	17.4
1990	20,614	13,295	9.4	17.8	27.2	16.8	14.3	15.1
1993	27,905	18,244	8.7	17.2	25.9	13.5	13.8	13.7
1996	38,246	27,413	7.2	15.3	22.5	9.7	12.3	11.3

Year 1996-2004 /a

Year	Poverty Line (Rp/capita/month)		Number of People Below the Poverty Line (in million)			Percentage of Population Below the Poverty Line (%)		
	Urban	Rural	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
1996	42,032	31,366	9.6	24.9	34.5	13.6	19.9	17.7
1998 /b	96,959	72,780	17.6	31.9	49.5	21.9	25.7	24.2
1999 /c	92,409	74,272	15.7	32.7	48.4	19.5	26.1	23.5
2000/c	91,632	73,648	12.3	26.4	38.7	14.6	22.4	19.1
2001/c	100,011	80,382	8.6	29.3	37.9	9.8	24.8	18.4
2002/c	130,499	96,512	13.3	25.1	38.4	14.5	21.1	18.2
2003/c	138,803	105,888	12.2	25.1	37.3	13.6	20.2	17.4
2004/c	143,455	108,725	11.4	24.8	36.1	12.1	20.1	16.7

/a Using BPS 1998 definition of the poverty line (the "new" definition).
/b Based on Susenas of December 1998.
/c Based on Regular Susenas.

Source: Central Bureau of Statistics.

Table 4. Population and Population Growth Rates by Province, 1980-2005

Region	1980	1990	1995	2000	2001	2002 /b	2003 b/	2004 b/	2005 b/	Average Annual Growth (%) 1980-1990	1990-2000	2000-2005
Java	91,270	107,581	114,980	121,293	123,023	124,332	127,433	128,738	131,093	1.7	1.2	1.6
DKI Jakarta	6,503	8,259	9,144	8,361	8,428	8,382	8,640	8,750	8,700	2.4	0.1	0.8
West Java	27,454	35,384	39,340	35,724	36,369	37,157	38,138	38,611	39,067	2.6	0.1	1.8
Banten /c	..	..	..	8,098	8,327	8,619	8,999	9,129	9,309	..	..	2.8
Central Java	25,373	28,521	29,691	31,223	31,355	31,786	32,175	32,543	31,887	1.2	0.9	0.4
DI Yogjakarta	2,751	2,913	2,917	3,121	3,623	3,163	3,211	3,223	6,580	0.6	0.7	16.1
East Java	29,189	32,504	33,889	34,766	34,921	35,225	36,270	36,482	35,550	1.1	0.7	0.4
Sumatra	28,017	36,507	40,984	43,269	44,018	44,846	44,816	45,349	47,192	2.7	1.7	1.8
Aceh	2,611	3,416	3,863	3,929	3,951	4,041	4,240	4,089	4037.9	2.7	1.4	0.5
North Sumatra	8,361	10,256	11,144	11,642	11,800	11,942	11,923	12,123	12452.8	2.1	1.3	1.4
West Sumatra	3,407	4,000	4,334	4,249	4,279	4,298	4,476	4,535	4402.1	1.6	0.6	0.7
Riau	2,169	3,304	3,923	4,948	5,161	5,383	5,596	5,712	6108.4	4.3	4.1	4.3
Jambi	1,446	2,021	2,383	2,407	2,455	2,494	2,583	2,625	2657.3	3.4	1.8	2.0
South Sumatra	4,630	6,313	7,239	6,899	7,020	7,226	6,522	6,628	7526.8	3.1	0.9	1.8
Bengkulu	768	1,179	1,418	1,564	1,598	1,656	1,525	1,549	1,744	4.4	2.9	2.2
Lampung	4,625	6,018	6,680	6,731	6,840	6,889	6,963	7,064	7,291	2.7	1.1	1.6
Bangka Belitung Islands /c	..	..	..	900	914	917	988	1,024	972			1.5
Kalimantan	6,723	9,100	10,520	11,308	11,551	11,821	11,715	11,896	12,583	3.1	2.2	2.2
West Kalimantan	2,486	3,229	3,650	4,016	4,089	4,198	3,969	4,033	4,394	2.6	2.2	1.8
Central Kalimantan	954	1,396	1,636	1,855	1,908	1,966	1,838	1,870	2,138	3.9	2.9	2.9
South Kalimantan	2,065	2,598	2,904	2,984	3,034	3,068	3,188	3,227	3,240	2.3	1.4	1.7
East Kalimantan	1,218	1,877	2,330	2,452	2,520	2,589	2,720	2,766	2,811	4.4	2.7	2.8
Sulawesi	8,294	10,043	11,120	12,881	13,069	13,365	13,246	13,442	13,856	1.9	2.5	1.5
North Sulawesi	2,115	2,478	2,655	2,001	2,029	2,052	2,136	2,159	2,142	1.6	-2.1	1.4
Central Sulawesi	1,290	1,711	1,946	2,176	2,220	2,287	2,221	2,253	2,404	2.9	2.4	2.0
South Sulawesi	6,062	6,982	7,578	8,051	8,138	8,284	8,253	8,369	8,494	1.4	1.4	1.1
Southeast Sulawesi	942	1,350	1,596	1,820	1,871	1,935	1,887	1,923	2,086	3.7	3.0	2.8
Gorontalo /c	..	..	..	833	841	859	885	897	872	..	..	0.9
Other Islands	11,072	13,672	15,035	15,091	15,330	15,587	15,930	16,270	16,332	2.1	1.0	1.6
Bali	2,470	2,778	2,900	3,150	3,194	3,230	3,363	3,397	3,379	1.2	1.3	1.4
West Nusa Tenggara	2,725	3,370	3,655	4,009	4,076	4,152	4,025	4,084	4,356	2.1	1.8	1.7
East Nusa Tenggara	2,737	3,269	3,588	3,823	3,882	3,945	4,094	4,156	4,127	1.8	1.6	1.5
Maluku	1,411	1,858	2,095	1,163	1,165	1,165	1,224	1,244	1,172	2.8	-4.6	0.2
North Maluku /d	..	..	..	732	741	739	858	873	780	..	..	1.3
Papua	1,174	1,649	1,954	2,214	2,272	2,356	2,366	2,516	2,518	3.5	3.0	2.6
Indonesia	146,935	178,500	192,639	205,843	208,643	211,438	214,251	217,076	219,898	1.97	1.49	1.36

/a Based on Population Census 1971, 1980, 1990, 2000, and Intercencal census 1995.

/b Based on population projection 2000-2025.

/c Formed in 2000

/d Formed in 1999

.. : Data are not available.

Source: Central Bureau of Statistics.

Table 5. Labor Force Participation Rate by Province (%), 1998-2005

Region	1998	1999	2000	2001	2002	2003	2004	2005
Java	65.5	66.7	67.0	67.8	67.1	66.1	66.4	67.0
DKI Jakarta	58.2	60.2	61.6	63.7	60.8	60.5	61.9	63.8
West Java	60.4	61.9	61.9	64.6	63.3	61.4	62.5	62.9
Banten	..	..	..	..	..	63.3	62.6	63.0
Central Java	71.2	72.2	72.7	71.9	71.2	70.3	71.0	71.2
DI Yogjakarta	67.7	69.6	72.6	70.2	70.2	72.0	71.7	72.0
East Java	69.8	69.8	68.9	69.2	68.9	68.9	68.6	69.5
Sumatra	68.4	66.9	68.5	69.0	67.4	69.3	67.2	68.0
Lampung	71.6	68.5	71.0	72.1	70.3	70.4	70.2	68.9
Bengkulu	74.9	74.1	74.9	74.7	70.9	80.1	73.5	75.5
South Sumatra	68.4	69.8	69.4	70.9	70.5	74.2	72.2	71.2
Bangka Belitung	..	..	..	..	..	66.2	63.8	65.0
Riau	63.7	61.5	63.4	65.2	62.7	63.1	62.2	62.8
Jambi	66.8	65.9	65.6	67.7	68.0	67.9	67.3	66.0
West Sumatra	66.4	64.8	66.0	67.3	65.4	65.2	64.8	62.5
North Sumatra	68.4	69.0	70.1	70.5	70.0	69.7	68.6	71.9
Aceh	66.7	61.7	66.4	64.2	61.8	66.5	62.3	68.4
Kalimantan	69.5	69.4	70.9	69.9	69.8	73.5	69.4	70.1
West Kalimantan	69.0	69.6	72.3	70.3	71.9	77.6	72.6	73.9
Central Kalimantan	69.4	70.2	70.8	70.1	69.5	76.4	69.9	73.2
South Kalimantan	72.9	73.0	72.6	72.5	74.2	73.2	74.0	71.2
East Kalimantan	66.8	64.9	66.8	66.2	63.7	66.9	61.0	62.3
Sulawesi	65.2	65.1	62.8	65.8	64.1	67.5	67.6	65.9
Central Sulawesi	60.1	61.0	71.6	71.5	71.7	77.0	74.7	66.9
North Sulawesi	70.4	70.4	58.8	61.4	60.9	57.2	61.3	62.3
South Sulawesi	61.5	60.2	60.3	63.9	62.3	68.6	68.5	63.3
Southeast Sulawesi	68.9	68.9	69.6	74.2	69.3	67.1	66.0	71.1
Other Islands								
Bali	76.8	76.4	78.0	79.5	76.9	77.6	76.5	79.1
West Nusa Tenggara	70.8	72.1	72.5	74.5	72.4	75.9	72.2	70.6
East Nusa Tenggara	74.1	73.4	75.8	76.9	78.5	76.3	77.4	79.5
Maluku	64.8	67.3	..	65.5	65.6	66.6	63.7	59.2
Maluku Utara	..	..	..	..	..	74.0	70.0	69.8
Irian Jaya	75.5	76.8	78.0	78.1	76.7	73.6	77.0	78.3
Indonesia	66.9	67.2	67.8	68.6	67.8	69.9	68.5	68.0

.. : Data are not available.

Source: Central Bureau of Statistics.

Table 6. Employment by Main Industry , 1998-2005 /a

Main Industry	1998 million	1998 %	1999 million	1999 %	2000 million	2000 %	2001 million	2001 %	2002 million	2002 %	2003 million	2003 %	2004 million	2004 %	2005 million	2005 %
Agriculture, forestry, hunting & fishery	39.4	45.0	38.4	43.2	40.5	45.1	39.7	43.8	40.6	44.3	42.0	46.2	40.6	43.3	41.8	44.6
Mining and quarrying	0.7	0.8	0.7	0.8	0.5	0.5	n/a	n/a	0.6	0.7	0.7	0.8	1.0	1.1	0.8	0.9
Manufacturing	9.9	11.3	11.5	13.0	11.7	13.0	12.1	13.3	12.1	13.2	10.9	12.0	11.1	11.8	11.7	12.4
Electricity, gas & water	0.1	0.2	0.2	0.2	0.1	0.1	n/a	n/a	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	3.5	4.0	3.4	3.8	3.5	3.9	3.8	4.2	4.3	4.7	4.1	4.5	4.5	4.8	4.4	4.7
Wholesale and retail trade & restaurants	16.8	19.2	17.5	19.7	18.5	20.6	17.5	19.2	17.8	19.4	16.8	18.5	19.1	20.4	18.9	20.2
Transportation, storage & communications	4.2	4.7	4.2	4.7	4.6	5.1	4.4	4.9	4.7	5.1	5.0	5.5	5.5	5.8	5.6	5.9
Finance, insurance, real estate & business serv.	0.6	0.7	0.6	0.7	0.9	1.0	1.1	1.2	1.0	1.1	1.3	1.4	1.1	1.2	1.0	1.1
Public services	12.4	14.1	12.2	13.8	9.6	10.7	11.0	12.1	10.4	11.3	9.7	10.7	10.5	11.2	10.6	11.3
Others	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.2	0.8	0.9	0.1	0.1	0.0	0.0	0.0	0.0
Total	87.7	100.0	88.8	100.0	89.8	100.0	90.8	100.0	91.6	100.0	90.9	100.0	93.7	100.0	94.9	100.0

/a 1990-1998 data refer to population of 10 years of age and above who worked during the week prior to the census. Starting 1999 data refer to population 15 years of age and above.

Source: Central Bureau of Statistics.

Table 7. Regional Minimum Wage by province 1997-2006
(Rupiah thousand/Month)

Region	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Java										
DKI Jakarta	173	199	231	344	426	591	632	671	712	819
West Java	173	199	230	230	245	281	320	366	408	448
Banten	..	..	..	..	..	..	475	515	585	..
Central Java	113	130	153	185	245	315	340	365	390	450
DI Yogjakarta	107	123	130	194	238	322	360	365	400	460
East Java	133	153	182	202	220	245	282	310	340	390
Sumatra										
Bangka Belitung Islands							330	363	430	..
Lampung	126	145	160	n/a	240	310	350	377	405	505
Bengkulu	128	147	150	173	240	295	330	363	430	516
South Sumatra	128	147	170	196	255	332	404	460	504	604
Riau	152	174	218	425	329	394	438	476	552	760
Jambi	120	138	150	173	285	304	390	425	485	563
West Sumatra	119	137	160	200	250	385	435	480	552	650
North Sumatra	151	174	210	250	341	464	505	537	600	738
Aceh	128	147	171	265	300	330	425	550	620	820
Kalimantan										
West Kalimantan	127	146	175	228	305	380	400	400	445	512
Central Kalimantan	138	159	195	n/a	362	362	425	482	524	634
South Kalimantan	125	144	166	200	295	378	425	482	536	629
East Kalimantan	153	176	194	233	300	500	540	572	600	684
Sulawesi										
Central Sulawesi	107	123	150	203	245	350	410	..	490	575
North Sulawesi	118	136	155	186	372	438	495	545	600	573
South Sulawesi	113	130	148	200	300	375	415	455	498	612
Southeast Sulawesi	121	139	160	210	275	325	390	470	498	612
Gorontalo	..	..	..	..	..	..	410	430	..	..
Other Islands										
Bali	142	163	187	190	310	341	341	425	448	510
West Nusa Tenggara	108	124	145	180	240	320	375	..	475	550
East Nusa Tenggara	107	123	143	184	275	330	350	412	450	550
Maluku	136	156	180	180	230	499	370	450	500	575
North Maluku	..	..	..	..	..	..	322	400	..	..
Papua	170	196	225	315	400	530	600	650	700	823

/a Pending for approval
.. : Data are not available.

Source: Ministry of Manpower

Table 8. Gross Domestic Product by Industrial Origin at Current Market Prices, 2000-2006 /a

(Rp. Billion)

	2000	2001	2002	2003	2004*	2005**	2006**/b
1. Agriculture, Forestry & Fishery	**216,831**	**263,328**	**297,317**	**305,784**	**331,553**	**365,560**	**102,237**
a. Farm Food Crops	111,324	137,752	156,010	157,649	165,558	183,581	61,719
b. Non-Food Crops	31,720	36,759	41,414	46,754	51,591	57,773	9,330
c. Livestock & Its Products	25,627	34,285	39,416	37,354	40,635	43,124	11,358
d. Forestry	17,215	17,594	18,751	18,415	19,678	21,450	4,928
e. Fishery	30,945	36,938	41,726	45,612	54,091	59,632	14,902
2. Mining and Quarrying	**167,692**	**182,008**	**173,624**	**167,572**	**196,112**	**285,087**	**80,517**
a. Oil and Gas Mining	117,156	115,335	107,410	95,152	112,217	168,132	45,452
b. Non-Oil-Gas Mining	38,990	52,560	49,609	53,313	62,251	90,392	27,260
c. Quarrying	11,546	14,112	16,605	19,107	21,644	26,562	7,805
3. Manufacturing	**385,598**	**506,320**	**582,136**	**568,920**	**639,655**	**765,967**	**220,082**
a. Oil and Gas Industry	54,280	63,345	68,800	77,668	88,873	133,984	43,145
(1) Oil and Gas Refinery	22,603	34,959	42,588	50,016	54,362	85,907	29,637
(2) Liquefied Natural Gas (LNG)	31,677	28,385	26,212	27,651	34,511	48,077	13,509
b. Non Oil and Gas Industry	331,318	442,975	513,336	491,253	550,782	631,983	176,937
(1) Food, Beverages & Tabacco	112,063	129,036	145,658	154,155	163,508	178,049	48,567
(2) Textile, Leather Products & Footwear	45,422	57,059	61,298	67,575	71,552	76,542	21,090
(3) Wood Products & Other Wood Products	20,275	31,380	32,696	29,898	31,203	34,674	9,596
(4) Paper & Printing	19,998	19,420	21,500	27,792	31,011	33,966	9,219
(5) Fertilizers, Chemicals & Rubber Products	42,919	70,876	78,945	56,761	63,879	76,820	22,083
(6) Cement & Non Metallic Mineral Products	10,112	16,781	20,333	19,216	21,826	24,764	6,553
(7) Iron & Basic Steels	9,143	12,159	12,813	13,421	16,935	20,141	5,592
(8) Transport Equipment, Machinery & Apparatus	68,617	102,063	135,470	118,172	145,807	181,054	52,490
(9) Other Manufacturing Products	2,769	4,201	4,621	4,263	5,062	5,973	1,747
4. Electricity, gas, and water	**8,394**	**10,855**	**14,714**	**19,144**	**22,067**	**24,993**	**6,664**
a. Electricity	5,933	7,641	10,822	13,986	15,529	17,097	4,511
b. Gas	1,072	1,615	2,002	2,298	3,063	3,750	1,021
c. Water Supply	1,389	1,599	1,889	2,860	3,475	4,146	1,133
5. Construction	**76,573**	**89,299**	**99,366**	**125,337**	**143,052**	**173,441**	**49,265**
6. Trade, hotel, and restaurant	**224,452**	**267,656**	**314,647**	**335,100**	**369,361**	**429,944**	**114,713**
a. Wholesale & Retail Trade	184,970	223,967	245,564	260,578	288,113	336,424	88,555
b. Hotel	8,979	9,935	10,456	11,329	12,685	14,831	3,982
c. Restaurant	30,503	33,754	58,627	63,193	68,563	78,689	22,176
7. Transportation & Communication	**65,012**	**77,188**	**97,970**	**118,916**	**142,292**	**180,969**	**114,713**
a. Transport	46,752	56,467	66,118	79,536	88,310	110,271	88,555
(1) Rail Road Transport	744	814	1,003	1,159	1,219	1,238	3,982
(2) Road Transport	21,769	28,080	32,645	39,357	43,162	58,216	22,176
(3) Sea Transport	6,914	7,564	9,597	11,998	12,328	13,974	53,942
(4) River, Lake Transport and Ferry	1,928	2,385	2,624	2,933	3,233	3,897	34,112
(5) Air Transport	4,430	5,046	5,712	7,483	9,728	11,979	320
(6) Transport Services	10,968	12,578	14,537	16,606	18,640	20,967	19,862
b. Communication	18,260	20,720	31,853	39,381	53,982	70,698	3,753
8. Financial, Rentals and Business Services	**115,463**	**135,370**	**153,858**	**174,075**	**194,429**	**228,108**	**63,699**
a. Bank	55,063	64,409	68,307	74,499	78,534	88,287	23,146
b. Non Bank Financial Institutions	8,395	10,342	12,015	14,199	16,649	21,304	6,447
c. Financial Supporting Services	856	919	1,001	1,097	1,280	1,492	444
d. Building Rent	31,872	38,228	47,873	56,576	65,936	78,219	22,344
e. Business Services	19,277	21,472	24,663	27,703	32,031	38,806	11,318
9. Services	**129,754**	**152,258**	**164,167**	**198,826**	**234,620**	**275,641**	**74,950**
a. General Government	69,460	81,851	83,293	101,606	121,129	135,133	35,015
(1) Government Administration and Defense	n.a	n.a	n.a	63,194	75,272	83,796	21,707
(2) Other Government Services	n.a	n.a	n.a	38,411	45,858	51,337	13,308
b. Private	60,294	70,407	80,874	97,220	113,491	140,508	39,935
(1) Social Community Services	15,832	20,158	24,643	31,387	38,922	51,008	14,418
(2) Recreational and Entertainment Services	4,794	5,412	6,086	6,820	7,600	8,681	2,356
(3) Personal and Household Services	39,668	44,837	50,145	59,013	66,969	80,818	23,161
10. Total GDP	**1,389,770**	**1,684,280**	**1,897,800**	**2,013,675**	**2,273,142**	**2,729,708**	**766,069**

/a GDP base year 2000

/b First quarter of 2006

* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 9. Gross Domestic Product by Industrial Origin at Current Market Prices, Share of GDP, 2000-2006 /a

(Percent of total)

	2000	2001	2002	2003	2004*	2005**	2006**/b
1. Agriculture, Forestry & Fishery	**15.6**	**15.6**	**15.7**	**15.2**	**14.6**	**13.4**	**13.3**
a. Farm Food Crops	8.0	8.2	8.2	7.8	7.3	6.7	8.1
b. Non-Food Crops	2.3	2.2	2.2	2.3	2.3	2.1	1.2
c. Livestock & Its Products	1.8	2.0	2.1	1.9	1.8	1.6	1.5
d. Forestry	1.2	1.0	1.0	0.9	0.9	0.8	0.6
e. Fishery	2.2	2.2	2.2	2.3	2.4	2.2	1.9
2. Mining and Quarrying	**12.1**	**10.8**	**9.1**	**8.3**	**8.6**	**10.4**	**10.5**
a. Oil and Gas Mining	8.4	6.8	5.7	4.7	4.9	6.2	5.9
b. Non-Oil-Gas Mining	2.8	3.1	2.6	2.6	2.7	3.3	3.6
c. Quarrying	0.8	0.8	0.9	0.9	1.0	1.0	1.0
3. Manufacturing	**27.7**	**30.1**	**30.7**	**28.3**	**28.1**	**28.1**	**28.7**
a. Oil and Gas Industry	3.9	3.8	3.6	3.9	3.9	4.9	5.6
(1) Oil and Gas Refinery	1.6	2.1	2.2	2.5	2.4	3.1	3.9
(2) Liquefied Natural Gas (LNG)	2.3	1.7	1.4	1.4	1.5	1.8	1.8
b. Non Oil and Gas Industry	23.8	26.3	27.0	24.4	24.2	23.2	23.1
(1) Food, Beverages & Tabacco	8.1	7.7	7.7	7.7	7.2	6.5	6.3
(2) Textile, Leather Products & Footwear	3.3	3.4	3.2	3.4	3.1	2.8	2.8
(3) Wood Products & Other Wood Products	1.5	1.9	1.7	1.5	1.4	1.3	1.3
(4) Paper & Printing	1.4	1.2	1.1	1.4	1.4	1.2	1.2
(5) Fertilizers, Chemicals & Rubber Products	3.1	4.2	4.2	2.8	2.8	2.8	2.9
(6) Cement & Non Metallic Mineral Products	0.7	1.0	1.1	1.0	1.0	0.9	0.9
(7) Iron & Basic Steels	0.7	0.7	0.7	0.7	0.7	0.7	0.7
(8) Transport Equipment, Machinery & Apparatus	4.9	6.1	7.1	5.9	6.4	6.6	6.9
(9) Other Manufacturing Products	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4. Electricity, gas, and water	**0.6**	**0.6**	**0.8**	**1.0**	**1.0**	**0.9**	**0.9**
a. Electricity	0.4	0.5	0.6	0.7	0.7	0.6	0.6
b. Gas	0.1	0.1	0.1	0.1	0.1	0.1	0.1
c. Water Supply	0.1	0.1	0.1	0.1	0.2	0.2	0.1
5. Construction	**5.5**	**5.3**	**5.2**	**6.2**	**6.3**	**6.4**	**6.4**
6. Trade, hotel, and restaurant	**16.2**	**15.9**	**16.6**	**16.6**	**16.2**	**15.8**	**15.0**
a. Wholesale & Retail Trade	13.3	13.3	12.9	12.9	12.7	12.3	11.6
b. Hotel	0.6	0.6	0.6	0.6	0.6	0.5	0.5
c. Restaurant	2.2	2.0	3.1	3.1	3.0	2.9	2.9
7. Transportation & Communication	**4.7**	**4.6**	**5.2**	**5.9**	**6.3**	**6.6**	**15.0**
a. Transport	3.4	3.4	3.5	3.9	3.9	4.0	11.6
(1) Rail Road Transport	0.1	0.0	0.1	0.1	0.1	0.0	0.5
(2) Road Transport	1.6	1.7	1.7	2.0	1.9	2.1	2.9
(3) Sea Transport	0.5	0.4	0.5	0.6	0.5	0.5	7.0
(4) River, Lake Transport and Ferry	0.1	0.1	0.1	0.1	0.1	0.1	4.5
(5) Air Transport	0.3	0.3	0.3	0.4	0.4	0.4	0.0
(6) Transport Services	0.8	0.7	0.8	0.8	0.8	0.8	2.6
b. Communication	1.3	1.2	1.7	2.0	2.4	2.6	0.5
8. Financial, Rentals and Business Services	**8.3**	**8.0**	**8.1**	**8.6**	**8.6**	**8.4**	**8.3**
a. Bank	4.0	3.8	3.6	3.7	3.5	3.2	3.0
b. Non Bank Financial Institutions	0.6	0.6	0.6	0.7	0.7	0.8	0.8
c. Financial Supporting Services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
d. Building Rent	2.3	2.3	2.5	2.8	2.9	2.9	2.9
e. Business Services	1.4	1.3	1.3	1.4	1.4	1.4	1.5
9. Services	**9.3**	**9.0**	**8.7**	**9.9**	**10.3**	**10.1**	**9.8**
a. General Government	5.0	4.9	4.4	5.0	5.3	5.0	4.6
(1) Government Administration and Defense	n.a.	n.a.	n.a.	3.1	3.3	3.1	2.8
(2) Other Government Services	n.a.	n.a.	n.a.	1.9	2.0	1.9	1.7
b. Private	4.3	4.2	4.3	4.8	5.0	5.1	5.2
(1) Social Community Services	1.1	1.2	1.3	1.6	1.7	1.9	1.9
(2) Recreational and Entertainment Services	0.3	0.3	0.3	0.3	0.3	0.3	0.3
(3) Personal and Household Services	2.9	2.7	2.6	2.9	2.9	3.0	3.0
10. Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

/a GDP base year 2000
/b First quarter of 2006
* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 10. Gross Domestic Product by Industrial Origin at Constant 2000 Prices, 2000-2006 /a

(Rp. Billion)

	2000	2001	2002	2003	2004*	2005**	2006**/b
1. Agriculture, Forestry & Fishery	**216,831**	**225,686**	**231,614**	**240,387**	**248,223**	**254,391**	**66,282**
a. Farm Food Crops	111,324	113,020	114,982	119,165	122,612	125,758	38,696
b. Non-Food Crops	31,720	34,845	37,073	38,694	39,548	40,430	6,326
c. Livestock & Its Products	25,627	27,770	29,431	30,647	31,673	32,581	8,469
d. Forestry	17,215	17,610	17,125	17,214	17,334	16,982	3,613
e. Fishery	30,945	32,441	33,003	34,668	37,057	38,641	9,178
2. Mining and Quarrying	**167,692**	**168,244**	**169,932**	**167,604**	**160,100**	**162,642**	**42,073**
a. Oil and Gas Mining	117,156	111,451	108,131	103,087	98,636	96,473	23,963
b. Non-Oil-Gas Mining	38,990	44,720	49,067	51,007	46,947	50,589	14,080
c. Quarrying	11,546	12,073	12,735	13,509	14,517	15,580	4,030
3. Manufacturing	**385,598**	**398,324**	**419,388**	**441,755**	**469,952**	**491,700**	**123,372**
a. Oil and Gas Industry	54,280	50,895	52,180	52,609	51,584	48,849	11,904
(1) Oil and Gas Refinery	22,603	22,670	21,820	22,374	22,322	21,172	5,032
(2) Liquefied Natural Gas (LNG)	31,677	28,225	30,360	30,235	29,262	27,677	6,872
b. Non Oil and Gas Industry	331,318	347,429	367,208	389,146	418,369	442,850	111,468
(1) Food, Beverages & Tabacco	112,063	113,257	113,475	116,529	118,149	121,378	30,568
(2) Textile, Leather Products & Footwear	45,422	46,966	48,485	51,484	53,576	54,263	13,508
(3) Wood Products & Other Wood Products	20,275	20,384	20,510	20,754	20,326	20,053	4,739
(4) Paper & Printing	19,998	19,043	20,045	21,731	23,384	23,958	5,805
(5) Fertilizers, Chemicals & Rubber Products	42,919	43,133	45,171	50,009	54,514	59,365	14,944
(6) Cement & Non Metallic Mineral Products	10,112	12,041	12,831	13,736	15,045	15,620	3,618
(7) Iron & Basic Steels	9,143	9,051	8,936	8,223	8,008	7,707	1,952
(8) Transport Equipment, Machinery & Apparatus	68,617	80,435	94,982	103,415	121,683	136,726	35,393
(9) Other Manufacturing Products	2,769	3,120	2,774	3,266	3,683	3,780	943
4. Electricity, gas, and water	**8,394**	**9,058**	**9,868**	**10,349**	**10,890**	**11,597**	**2,949**
a. Electricity	5,933	6,386	6,769	7,104	7,469	7,988	2,014
b. Gas	1,072	1,190	1,358	1,499	1,640	1,746	456
c. Water Supply	1,389	1,482	1,741	1,747	1,782	1,863	479
5. Construction	**76,573**	**80,080**	**84,470**	**89,622**	**96,334**	**103,404**	**26,747**
6. Trade, hotel, and restaurant	**224,453**	**234,273**	**243,267**	**256,517**	**271,105**	**294,396**	**74,367**
a. Wholesale & Retail Trade	184,970	192,541	199,506	210,653	222,247	242,572	61,176
b. Hotel	8,979	9,642	10,108	10,739	11,591	12,366	3,040
c. Restaurant	30,504	32,090	33,652	35,125	37,268	39,458	10,151
7. Transportation & Communication	**65,012**	**70,276**	**76,173**	**85,458**	**96,897**	**109,467**	**28,959**
a. Transport	46,752	49,723	52,387	57,463	62,496	66,446	16,892
(1) Rail Road Transport	744	722	675	609	603	585	148
(2) Road Transport	21,769	22,959	24,150	25,772	27,057	28,389	7,290
(3) Sea Transport	6,914	7,297	7,417	7,858	8,143	8,856	2,216
(4) River, Lake Transport and Ferry	1,928	2,015	2,083	2,165	2,254	2,351	599
(5) Air Transport	4,430	4,939	5,521	7,215	9,384	10,362	2,641
(6) Transport Services	10,968	11,791	12,540	13,845	15,055	15,903	4,000
b. Communication	18,260	20,553	23,787	27,995	34,401	43,021	12,067
8. Financial, Rentals and Business Services	**115,463**	**123,085**	**131,523**	**140,374**	**151,188**	**161,960**	**41,371**
a. Bank	55,063	58,852	61,277	64,418	68,321	71,576	17,581
b. Non Bank Financial Institutions	8,395	9,069	10,128	11,047	12,070	13,068	3,416
c. Financial Supporting Services	856	889	917	969	1,052	1,087	278
d. Building Rent	31,872	34,142	37,321	40,512	43,998	47,944	12,618
e. Business Services	19,277	20,133	21,880	23,429	25,747	28,284	7,478
9. Services	**129,754**	**133,957**	**138,982**	**145,105**	**152,137**	**159,991**	**41,261**
a. General Government	69,460	70,200	70,482	71,148	72,324	73,700	18,549
(1) Government Administration and Defense	44,499	44,866	45,033	45,394	46,055	46,890	11,798
(2) Other Government Services	24,961	25,334	25,450	25,754	26,269	26,811	6,751
b. Private	60,294	63,757	68,500	73,957	79,814	86,291	22,712
(1) Social Community Services	15,832	16,849	18,088	19,561	21,118	22,738	5,947
(2) Recreational and Entertainment Services	4,794	5,039	5,481	5,817	6,298	6,669	1,712
(3) Personal and Household Services	39,668	41,869	44,931	48,579	52,398	56,884	15,053
10. Total GDP	**1,389,770**	**1,442,985**	**1,505,216**	**1,577,171**	**1,656,826**	**1,749,547**	**447,380**

/a GDP base year 2000
/b First quarter of 2006
* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 11. Gross Domestic Product by Industrial Origin at Constant 2000 Prices, Growth Rates, 2001-2006 /a

(Year-on-Year Growth Rate, Percent)

	2001	2002	2003	2004*	2005**	2006**/b
1. Agriculture, Forestry & Fishery	**4.1**	**2.6**	**3.8**	**3.3**	**2.5**	**3.9**
a. Farm Food Crops	1.5	1.7	3.6	2.9	2.6	3.0
b. Non-Food Crops	9.9	6.4	4.4	2.2	2.2	9.9
c. Livestock & Its Products	8.4	6.0	4.1	3.3	2.9	5.3
d. Forestry	2.3	-2.8	0.5	0.7	-2.0	-0.1
e. Fishery	4.8	1.7	5.0	6.9	4.3	4.4
2. Mining and Quarrying	**0.3**	**1.0**	**-1.4**	**-4.5**	**1.6**	**7.0**
a. Oil and Gas Mining	-4.9	-3.0	-4.7	-4.3	-2.2	-0.7
b. Non-Oil-Gas Mining	14.7	9.7	4.0	-8.0	7.8	23.2
c. Quarrying	4.6	5.5	6.1	7.5	7.3	7.2
3. Manufacturing	**3.3**	**5.3**	**5.3**	**6.4**	**4.6**	**2.0**
a. Oil and Gas Industry	-6.2	2.5	0.8	-1.9	-5.3	-5.1
(1) Oil and Gas Refinery	0.3	-3.7	2.5	-0.2	-5.2	-5.7
(2) Liquefied Natural Gas (LNG)	-10.9	7.6	-0.4	-3.2	-5.4	-4.7
b. Non Oil and Gas Industry	4.9	5.7	6.0	7.5	5.9	2.8
(1) Food, Beverages & Tabacco	1.1	0.2	2.7	1.4	2.7	1.3
(2) Textile, Leather Products & Footwear	3.4	3.2	6.2	4.1	1.3	-0.3
(3) Wood Products & Other Wood Products	0.5	0.6	1.2	-2.1	-1.3	-5.8
(4) Paper & Printing	-4.8	5.3	8.4	7.6	2.5	-4.3
(5) Fertilizers, Chemicals & Rubber Products	0.5	4.7	10.7	9.0	8.9	1.9
(6) Cement & Non Metallic Mineral Products	19.1	6.6	7.1	9.5	3.8	-6.2
(7) Iron & Basic Steels	-1.0	-1.3	-8.0	-2.6	-3.8	2.9
(8) Transport Equipment, Machinery & Apparatus	17.2	18.1	8.9	17.7	12.4	9.8
(9) Other Manufacturing Products	12.6	-11.1	17.7	12.8	2.6	0.8
4. Electricity, gas, and water	**7.9**	**8.9**	**4.9**	**5.2**	**6.5**	**5.2**
a. Electricity	7.6	6.0	4.9	5.1	7.0	4.9
b. Gas	11.0	14.2	10.3	9.4	6.5	7.3
c. Water Supply	6.8	17.4	0.3	2.0	4.5	4.6
5. Construction	**4.6**	**5.5**	**6.1**	**7.5**	**7.3**	**7.2**
6. Trade, hotel, and restaurant	**4.4**	**3.8**	**5.4**	**5.7**	**8.6**	**4.2**
a. Wholesale & Retail Trade	4.1	3.6	5.6	5.5	9.1	4.3
b. Hotel	7.4	4.8	6.2	7.9	6.7	-1.2
c. Restaurant	5.2	4.9	4.4	6.1	5.9	5.5
7. Transportation & Communication	**8.1**	**8.4**	**12.2**	**13.4**	**13.0**	**11.0**
a. Transport	6.4	5.4	9.7	8.8	6.3	3.8
(1) Rail Road Transport	-2.9	-6.5	-9.8	-0.9	-3.0	6.8
(2) Road Transport	5.5	5.2	6.7	5.0	4.9	4.1
(3) Sea Transport	5.5	1.6	5.9	3.6	8.8	2.9
(4) River, Lake Transport and Ferry	4.5	3.4	3.9	4.1	4.3	4.0
(5) Air Transport	11.5	11.8	30.7	30.1	10.4	5.6
(6) Transport Services	7.5	6.4	10.4	8.7	5.6	2.5
b. Communication	12.6	15.7	17.7	22.9	25.1	22.9
8. Financial, Rentals and Business Services	**6.6**	**6.9**	**6.7**	**7.7**	**7.1**	**5.1**
a. Bank	6.9	4.1	5.1	6.1	4.8	1.0
b. Non Bank Financial Institutions	8.0	11.7	9.1	9.3	8.3	7.4
c. Financial Supporting Services	3.8	3.2	5.6	8.6	3.3	0.5
d. Building Rent	7.1	9.3	8.6	8.6	9.0	8.4
e. Business Services	4.4	8.7	7.1	9.9	9.9	9.2
9. Services	**3.2**	**3.8**	**4.4**	**4.8**	**5.2**	**5.4**
a. General Government	1.1	0.4	0.9	1.7	1.9	2.0
(1) Government Administration and Defense	0.8	0.4	0.8	1.5	1.8	1.9
(2) Other Government Services	1.5	0.5	1.2	2.0	2.1	2.0
b. Private	5.7	7.4	8.0	7.9	8.1	8.5
(1) Social Community Services	6.4	7.4	8.1	8.0	7.7	6.7
(2) Recreational and Entertainment Services	5.1	8.8	6.1	8.3	5.9	4.7
(3) Personal and Household Services	5.5	7.3	8.1	7.9	8.6	9.6
10. Total GDP	**3.8**	**4.3**	**4.8**	**5.1**	**5.6**	**4.6**

/a GDP base year 2000

/b 2000-2005 annual growth rates, 2006 quarterly year-on-year growth rates

* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 12. Gross Domestic Product by Expenditure Category at Current Market Prices, 2000-2006 /a

(Rp. Billion)

	2000	2001	2002	2003	2004*	2005*				2006**
						Q1	Q2	Q3	Q4	Q1
1. Private consumption	856,798	1,039,655	1,231,965	1,372,078	1,532,888	418,419	429,652	447,742	489,784	497,907
2. Government consumption	90,780	113,416	132,219	163,701	191,056	42,692	46,594	58,017	77,678	54,122
3. Gross fixed investment	275,881	323,875	353,967	392,789	492,850	137,728	146,923	154,601	160,543	164,624
4. Changes in stock	33,283	47,194	35,980	122,682	34,515	-3,492	8,343	6,225	-3,904	6,144
5. Statistical discrepency	-13,145	-13,986	-46,995	-185,355	-83,963	11,121	9,883	11,157	-38,331	3,993
6. Exports of goods and nonfactor services	569,490	642,595	595,514	613,721	729,321	203,264	219,771	242,546	250,028	228,849
7. Less: Imports of goods and nonfactor services	423,318	506,426	480,815	465,941	623,525	181,548	199,889	216,812	199,027	189,571
Gross Domestic Product	**1,389,770**	**1,646,322**	**1,821,833**	**2,013,675**	**2,273,142**	**628,184**	**661,278**	**703,476**	**736,771**	**766,069**

Table 13 . Gross Domestic Product by Expenditure Category at Current Prices, Share of GDP, 2000-2006

(Percent of total)

	2000	2001	2002	2003	2004*	2005*				2006**
						Q1	Q2	Q3	Q4	Q1
1. Private consumption	61.7	63.2	67.6	68.1	67.4	66.6	65.0	63.6	66.5	65.0
2. Government consumption	6.5	6.9	7.3	8.1	8.4	6.8	7.0	8.2	10.5	7.1
3. Gross fixed investment	19.9	19.7	19.4	19.5	21.7	21.9	22.2	22.0	21.8	21.5
4. Changes in stock	2.4	2.9	2.0	6.1	1.5	-0.6	1.3	0.9	-0.5	0.8
5. Statistical discrepency	-0.9	-0.8	-2.6	-9.2	-3.7	1.8	1.5	1.6	-5.2	0.5
6. Exports of goods and nonfactor services	41.0	39.0	32.7	30.5	32.1	32.4	33.2	34.5	33.9	29.9
7. Less: Imports of goods and nonfactor services	30.5	30.8	26.4	23.1	27.4	28.9	30.2	30.8	27.0	24.7
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

/a GDP base year 2000

* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 14 . Gross Domestic Product by Expenditure Category at Constant 2000 Prices, 2000-2006
(Rp. Billion)

	2000	2001	2002	2003	2004*	2005**	2006**
							Q1
1. Private consumption	856,798	886,736	920,749	956,593	1,004,110	1,043,805	263,708
2. Government consumption	90,780	97,646	110,334	121,404	126,249	136,425	30,630
3. Gross fixed investment	275,881	293,793	307,585	309,431	354,561	389,757	96,420
4. Changes in stock	33,283	41,847	13,085	45,997	23,502	4,324	3,881
5. Statistical discrepency	-13,145	-11,767	9,547	-26,896	12,902	48,483	16,775
6. Exports of goods and non factor services	569,490	573,164	566,188	599,516	680,466	739,007	191,499
7. Less: Imports of goods and non factor services	423,318	441,012	422,271	428,875	544,963	612,254	155,533
Gross Domestic Product	**1,389,769**	**1,440,406**	**1,505,216**	**1,577,171**	**1,656,827**	**1,749,547**	**447,380**

/a GDP base year 2000
* : Preliminary figures, ** : Very preliminary figures.

Table 15 . Gross Domestic Product by Expenditure Category at Constant 2000 Prices, Growth Rates, 2001-2006 /a
(Year-on-Year Growth Rate, Percent)

	2001	2002	2003	2004*	2005*	2006**/a
						Q1
1. Private consumption	3.5	3.8	3.9	5.0	4.0	3.2
2. Government consumption	7.6	13.0	10.0	4.0	8.1	14.2
3. Gross fixed investment	6.5	4.7	0.6	14.6	9.9	2.9
4. Exports of goods and non factor services	0.6	-1.2	5.9	13.5	8.6	10.8
5. Less: Imports of goods and non factor services	4.2	-4.2	1.6	27.1	12.3	5.0
Gross Domestic Product	**3.6**	**4.5**	**4.8**	**5.1**	**5.6**	**4.6**

/a 2000-2003 annual growth rates, 2004 quarterly year-on-year growth rates
* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

Table 16. Terms of Trade, 2000-2006 /a

(Rp. Billion)

	2000	2001	2002	2003	2004*	2005*	2005*				2006**
							Q1	Q2	Q3	Q4	Q1
1. Market Prices											
Exports on Goods & Services	569,490	642,595	595,514	613,721	729,321	915,610	203,264	219,771	242,546	250,028	228,849
Imports on Goods & Services	423,318	506,426	480,815	462,941	623,525	797,276	181,548	199,889	216,812	199,027	189,571
2. Constant Prices											
Exports on Goods & Services	569,490	573,164	566,188	599,516	680,466	739,007	172,906	180,997	190,184	194,920	191,499
Imports on Goods & Services	423,318	441,012	422,271	428,875	544,963	612,254	148,109	152,895	158,317	152,933	155,533
3. Deflator											
Exports on Goods & Services	100.0	112.1	105.2	102.4	107.2	123.9	117.6	121.4	127.5	128.3	119.5
Imports on Goods & Services	100.0	114.8	113.9	107.9	114.4	130.2	122.6	130.7	136.9	130.1	121.9
4. Terms of Trade (2000=100)	100.0	97.6	92.4	94.8	93.7	95.1	95.9	92.9	93.1	98.6	98.0
5. Real Import Capacity of Imports	569,490	559,592	523,004	568,559	637,428	703,126	165,825	168,103	177,108	192,123	187,758
6. Terms of Trade Effect	0	-13,572	-43,184	-30,957	-43,037	-35,880	-7,081	-12,894	-13,076	-2,797	-3,741
7. GDP at constant prices	1,389,770	1,442,985	1,506,124	1,577,171	1,656,826	1,749,547	427,760	434,999	448,288	438,500	447,380
8. Gross Domestic Income	1,389,770	1,429,413	1,462,940	1,546,214	1,613,788	1,713,666	420,680	422,105	435,211	435,703	443,639

a/ GDP base year 2000

*: Preliminary Figures, **: Very Preliminary Figures.

Source: Central Bureau of Statistics and staff calculation.

Table 17. Balance of Payments, 1998-2005
(US$ Million)

Items	1998	1999	2000	2001	2002	2003	2004	2005
1 Non oil/gas, merchandise. (net)	13,864	14,355	15,963	15,844	17,317	16,297	15,026	18,345
a. Export, fob	42,951	40,987	50,341	44,805	46,307	48,020	54,482	66,257
b. Import,fob	-29,087	-26,632	-34,378	-28,961	-28,990	-31,723	-39,456	-47,912
2 Oil and Gas, merchandise (net)	7,843	10,758	16,067	12,441	12,113	7,803	4,826	4,024
a. Export, fob	7,420	10,256	15,067	12,559	12,861	15,234	16,285	19,968
b. Import,fob	423	502	1,000	-118	-748	-7,431	-11,459	-15,944
3 Current account	4,097	5,783	7,998	6,900	7,825	8,107	3,109	2,997
a. Exports, fob	50,371	51,243	65,408	57,364	59,168	64,109	72,167	86,641
b. Imports, fob	-31,942	-30,599	-40,367	-34,669	-35,653	-39,546	-50,615	-63,856
c. Services, net	-14,332	-14,861	-17,043	-15,795	-15,690	-16,456	-18,443	-19,788
4 Official Capital	9,971	5,353	3,217	636	-1,240	-834	-1,777	1,183
a. Inflows	7,414	6,560	3,862	2,482	1,595	2,170	3,766	4,807
IGGI	5,897	6,560	3,862	2,482	1,546	2,170	3,766	4,807
Program aid incl int's bonds	1,821	3,870	1,360	507	773	210	1,470	3,345
Project aid	3,916	2,417	2,426	1,975	1,527	1,960	2,296	1,462
Commercial loan	1,517	0	0	0	49	0	0	0
b. Amortization	-3,765	-4,070	-4,272	-4,704	-5,467	-5,695	-5,543	-3,624
c. Exceptional financing	6,322	2,863	3,627	2,858	2,632	2,691	0	0
5 Private Capital	-13,846	-9,923	-9,992	-8,253	-191	-116	4,390	5,071
a. Foreign direct investment /a	-356	-2,745	-4,549	-5,877	145	-597	1,023	2,258
b. Others	-13,490	-7,178	-5,443	-2,376	-1,057	481	3,367	2,813
6 Capital account (4+5)	-3,875	-4,570	-6,775	-7,617	-1,431	-950	2,613	6,254
7 T O T A L (5+6)	222	1,213	1,223	-717	6,394	7,157	5,722	9,251
8 Errors & omissions, net -(7+9)	2,122	2,079	3,820	2,095	-2,373	-3,503	-5,412	-9,634
9 Monetary movements /b	-7,254	-3,292	-5,043	1,378	-4,021	3,654	310	-383

/a Since March 2002 FDI data adjusted it includes a part of privatization and banking restructuring.
/b Since 1998 Monetary Movement is based on Gross Foreign Assets (GFA) replacing Official Reserves.
Since 2000, based on change reserve assets replacing GFA. Negative represents surplus and positive represents deficit.
* : Preliminary figures.

Source: Bank Indonesia.

Table 18. Selected Export Commodities, 1998-2005 /a

(US$ Million)

		1998	1999	2000	2001	2002	2003	2004	2005
1	Oil	4,057	5,435	7,742	6,904	6,535	7,175	7,896	10,078
2	Gas	3,815	4,357	6,625	5,732	5,578	6,477	7,750	9,154
3	Fresh Fish and Shrimp	1,493	1,427	1,476	1,425	1,388	1,433	1,458	1,519
4	Rubber	1,110	862	912	808	1,059	1,520	2,213	2,614
5	Palm and Kernel Oil	941	1,462	1,326	1,227	2,349	2,719	3,944	4,344
6	Copra Oil	206	209	320	112	158	154	265	414
7	Coffee	616	489	340	204	240	274	309	529
8	Cocoa	489	387	311	364	667	595	531	654
9	Food Products	344	594	613	663	647	697	934	1,059
10	Fresh Fruit and Vegetables	139	211	166	150	175	180	208	271
11	Tea	113	98	112	102	108	99	120	123
12	Copper	1,361	1,521	2,008	2,106	2,210	2,494	2,558	4,494
13	Coal	1,350	1,306	1,296	1,625	1,771	2,010	2,758	4,354
14	Nikel	135	210	308	212	51	250	831	1,065
15	Tin	281	246	232	191	223	295	616	919
16	Plywood	2,232	2,552	2,326	2,116	2,067	1,945	1,955	1,724
17	Pulp and Paper	2,105	2,415	2,975	2,573	2,784	2,762	2,773	3,212
18	Textile Fabric	1,470	1,841	2,178	1,958	1,666	1,685	1,671	1,825
19	Textile Fiber and Thread	1,036	1,277	1,464	1,369	1,414	1,382	1,682	1,873
20	Garments	2,630	3,857	4,734	4,531	3,945	4,105	4,454	5,106
21	Footwear	1,206	1,602	1,672	1,506	1,148	1,182	1,320	1,429
22	Electronics and Computers	3,190	4,021	9,070	7,701	7,972	7,657	9,001	10,010
23	Chemicals	2,206	2,182	2,815	2,573	2,709	3,057	3,854	4,151
24	Furniture	355	1,239	1,518	1,424	1,512	1,570	1,669	1,856
25	Machinery	760	719	1,116	853	1,124	1,281	1,452	1,918
26	Iron and Steel	614	490	511	398	426	530	824	939
27	Transport Equipment	542	355	356	380	496	649	832	1,406
28	Fertilizer	168	185	209	127	129	182	83	164
	Other	13,883	7,116	7,392	6,990	6,608	6,699	7,621	8,455
	Total	**34,965**	**41,550**	**54,732**	**49,331**	**50,551**	**54,359**	**63,964**	**77,205**

/a Classification is based on WBOJ Export Trade Summary

Source: BPS - Export Statistics.

Table 19. Selected Import Commodities, 1998-2005 /a /b

(US$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005
Consumer Goods	1,564.2	2,025.7	1,743.9	1,523.6	1,925.4	2,093.3	2,495.6	2,870.7
Foods and Beverages	1,179.1	1,626.6	1,022.3	823.8	1,086.0	1,146.3	1,275.9	1,509.1
Sugars	36.5	220.3	109.7	61.2	78.5	130.5	168.4	311.5
Rice	850.4	1,027.7	269.2	127.5	313.9	263.9	52.9	50.9
Dairy Products	26.3	28.5	80.1	119.6	74.8	112.2	185.7	246.0
Fresh Fruits	36.7	56.3	137.0	140.4	212.2	186.5	212.3	213.3
Other Foods and Beverages	229.2	293.7	426.5	375.1	406.7	453.1	656.6	687.5
Non-food Goods	385.1	399.1	721.6	699.8	839.4	947.1	1,219.8	1,361.6
Durable Goods	61.2	74.8	179.9	153.2	196.6	242.8	317.0	362.2
Television Parts	2.1	11.2	61.4	56.8	51.1	83.8	44.2	61.8
Air Conditioner	1.6	1.0	1.8	1.8	7.1	13.3	43.2	71.8
Washing Machine	8.6	8.3	19.0	21.5	24.3	34.2	55.2	51.1
Other	48.8	54.4	97.7	73.0	114.1	111.4	174.4	177.4
Semi-durable Goods	157.8	152.5	245.8	209.7	262.3	303.5	344.9	383.6
Plastic Products	25.8	28.9	48.5	46.9	48.2	52.2	58.6	61.1
Toys	6.3	7.6	20.6	28.9	39.6	53.4	44.8	40.6
Parts of Footwear	72.6	62.7	83.3	63.7	53.8	50.6	38.0	27.3
Other	53.0	53.3	93.4	70.2	120.7	147.3	203.5	254.6
Non-durable Goods	166.1	171.8	295.9	336.9	380.5	400.7	557.8	615.8
Human/Veterinary Medicine	34.7	50.1	54.4	51.8	64.2	85.1	116.2	126.9
Tobacco	8.3	11.3	47.0	79.9	93.3	59.3	49.9	37.0
Sanitary Towel - Paper	10.4	3.2	10.8	16.9	22.2	31.8	58.0	55.8
Other	112.8	107.2	183.7	188.3	200.9	224.5	333.7	396.1
Intermediate Goods	11,821.9	12,184.4	16,124.4	14,534.5	13,867.6	13,930.0	19,633.6	21,611.4
Chemical Material	1,876.2	2,252.8	2,920.5	2,625.3	2,413.6	2,468.6	3,678.0	3,764.6
Iron Ores, Basic Product from Iron & Steel	486.2	406.5	878.6	639.1	767.2	839.8	1,904.3	2,280.7
Cotton	715.4	672.6	735.5	1,065.5	707.1	647.4	688.2	580.0
Wheat & Flour	637.7	477.4	589.8	452.2	687.7	659.9	923.7	931.8
Beans & Material from Soya	259.2	466.7	548.8	602.8	580.5	696.1	954.4	788.0
Pulp & Waste Paper	573.8	647.4	1,069.0	713.7	629.3	636.4	824.8	785.1
Alumunium	199.3	228.5	337.9	291.9	277.0	309.0	441.7	506.2
Raw Material for Plastic	343.0	363.4	533.2	470.5	459.6	464.2	648.9	682.8
Manufactured Fertilizer	91.4	225.2	180.6	195.0	241.1	226.3	377.3	454.8
Beet and Cane Sugar	313.0	308.3	173.7	176.4	117.5	199.9	97.0	277.6
Dairy Products	67.8	82.7	151.1	180.9	140.3	131.9	199.9	223.4
Other	6,258.9	6,052.8	8,005.8	7,121.3	6,846.7	6,650.4	8,895.4	10,336.4
Fuels and Lubricants	2,690.9	3,705.4	6,104.4	5,560.9	6,635.7	7,733.3	11,888.2	17,600.3
Primary Forms of Fuels & Lubricants	1,061.0	1,596.4	2,531.3	2,890.0	3,218.9	4,033.2	5,847.0	6,810.7
Processed Lubricating Oil	198.8	296.5	384.5	162.7	210.9	156.6	690.8	738.9
Processed Fuel (petroleum)	1,346.8	1,735.6	3,070.2	2,369.1	3,068.9	3,372.2	5,141.4	9,841.9
Other Processed Fuels & Lubricants	84.3	77.0	118.4	139.1	137.0	171.2	209.0	208.7
Transports, Parts and Accessories	1,552.9	1,353.7	3,055.0	2,986.6	2,768.4	3,014.0	4,112.1	5,374.4
Passanger Cars	50.2	19.9	192.3	182.4	98.8	282.8	580.3	585.3
Other Passanger Vehicles (Golf Car, Motorcycle, Bycicle, etc.)	3.3	6.6	75.6	34.9	30.2	25.9	43.7	44.9
Heavy Transport Equipments	324.6	314.3	412.5	618.6	593.5	523.2	832.3	1,525.2
Parts and Accessories	1,174.9	1,012.9	2,374.6	2,150.8	2,045.9	2,182.1	2,655.8	3,219.0
Capital Goods	7,929.2	4,666.2	6,608.5	6,333.7	6,057.7	5,718.3	8,328.3	10,228.5
Machines	5,040.0	2,772.3	4,333.7	4,119.8	3,795.9	3,547.7	5,416.1	6,422.6
Parts and Accessories	2,889.2	1,893.9	2,274.8	2,213.9	2,261.8	2,170.6	2,912.3	3,805.9
Goods not elsewhere specified	111.2	67.8	29.7	22.9	34.1	61.8	66.6	15.6
TOTAL	**25,670.4**	**24,003.3**	**33,665.9**	**30,962.1**	**31,288.9**	**32,550.7**	**46,524.5**	**57,700.9**

/a Classification is based on WBOJ Export Trade Summary, BEC-BPS format
/b Exclude imports to Batam

Source: BPS - Import Statistics.

Table 20. Value of Exports by Principal Country of Destination, 1998-2005

(US$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005
ASEAN	7,596	7,402	9,625	8,446	8,439	7,977	..	..
o/w Malaysia	1,358	1,336	1,972	1,779	2,030	2,364	3,016	3,431
Thailand	943	813	1,026	1,064	1,227	1,393	1,976	2,246
Philippines	707	695	843	815	778	945	1,238	1,419
Singapore	5,718	4,901	6,523	5,364	5,349	5,400	6,001	7,837
Brunei	36	28	25	23	32	30	32	39
Vietnam	351	332	361	322	393	468	543	678
Cambodia	65	69	52	72	69	80	72	94
Laos	2	2	1	1	1	0	2	2
Myanmar	167	74	65	69	54	46	60	78
China	1,832	2,009	2,768	2,201	2,903	3,803	4,605	6,662
Hong Kong	1,865	1,330	1,555	1,290	1,242	1,183	1,387	1,492
Japan	9,116	10,397	14,415	13,010	12,045	13,603	15,962	18,049
Africa	904	995	1,114	1,081	1,092	1,195	..	..
USA	7,031	6,897	8,475	7,749	7,559	7,374	8,767	9,868
Canada	412	353	404	390	378	382	437	464
Australia and Oceania	910	1,020	1,040	993	1,318	1,246	..	..
Europe	8,273	7,369	9,165	8,379	8,403	8,586	..	..
European Union	7,474	6,744	8,451	7,449	7,306	7,437	..	..
o/w United Kingdom	1,143	1,176	1,508	1,383	1,252	1,136	1,295	1,291
Netherlands	1,512	1,543	1,837	1,498	1,618	1,401	1,798	2,234
Germany	1,458	1,217	1,367	1,232	1,219	1,392	558	0
Belgium & Luxemburg	876	697	857	782	794	911	925	1,004
France	547	503	718	663	649	653	660	624
Denmark	143	142	135	109	103	96	112	127
Ireland	48	42	68	67	55	62	55	93
Italy	859	656	718	622	720	844	923	1,007
Greece	108	78	99	94	88	95	92	105
Portugal	37	40	50	76	52	50	73	89
Spain	869	742	932	904	996	1,022	837	1,205
Total Exports	48,848	48,665	62,124	56,321	57,159	61,058	71,584	85,660

Source: Central Bureau of Statistics.

Table 21. Value of Imports by Principal Country of Origin, 1998-2005

(US$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005
ASEAN	2,646	2,977	3,563	3,213	3,804	4,882	6,286	7,718
o/w Malaysia	627	589	1,129	1,005	1,037	1,138	1,682	2,149
Thailand	842	933	1,109	986	1,191	1,702	2,772	3,447
Philippines	65	55	115	94	114	183	229	322
Singapore	2,543	2,448	3,789	3,147	4,100	4,155	6,083	9,471
Brunei	0	38	16	37	34	117	295	1,197
Vietnam	421	590	303	171	259	416	418	439
Cambodia	2	1	1	0	1	1	1	1
Laos	0	0	1	0	0	3	0	0
Myanmar	9	19	22	21	31	15	17	14
China	906	1,242	2,043	1,843	2,427	2,957	4,100	5,843
Hong Kong	264	227	342	257	241	222	267	291
Japan	4,293	2,912	5,397	4,689	4,409	4,228	6,082	6,906
Other Asia	3,931	3,068	3,391	2,070	2,783	3,521	4,123	3,439
Africa	399	339	348	369	300	311	431	559
USA	3,517	2,837	3,390	3,208	2,640	2,695	3,226	3,879
Canada	504	417	638	357	412	322	547	698
Australia and Oceania	1,785	1,526	1,796	1,631	1,594	1,484	2,233	2,490
Europe	6,520	4,061	4,878	3,967	4,197	3,976	6,481	6,998
o/w United Kingdom	920	511	557	641	656	464	703	645
Netherlands	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Germany	2,366	1,398	1,245	1,301	1,224	1,181	1,734	1,781
Belgium & Luxemburg	275	178	278	215	191	191	266	347
France	568	371	400	397	406	453	544	707
Denmark	50	38	44	58	45	41	74	74
Ireland	25	31	66	42	42	45	107	81
Italy	480	276	345	407	402	324	473	569
Greece	19	25	15	18	16	16	22	28
Portugal	2	2	2	2	2	2	2	5
Spain	160	206	185	178	130	121	183	214
Total	27,337	24,003	33,515	30,962	31,289	32,551	46,525	57,701

Source: Central Bureau of Statistics.

Table 22. External Debt Outstanding, 1998-2005

(US$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005 March	2005 June	2005 September	2005 December /c
External Debt	**150,885**	**148,130**	**143,866**	**134,711**	**132,812**	**135,400**	**137,026**	**134,362**	**136,291**	**136,191**	**133,482**
Government /a	67,315	75,752	74,892	69,403	74,497	80,909	80,734	77,675	76,770	75,709	74,893
Bilateral	22,373	26,190	24,645	22,719	26,074	29,883	30,339	29,522	28,862	28,727	27,526
Multilateral	26,048	30,294	31,507	29,030	29,112	29,977	28,905	27,970	27,290	26,659	26,452
Export Credit Facility	15,645	16,106	15,741	14,888	16,605	18,397	18,022	17,260	16,711	16,364	15,899
Leasing	874	775	602	439	369	302	225	207	194	171	140
Commercial /b	2,375	2,387	2,397	2,327	2,337	2,350	3,243	2,716	3,713	3,788	4,876
Private	78,282	69,080	66,777	61,696	56,681	51,941	52,930	52,447	55,949	55,608	51,943
Financial Institutions	12,835	11,872	8,870	7,713	7,641	7,536	8,212	8,419	10,049	10,538	6,970
Banks	10,768	10,837	7,720	6,649	4,869	4,315	3,906	4,036	5,913	6,238	4,833
State owned banks	4,744	4,705	4,150	3,695	2,767	2,874	2,356	2,352	3,886	3,938	2,632
Domestic private banks	1,852	3,547	2,328	2,268	1,537	779	810	783	903	985	587
Joint venture banks	3,640	2,018	944	656	534	630	702	864	194	342	1,221
Foreign banks	532	567	298	30	31	32	38	37	930	973	393
Non-bank	2,067	1,035	1,150	1,064	2,772	3,221	4,306	4,383	4,136	4,300	2,137
Non-Financial Institutions	65,447	57,208	57,907	53,983	49,040	44,405	44,718	44,028	45,900	45,070	44,973
Domestic Securities Owned by non-residents	5,288	3,298	2,197	3,612	1,634	2,550	3,362	4,240	3,572	4,874	6,646
Government	13	142	26	1,974	164	756	1,991	2,566	1,911	3,217	4,666
Banks	42	12	2	0	0	1	4	4	5	9	15
Non-bank Financial Institutions	5,233	3,144	2,169	1,638	1,470	1,793	1,367	1,670	1,656	1,648	1,965

/a Includes debt owed to IMF.
/b Since March 2004 include International bonds minus bonds holded by residence.
/c Preliminary

Source: Bank Indonesia.

Table 23. Domestic Debt Outstanding 1999-2005

(Rupiah Trillion)

	1999	2000	2001	2002	2003	2004	2005			
							March	June	September	December
1 Guarantee Program/Other non-tradable bonds /a	218.3	218.3	218.3	218.3	218.3	218.3	218.3	218.3	218.3	218.3
2 Recapitalization Program	268.3	425.5	430.7	422.4	404.8	402.0	410.1	424.3	435.0	426.9
Variable Rate	197.0	219.5	219.5	239.6	231.4	220.6	222.0	220.5	210.7	219.3
Fixed Rate	51.3	179.4	175.5	154.7	159.0	178.7	186.7	184.5	189.2	187.1
Hedge Bond	20.0	26.6	35.8	28.1	14.3	2.7	1.4	19.3	35.1	20.5
3 Credit Program /c	10.0	10.0	10.0	10.0	0.9	0.9	1.6	2.1	2.6	2.6
4 Total Outstanding - nominal	496.6	653.9	659.0	650.7	624.0	621.2	630.0	644.7	655.8	647.7
Total Outstanding - Indexed Amount /b	..	660.9	681.9	696.5	697.0	652.5	668.0	..	..	..

/a Government issued new bonds to replace old bonds after BLBI agreement, effective in August 2003.
/b Total outstanding (indexed amount) is calculated based on SIBOR rate for hedge bond, and based on CPI and SBI rate for other non-tradable bonds.
/c Before June 2003 Credit Program outstanding was stated as its upper utilization limit.
.. : Data are not available.

Source: Ministry of Finance.

Table 24. Central Government Budget Summary, 2000-2006 /a

(Rp. Billion)

	Actual						Budget
	2000 9 months	2001	2002	2003	2004	2005 /d	2006
1. Domestic revenues /b	205,335	299,661	298,528	341,396	400,590	495,446	625,238
2. Current expenditures	178,587	218,923	180,106	186,944	232,817	322,049	327,716
3. Government saving (1-2)	26,747	80,738	118,422	154,452	167,773	173,398	297,522
4. Development expenditures	38,611	41,585	37,325	69,247	60,979	36,854	99,883
5. Regional Expenditure /c	0	81,054	98,204	120,314	130,045	150,516	220,069
6. Total Expenditure (2+4+5)	217,199	341,563	315,634	376,505	423,841	509,419	647,668
7. Primary Balance	38,204	45,241	64,015	30,241	39,099	43,679	54,199
8. Overall Balance (3-4-5)	-11,864	-41,902	-17,107	-35,109	-23,251	-13,972	-22,430
9. Financing (9+10)	29,096	41,902	25,247	32,662	20,363	18,989	22,431
10. Domestic	18,900	31,445	25,164	32,115	48,853	30,266	50,913
11 Foreign, net	10,196	10,457	83	548	-28,490	-11,277	-28,482
Program loan	849	6,416	7,170	1,792	5,059	12,265	9,900
Project loan	16,970	19,926	11,717	18,568	12,942	13,552	25,212
Amortization	-7,623	-15,885	-18,804	-19,812	-46,491	-37,094	-63,595

Table 25. Central Government Budget Summary, Share of GDP, 2000-2006 /a

(Percent of total)

	Actual						Budget
	2000 9 months	2001	2002	2003	2004	2005 /d	2006
1. Domestic revenues /b	22.6	20.7	18.5	19.1	20.1	18.2	20.6
2. Current expenditures	19.6	15.1	11.2	10.5	11.7	11.8	10.8
3. Government saving (1-2)	2.9	5.6	7.4	8.6	8.4	6.4	9.8
4. Development expenditures	4.2	2.9	2.3	3.9	3.1	1.4	3.3
5. Regional Expenditure /c	0.0	5.6	6.1	6.7	6.5	5.5	7.2
6. Total Expenditure (2+4+5)	24	24	20	21	21	19	21
7. Primary Balance	4.2	3.1	4.0	1.7	2.0	1.6	1.8
8. Overall Balance (3-4-5)	-1.3	-2.9	-1.1	-2.0	-1.2	-0.5	-0.7
9. Financing (9 + 10)	3.2	2.9	1.6	1.8	1.0	0.7	0.7
10. Domestic	2.1	2.2	1.6	1.8	2.5	1.1	1.7
11 Foreign, net	1.1	0.7	0.0	0.0	-1.4	-0.4	-0.9
Program loan	0.1	0.4	0.4	0.1	0.3	0.4	0.3
Project loan	1.9	1.4	0.7	1.0	0.7	0.5	0.8
Amortization	-0.8	-1.1	-1.2	-1.1	-2.3	-1.4	-2.1

/a Starting in 2005, Government expenditure applied Unified budgeting where expenditure based on economic clasiffication.
/b Including grants.
/c Including Fund for Special Autonomy.
/d Starting from 2005 Budget, Development expenditure is capital expenditure + socials
n.a. = Not applicable

Source: Ministry of Finance.

Table 26. Central Government Revenues, 2000-2006 /a

(Rp. Billion)

	<------ Actual					------>	Budget
	2000 9 months	2001	2002	2003	2004	2005	2006
State Revenues and Grants	**205,335**	**299,661**	**298,528**	**341,396**	**400,590**	**495,446**	**625,238**
I. Domestic Revenues	205,335	299,183	298,528	340,928	400,334	494,150	621,606
1. Tax Revenues	115,913	184,124	210,088	242,048	275,758	346,834	416,314
a. Domestic Taxes	108,884	174,557	199,512	230,934	263,016	331,595	399,322
i. Income Taxes	57,073	94,576	101,873	115,016	118,923	175,380	210,714
- Non-Oil & Gas	38,422	71,474	84,404	96,053	95,700	140,394	173,198
- Oil & Gas	18,652	23,102	17,469	18,963	23,224	34,986	37,517
ii. Sales tax (VAT)	35,232	55,957	65,153	77,081	98,683	101,295	128,308
iii. Property taxes	4,456	5,246	7,828	10,905	14,652	19,614	21,008
iv. Excises	11,287	17,394	23,189	26,277	29,172	33,256	36,520
v. Other taxes	837	1,384	1,469	1,654	1,585	2,050	2,773
b. International Trade Taxes	7,028	9,567	10,575	11,114	12,742	15,239	16,992
i. Import duties	6,697	9,026	10,344	10,885	12,444	14,921	16,573
ii. Export taxes	331	541	231	230	298	318	419
2. Non Tax Receipts	89,422	115,059	88,440	98,880	124,576	147,317	205,292
a. Natural Resources Revenues	76,290	85,672	64,755	67,510	91,007	110,391	151,642
i. Oil	50,953	58,950	47,686	42,969	63,060	72,805	110,138
ii. Gas	15,708	22,091	12,325	18,533	22,199	30,933	36,097
iii. Public Mining	857	2,320	1,457	1,982	2,013	3,149	2,993
iv. Forestry	8,719	2,243	3,130	3,715	3,412	3,239	2,000
v. Fishery	53	68	157	312	324	265	414
b. Profits of Public Enterprises	4,018	8,837	9,760	12,617	9,818	12,779	23,278
c. Other Non-tax revenues (PNBP)	9,114	20,550	13,925	18,754	23,751	24,147	30,373
II. Grants	0	478	0	468	256	1,296	3,632

/a Government new format since 1999/2000 and applied to 1995/96 - 1998/99.

Source: Ministry of Finance.

Table 27. Central Government Expenditures, 2000-2006 /a

(Rp. Billion)

Old budget format

	<---- Actual				---->	Budget	Budget
	2000 9 months	2001	2002	2003	2004	2005 /b	2006
Total Expenditures	**217,199**	**340,862**	**315,634**	**376,505**	**423,841**	**509,419**	**647,668**
I. Current Expenditures	178,587	218,923	180,106	186,944	232,817	322,049	327,716
1. Personnel expenditures	29,613	38,713	38,358	47,662	49,270	55,589	79,896
2. Material expenditures	9,605	9,931	13,899	14,992	15,977	33,059	55,181
3. Transfers to regions	16,010	0	0	0	0	0	0
4. Interest Payments	50,068	87,142	81,122	65,351	62,351	57,651	76,629
Domestic	31,238	58,197	62,261	46,356	39,554	43,496	48,611
External	18,830	28,945	18,861	18,995	22,797	14,155	28,018
5. Subsidies	62,745	77,443	43,628	43,899	91,617	120,708	79,510
Petroleum subsidies	53,810	68,381	31,162	30,038	69,025	95,661	54,276
Non-petroleum subsidies	8,936	9,063	12,466	13,861	22,592	25,047	25,234
6. Other Current Expenditures	10,546	5,694	3,099	15,042	13,603	55,042	36,499
II Development Expenditures	38,611	41,585	37,325	69,247	60,979	36,854	99,883
1. Rupiah Financing	21,642	21,371	25,608	50,345	47,987	0	0
a. Capital transfer to region	12,796	0	0	0	0	0	0
b. Central government budget	8,845	21,371	25,608	50,345	47,987	0	0
2. Project financing with foreign loan	16,970	20,214	11,717	18,902	12,992	0	0
III Regional Expenditure	0	80,354	94,657	111,070	123,190	143,301	216,592
1. Revenue sharing funds	0	20,008	24,884	31,370	36,985	49,829	59,358
2. General allocation funds	0	60,346	69,159	76,978	82,115	88,742	145,664
3. Special allocation funds	0	0	613	2,723	4,089	4,730	11,570
IV Fund for Special Autonomy	0	0	3,548	9,244	6,855	7,215	3,477

Unified budget format

	<------- Budget	------->
	2005 Approved	2006 Approved
Total Expenditures	**397,769**	**647,668**
I. Central Government Expenditure	266,220	427,598
1. Personnel	60,744	79,896
2. Material expenditure	34,039	55,181
3. Capital Expenditure	43,079	62,952
4. Interest Payment	64,137	76,629
Domestic	38,995	48,611
External	25,142	28,018
5. Subsidy	31,295	79,510
Oil Subsidy	19,000	54,276
Non-oil Subsidy	12,295	25,234
6. Grants expenditure	-	-
7. Social expenditure	17,107	36,931
8. Other expenditures	15,820	36,499
II. Regional Expenditure	131,549	220,070
1. Balancing Funds	124,307	216,592
a. Revenue sharing	31,218	59,358
b. General Allocation funds	88,766	145,664
c. Special allocation funds	4,323	11,570
2. Fund for Special Authonomy	7,243	3,477
a. Special Authonomy Fund	1,775	2,913
b. Adjustment Fund	5,467	564

/a Starting from 2005, Government expenditure applied Unified budgeting where expenditure based on economic clasiffication.
/b Starting from 2005 development expenditure is capital expenditure + grants + socials

Source: Ministry of Finance.

Table 28. Financial Vulnerability Indicators 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
A. Market Indicators								
Annual percent change in average exchange rate (-=appreciation)	244.2	-21.6	7.2	21.8	-9.3	-7.5	4.8	8.5
Annual change in stock market index (%)	-30.2	29.7	-9.0	-17.9	12.4	13.5	55.8	35.1
B. Risk Ratings								
ICRG composite (1-100, bad to good) /a	41.0	51.8	54.8	56.3	58.3	60.8	63.8	65.5
ICRG Political Risk (1-100, bad to good) /a	42.0	47.0	43.0	45.5	48.5	51.5	52.5	59.5
S&P Sovereign Long Term Foreign Debt Rating	CCC+	CCC+	B-	CCC	CCC+	B	B+	B+
C. Financial								
Annual growth in real domestic credit (%)	20.2	15.1	14.7	-6.4	-5.3	0.0	12.8	1.8
Foreign currency to total deposits (%)	25.0	21.2	22.9	20.5	18.4	15.4	15.0	16.7
Non-perfm. loans of commercial banks (% of total)	23.0	32.8	18.8	12.1	8.1	8.2	5.8	8.3
D. Reserve Cover Indicators								
Reserve cover of imports (months of imports)	6.9	8.7	7.0	7.0	7.7	7.8	5.9	4.9
Reserves/M2 (%)	14.2	40.8	29.6	33.1	34.1	33.7	31.2	26.9
E. Prices								
Annual change in terms of trade (%)	5.4	-8.1	-1.4	-2.4	11.9	-13.7	-0.6	4.4
Annual appreciation of REER (%)	-51.1	43.6	-2.8	-5.5	21.4	6.0	-4.8	-1.3
F. External								
Current account balance (% of GDP)	4.3	4.1	5.3	4.7	4.0	3.0	1.2	1.1
External Debt (% of GDP)	158.1	105.8	85.9	81.1	64.4	55.7	53.8	47.4
G. Fiscal sustainability indicators								
Total net public debt (% of GDP) /b	77.1	102.5	87.7	80.9	72.2	63.6	54.6	46.8
Overall public sector balance (% of GDP) /c	-2.0	-2.3	-1.3	-2.9	-1.1	-2.1	-1.0	-0.5
Primary balance (Overall bal.-interest; % of GDP)	1.1	1.4	4.2	3.1	4.0	1.7	1.7	1.6

/a ICRG = International Country Risk Guide
/b Including IMF loan

.. : Data are not available.

Sources: World Development Indicator, International Financial Statistics, Bank Indonesia and Central Bureau of Statistics.

Table 29. Changes in Money Supply and Sources of Change, 1997-2006

(Rp. Billion)

End of period	Net foreign assets	Public sector: Net claims on Central Government	Public sector: Claims on official entities & public enterprises	Claims on businesses & individuals	Net other items	Money Supply: M2 /b	Money Supply: M1 Total	Money Supply: M1 Currency	Money Supply: M1 Demand Deposits	Quasi Money
1997	17,344	-16,486	5,031	132,031	-70,909	67,011	14,254	5,937	8,317	52,757
1998	73,692	17,513	6,389	93,032	31,112	221,738	22,854	12,970	9,884	198,884
1999	-12,581	425,287 /a	-8,139	-291,550	-44,193	68,824	23,436	16,959	6,477	45,388
2000	81,637	123,060	-4,505	46,852	-146,221	100,823	37,553	14,018	23,535	63,270
2001	23,242	9,389	3,980	30,250	30,164	97,025	15,545	3,971	11,574	81,480
2002	16,721	-19,355	4,552	55,591	-17,654	39,855	14,208	4,344	9,864	25,647
2003	21,124	-31,338	1,198	76,301	4,499	71,784	31,860	13,856	18,004	39,924
2004	-8,173	19,006	..	146,144	-81,974	77,836	30,019	14,723	15,296	47,817
2005	49,435	882	..	121,898	-3,667	169,687	28,087	15,051	13,036	141,600
2006 /c	83,488	13,774	..	92,858	-9,046	174,374	26,801	14,041	12,760	147,573

/a Includes effects of bank recapitalization.
/b M2 equals to M1 plus Quasi Money.
/c The change of March 2006 compared to March 2005.

Source: Bank Indonesia.

Table 30. Banking Credit Outstanding in Rupiah and Foreign Exchange by Economic Sector, 1998-2006 /a

(Rp. Billion)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 /f
Agriculture	39,308	23,777	19,503	20,863	22,332	24,307	32,376	36,678	36,480
In rupiah	29,430	21,139	15,028	16,851	19,121	20,760	26,604	29,438	29,159
In foreign exchange	9,878	2,638	4,475	4,012	3,211	3,547	5,772	7,240	7,321
Mining /b	5,909	3,697	6,680	7,440	6,095	5,061	7,730	7,873	7,547
In rupiah	2,729	879	2,879	3,676	2,441	1,546	1,468	2,246	2,423
In foreign exchange	3,180	2,818	3,801	3,764	3,654	3,515	6,262	5,627	5,124
Manufacturing industry /c	171,668	84,259	106,782	116,525	121,035	123,125	143,603	169,678	163,090
In rupiah	85,594	35,561	35,697	50,434	64,986	67,323	77,299	98,096	97,762
In foreign exchange	86,074	48,698	71,085	66,091	56,049	55,802	66,304	71,582	65,328
Trade	96,364	43,288	44,099	48,450	65,978	84,257	111,035	134,108	136,483
In rupiah	59,830	29,687	30,601	38,491	56,854	74,787	97,988	121,216	123,235
In foreign exchange	36,534	13,601	13,498	9,959	9,124	9,470	13,047	12,892	
Service rendering industry /d	139,124	43,161	44,316	49,061	60,983	89,129	107,858	134,943	132,263
In rupiah	101,129	26,332	23,784	30,696	44,581	68,007	86,046	110,100	110,596
In foreign exchange	37,995	16,829	20,532	18,365	16,402	21,122	21,812	24,843	21,667
Others	35,053	26,951	47,620	65,255	88,987	112,063	150,946	206,389	206,250
In rupiah	34,406	26,929	44,493	62,470	83,868	109,603	149,475	205,348	204,456
In foreign exchange	647	22	3,127	2,785	5,119	2,460	1,471	1,041	1,794
Total	487,426	225,133	269,000	307,594	365,410	437,942	553,548	689,669	682,113
In rupiah	313,118	140,527	152,482	202,618	271,851	342,026	438,880	566,444	568,631
In foreign exchange	174,308	84,606	116,518	104,976	93,559	95,916	114,668	123,225	113,482

/a Credit outstanding at the end of period. Includes investment credits, KIK and KMKP. Excludes interbank credits, credits to central government and to nonresidents, bridging finance credit, foreign exchange component of project aid, local cost of investment fund accounts, and credit extended to bank branches abroad.
/b Includes credits to Pertamina for repayment of foreign borrowing.
/c Processing of agricultural products is classified under manufacturing industry according to ISIC 1968
/d Credits for electricity, gas and water supply are included in service rendering industry sector.
/f Data in March 2006.

Source: Bank Indonesia.

Table 31. Banking Credit Outstanding in Rupiah and Foreign Exchange by Group of Banks, 1998-2006

(Rp. Billion)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 /c
State banks	220,747	112,288	102,061	117,104	145,984	173,504	217,066	250,319	247,331
In rupiah	160,113	84,038	68,489	83,122	109,134	134,216	171,306	204,580	205,129
In foreign exchange	60,634	28,250	33,572	33,982	36,850	39,288	45,760	45,739	42,202
Private national banks /b	199,931	62,805	92,531	117,291	158,499	204,280	261,806	339,922	339,052
In rupiah	139,155	46,047	66,281	96,937	139,694	182,229	229,499	311,290	312,605
In foreign exchange	60,776	16,758	26,250	20,354	18,805	22,051	32,307	28,632	26,447
Foreign banks	66,748	50,040	74,408	73,199	60,927	60,508	74,676	99,428	95,730
In rupiah	13,850	10,442	17,712	22,559	23,023	25,581	33,075	50,574	50,897
In foreign exchange	52,898	39,598	56,696	50,640	37,904	34,927	41,601	48,854	44,833
Total	487,426	225,133	269,000	307,594	365,410	438,292	553,548	689,669	682,113
In rupiah	313,118	140,527	152,482	202,618	271,851	342,026	433,880	566,444	568,631
In foreign exchange	174,308	84,606	116,518	104,976	93,559	96,266	119,668	123,225	113,482

/a Credit outstanding at end of period. Includes investment credits. Excludes interbank credits, credits to Central Government and to non-residents, bridging finance credit, foreign exchange components of project aid, local cost of investment fund accounts and credits extended to bank branches abroad.

/b Includes regional government banks.

/c Data in March 2006.

Source: Bank Indonesia

Table 32. Commercial Banks' Outstanding Credits in Rupiah and Foreign Exchange by Type of Utilization, 1998-2006
(Rp. Billion)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 /a
Investment	141,464	57,692	65,276	73,466	82,924	94,316	116,864	132,463	131,581
In rupiah	74,873	31,180	28,897	38,056	49,954	59,820	75,209	91,702	94,050
In foreign exchange	66,591	26,512	36,379	35,410	32,970	34,496	41,655	40,761	37,531
Working Capital	314,208	143,355	163,631	175,692	202,680	231,564	285,737	350,818	344,280
In rupiah	206,777	85,283	84,775	107,113	142,934	172,604	214,196	269,395	269,126
In foreign exchange	107,431	58,072	78,856	68,579	59,746	58,960	71,541	81,423	75,154
Consumption	31,754	24,086	40,093	58,436	79,805	112,063	150,946	206,389	206,250
In rupiah	31,468	24,064	38,809	57,449	78,962	109,603	140,715	206,389	206,250
In foreign exchange	286	22	1,283	987	843	2,460	10,231	0	0
Total	487,426	225,133	269,000	307,594	365,409	437,943	553,547	689,670	682,111

/a Data in March 2006.

Source: Bank Indonesia

Table 33. Commercial Banks' Outstanding Funds in Rupiah and Foreign Exchange by Group of Banks, 1997-2006 /a

(Rp. Billion)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 /b
Deposits										
State Banks	133,042	271,554	286,427	328,457	369,328	376,845	375,914	374,091	429,650	425,255
Private Banks	177,193	235,605	252,880	279,037	305,455	338,590	382,610	423,281	485,474	477,045
Regional Development Banks	8,796	10,932	14,017	19,896	37,088	45,937	53,291	59,834	85,578	96,675
Foreign Banks	38,582	55,433	72,294	92,989	97,255	83,643	90,510	107,873	133,384	130,470
Total	357,613	573,524	625,618	720,379	809,126	845,015	902,325	965,079	1,134,086	1,129,445
Share in Total Deposits										
State Banks	37	47	46	46	46	45	42	39	38	38
Private Banks	50	41	40	39	38	40	42	44	43	42
Regional Development Banks	2	2	2	3	5	5	6	6	8	9
Foreign Banks	11	10	12	13	12	10	10	11	12	12
Total	100	100	100	100	100	100	100	100	100	100
Annual Growth Rate in Deposits										
State Banks	47.1	104.1	5.5	14.7	12.4	2.0	-0.2	-3.0	14.9	16.6
Private Banks	7.4	33.0	7.3	10.3	9.5	10.8	13.0	11.5	14.7	15.2
Regional Development Banks	3.2	24.3	28.2	41.9	86.4	23.9	16.0	-4.6	43.0	50.5
Foreign Banks	117.0	43.7	30.4	28.6	4.6	-14.0	8.2	22.9	23.6	10.4
Total	26.9	60.4	9.1	15.1	12.3	4.4	6.8	5.4	17.5	17.5

/a Demand, time and savings deposits including non resident and central government accounts.
/b Data in March 2006.

Source : Bank Indonesia.

Table 34. Interest Rates, 1997-2006
(Percent)

Year	Interbank call money /a	SBI /b	Time Deposits									
			State bank					Private national bank				
			1 month	3 months	6 months	12 months	24 months	1 month	3 months	6 months	12 months	24 months
1997	27.8	14.5	17.7	17.9	15.3	15.5	15.4	22.0	21.0	17.4	17.2	16.9
1998	62.8	49.3	47.4	38.5	25.6	22.3	15.9	49.7	40.3	26.9	21.4	19.0
1999	23.6	23.1	23.3	25.8	25.2	27.8	17.2	23.7	25.9	24.6	25.4	21.8
2000	10.3	12.5	11.4	12.7	12.9	15.5	13.8	11.1	12.2	12.5	12.7	14.3
2001	15.0	16.6	14.9	15.6	15.3	14.3	16.9	14.5	15.3	14.8	12.9	16.4
2002	16.0	14.9	15.4	16.7	16.3	16.4	18.2	15.7	16.9	15.9	15.6	18.0
2003	7.5	9.9	9.6	10.4	11.4	12.9	17.0	9.7	10.9	11.9	12.7	16.4
2004	5.1	7.4	6.0	6.3	6.7	7.9	10.9	6.3	6.6	7.1	8.1	11.3
2005	7.6	9.2	8.0	8.0	7.8	8.1	8.8	8.3	8.2	7.9	7.9	9.7
2006 /c	13.6	12.7	11.7	11.9	11.6	12.1	12.6	12.1	12.3	11.8	11.4	12.1

/a Average rate of overnight interest rate on Interbank Call Money transactions recorded at the Jakarta Clearing House.
/b Average rate of Thirty days Bank Indonesia Certificate transactions.
/c Average January-April 2006.

Source: Bank Indonesia.

Table 35. Principal Agricultural Products by Sub-sectors, 1998-2005
(thousand tons)

	1998	1999	2000	2001	2002	2003	2004	2005*
Food crops								
Paddy /a	49,200	50,855	51,899	50,461	51,490	52,138	54,088	54,056
Corn	10,169	9,204	9,677	9,347	9,654	10,886	11,225	12,014
Cassava	14,696	16,459	16,089	17,055	16,913	18,524	19,264	19,425
Sweet potato	1,935	1,666	1,828	1,749	1,772	1,991	1,902	1,840
Soya beans (shelled)	1,306	1,383	1,018	827	673	672	723	797
Peanuts (shelled)	692	660	737	710	718	786	837	838
Fishery								
Saltwater fish	4,012	4,010	4,126	4,276	4,377	4,692	4,651	..
Freshwater fish	930	1,046	1,081	1,125	1,172	1,224	1,469	..
Cash crops								
Rubber	1,662	1,625	1,501	1,607	1,630	1,792	2,066	..
Coffee	515	532	624	570	682	664	635	..
Tea	157	132	163	167	165	170	165	..
Cane Sugar	2,065	1,908	1,896	1,726	1,755	1,634	2,172	..
Tobacco	104	135	143	199	192	201	167	..
Palm oil	5,640	5,999	6,553	8,396	9,622	10,440	11,807	..
Palm kernel	778	915	931	1,675	1,831	1,978	..	..
Forestry /b								
Log	19027	20,620	13,798	10,051	8,660	11,424	13,549	..
Sawn Timber	2707	2,060	2,790	675	623	763	433	..
Plywood	7155	4,612	4,443	2,101	1,694	6,111	4,514	..

/a Dry husk paddy grain ready for milling.
/b In thousand cubic meters, and in GOI FY -April to March until the year 1999, and April to December in FY 2000.
* Preliminary figures
.. : Data are not available

Source: Central Bureau of Statistics, Ministy of Marine affairs and Fisheries, Ministry of Agriculture, and Ministry of Forestry.

Table 36. Rice-Area Harvested, Production and Yield, 1997-2006

Year	Area harvested (thousand ha)	Average yield (tons/ha)	Paddy output (thousand tons)	Rice output /a (thousand tons)	Growth (%)
1997	11,141	4.4	49,377	32,095	-3.4
1998	11,716	4.2	49,237	32,004	-0.3
1999	11,963	4.3	50,866	33,063	3.3
2000	11,793	4.4	51,899	33,734	2.0
2001	11,499	4.4	50,460	32,799	-2.8
2002	11,521	4.5	51,490	33,468	2.0
2003	11,488	4.5	52,138	33,889	3.3
2004	11,923	4.5	54,088	35,158	5.0
2005/b	11,819	4.6	54,056	35,137	-0.1
2006/c	11,831	4.6	54,255	35,266	0.4

/a Estimated on the basis of a conversion factor of 0.65 from paddy into rice.
/b Preliminary
/c First forecast

Source: Central Bureau of Statistics.

Table 37. Selected Indicators of Real Sector Development, 1998-2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Electricity Consumption (Million KWH)	59,614	65,045	72,546	77,428	87,089	89,780	99,111	105,987	26,878	Jan-March 2006
Social	1,323	1,360	1,520	1,662	1,843	2,021	2,224	2,413	612	
Household	22,751	24,535	27,857	30,288	33,994	35,541	38,322	40,904	10,456	
Business	7,938	8,514	9,345	9,976	11,845	12,584	14,129	15,608	3,992	
Industry	25,472	28,522	31,388	33,073	36,831	36,361	40,057	42,166	10,606	
Public	2,131	1,224	1,905	2,193	2,715	2,920	3,627	3,874	1,012	
Cement Sales (Thousand ton)	19,307	19,294	11,017	11,215	11,872	11,974	13,403	14,277	4,508	Jan-April 2006
Cement Consumption (Thousand ton)	19,243	18,770	22,384	25,388	27,192	27,540	30,045	31,471	9,332	
Car Sales (Units)	430,948	487,356	864,146	1,575,788	2,287,464	2,770,184	3,887,675	5,076,943	1,144,900	Jan-April 2006
Motorcycle Sales (Units)	58,011	94,003	298,391	299,629	317,794	354,333	483,295	533,910	102,245	Jan-April 2006
Tourist arrival (Persons) /a	3,509,298	3,672,741	3,898,458	3,908,882	4,091,289	3,690,852	4,541,165	4,074,355	1,201,344	Jan-April 2006
Cargo Loaded and Unloaded (Million ton)										
Loaded International	21.9	12.5	8.2	12.0	9.8	10	12	14	3	Jan-Feb 2006
Loaded Domestic	9.0	9.0	7.3	11.5	14.6	17	19	21	3	Jan-Feb 2006
Unloaded International	20.8	17.7	15.9	18.8	19.7	19	20	20	3	Jan-Feb 2006
Unloaded Domestic	27.7	27.8	29.1	35.7	41.1	43	42	41	6	Jan-Feb 2006

/a based on the thirteen main gates of arrival.

Source: Central Bureau of Statistics, State Electricity Corporation, Cement Associations.

Table 38. Fuel Production by Company, 1997-2005

(thousand bbls)

	Crude Oil		Condensate		Natural gas (000 MSCF)	
	Pertamina	Production sharing Contract	Pertamina	Production sharing Contract	Pertamina	Production sharing Contract
1997	31,423	454,159	95	59,034	340,451	2,825,291
1998	43,090	438,565	518	55,327	338,012	2,641,448
1999	41,161	400,184	209	53,972	327,584	2,740,238
2000	45,683	419,700	720	51,401	347,662	2,559,665
2001	46,119	395,766	317	47,944	342,594	2,460,639
2002	44,600	365,811	100	48,003	332,868	2,698,162
2003	41,510	328,247	94	48,743	342,869	2,799,737
2004	41,043	312,435	86	46,998	383,872	2,646,151
2005\a	13,681	99,351	28	15,268	129,309	843,492

\a January - April

Source: Ministry of Mines and Energy.

Table 39. Domestic Sales of Petroleum Products, 1997-2005
(thousand bbls.)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Aviation gas	47	35	36	34	22	..	22	20	19
Aviation turbo	7,371	5,011	4,107	4,681	4,319	..	9,522	15,410	14,609
Regular gasoline	68,124	69,006	72,430	78,131	81,832	83,164	90,590	101,669	109,948
Kerosene	62,693	63,804	75,017	78,328	77,269	71,363	78,690	74,144	71,613
Motor diesel	137,364	123,738	126,731	136,492	147,251	147,518	149,853	167,486	172,784
Industrial diesel	8,877	7,999	9,550	9,126	9,050	7,721	6,584	6,909	5,631
Fuel oil	31,805	32,885	34,148	37,474	39,914	38,277	39,408	33,481	30,366
Total	316,281	302,479	322,019	344,266	359,657	348,042	374,669	399,119	404,970

.. : Data are not available.

Source: Ministry of Mines and Energy.

Table 40. Consumer Price Index, 1997-2006 /a
(2002 = 100) /b

	1997	1998	1999	2000	2001	2002	2003	2003	2004	2005	2006 /c
Percentage change of CPI (%)	6.1	58.5	20.5	3.7	11.5	11.9	6.7	6.8	6.1	10.5	14.0
Index											
General CPI	106.1	168.2	202.8	210.3	234.5	262.3	279.6	106.8	113.2	125.1	139.4
Foodstuff	108.7	209.2	261.5	249.0	270.0	299.3	301.7	100.8	106.8	117.4	132.3
Prepared food and beverages	105.2	173.9	215.9	229.5	261.5	292.9	317.5	108.6	113.0	122.8	134.0
Housing	105.5	141.7	164.8	175.2	196.2	224.8	249.3	111.8	120.5	131.4	143.5
Clothing	104.2	191.7	230.7	245.3	267.8	280.3	292.4	104.4	110.2	116.4	123.1
Health	108.5	179.5	218.1	229.9	255.5	272.4	287.9	106.1	111.0	116.2	122.0
Education	109.1	147.0	165.3	183.9	211.4	235.6	260.6	108.5	119.1	130.4	136.7
Transport. & Communications	103.7	145.1	169.4	182.8	208.1	245.2	262.5	106.7	111.8	134.6	165.6
Food	107.2	193.9	241.7	240.5	266.3	296.5	308.6	104.1	109.4	119.7	133.0
o/w Rice	112.2	233.4	292.8	260.2	273.3	330.9	332.1	..	..	..	..
Non-Food	105.7	152.0	177.7	190.5	213.8	240.7	261.7	108.9	116.3	129.3	144.5

/a Consumer price index average of the year.
/b CPI 1997-2003 applying CPI index based on 1996=100
/c CPI Average January - May 2006

Source: Central Bureau of Statistics.

Table 41. Wholesale Price Index, 1998-2006 /a

(1993 = 100)

Sectors /b	1998	1999	2000	2001	2002	2003	2004	2005	2006 /c
Agriculture (40)	299	410	459	567	614	614	634	680	753
Mining & quarrying (8)	173	214	236	275	307	328	345	395	461
Manufacturing (1183)	217	268	278	309	339	355	369	422	494
Imports (50)	286	289	316	356	345	346	380	434	460
Exports (46)	417	366	461	521	497	505	591	742	783
Excluding petroleum & gas (43)	444	370	393	462	450	442	477	526	546
Petroleum and gas (3)	348	355	634	669	615	666	881	1,287	1,382
General index (327)	288	314	353	403	414	423	459	534	588
General index excluding exports of petroleum (324)	284	311	333	384	400	406	429	481	533

/a Figures show the average for the year.
/b Figures within brackets ( ) under sector column indicate number of items represented in that sectors.
/c Index of average January - March 2006

Source: Central Bureau of Statistics.

Table 42. Domestic Prices of Petroleum Products, 1998-2006

(Rp./liter)

	May-1998 Sep-2000	Oct-2000 Jun-2001	Jun-2001 Jan-2002	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06
Regular gasoline	1,000	1,150	1,450	1,550	1,750	1,690	1,750	1,810	1,810	1,810	1,810	1,810	1,810	1,810	1,810	2,400	2,400	2,400	4,500	4,500	4,500
Kerosene																					
Retail Market Price	..	..	1,640	1,690	1,900	1,840	2,030	2,200	1,800	1,980	2,030	1,800	1,800	1,800	1,800	2,200	2,200	5,600	6,480	5,748	6,182
Industrial consumption	280	350	820	1,270	1,410	1,390	1,530	1,800	1,800	1,800	1,800	2,100	2,100	2,100	2,100	2,730	4,940	5,600	6,480	5,748	6,182
Household consumption	280	350	400	600	600	600	600	700	700	700	700	700	700	700	700	700	700	700	2,000	2,000	2,000
Automotive Diesel Oil																					
Industrial consumptions	550	600	1,510	1,580	1,900	1,810	2,060	2,100	1,820	1,910	2,050	2,100	2,100	2,100	2,100	2,700	2,700	4,740	5,350	5,273	6,288
Transportation consumptions	550	600	900	1,150	1,400	1,360	1,550	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	2,100	2,100	2,100	4,300	4,300	4,300
Industrial diesel Oil																					
Retail Market Price	350	400	600	1,500	1,870	1,780	2,000	2,050	1,790	1,880	1,990	2,050	2,050	2,050	2,050	2,660	4,560	5,130	5,940	4,900	5,789
Small scale industries	350	400	600	1,120	1,390	1,340	1,510	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	2,300	2,300	2,300	2,300	4,300	4,300
Fuel oil (MFO)																					
Market Price	350	350	400	1,280	1,550	1,540	1,490	1,600	1,560	1,600	1,560	1,600	1,600	1,600	1,600	2,300	2,900	3,150	3,870	3,603	3,745
Small scale industries	350	350	400	1,030	1,110	1,150	1,120	1,600	1,560	1,560	1,560	1,560	1,560	1,560	1,560	2,160	2,360	2,600	2,600	2,600	2,600

Source: Ministry of Mines and Energy and Pertamina

Table 43. Approved Foreign Direct Investment by Sector, 1998-2006 /a

(US$ million)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006 /b
Agriculture	965	413	390	367	446	125	197	462	151
Forestry	0	9	5	20	9	95	0	129	0
Fishery	33	70	50	6	4	27	133	16	48
Mining & quarrying	0	14	1	118	49	18	66	776	97
Manufacturing	8,388	6,335	9,597	5,145	3,206	6,464	6,332	6,028	1,514
Food	342	681	701	289	268	409	719	643	395
Textiles & leather	217	240	401	330	90	127	408	140	35
Wood & wood products	71	113	157	21	14	34	20	87	24
Paper & paper products	41	1,412	88	742	10	1,300	67	228	5
Chemicals & Pharmaceutica	6,179	3,267	7,375	2,310	1,872	3,035	3,414	2,879	305
Nonmetallic minerals	237	110	10	108	33	711	38	368	123
Basic metals	394	501	831	652	347	326	1,014	695	443
Others	17	10	35	693	573	523	653	989	184
Electricity, Gas and Water				37	85	363	276	23	93
Construction	198	153	161	48	288	858	954	1,777	789
Hotels and Restaurant	451	229	257	6,892	255	492	587	259	37
Transport & communications	79	103	1,217	374	3,713	4,333	587	3,107	58
Real estate	1,271	171	302	178	7	10	340	125	4
Others	2,171	3,396	3,305	1,861	1,683	837	804	878	353
Total	13,557	10,892	15,284	15,043	9,744	13,621	10,275	13,579	3,144

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b Investment January-April 2006

Source: Investment Coordinating Board.

Table 44. Approved Domestic Investment by Sector, 1998-2006 /a

(Rp billion)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006 /b
Agriculture, fishery and livestock	4,821	1,586	1,543	991	1,454	1,752	1,908	4,354	2,602
Forestry	543	749	52	446	0	177	0	140	0
Mining	116	30	36	1,140	787	753	662	982	10
Manufacturing	44,903	94,335	81,994	43,966	15,853	40,464	20,982	26,808	6,078
Food Industry	6,712	12,676	8,548	11,109	4,968	4,247	10,211	8,073	3,906
Textile Industry	1,138	2,524	2,386	2,223	440	2,133	1,477	710	106
Wood Industry	1,967	818	169	553	24	9	2	28	4
Paper Industry	12,754	22,838	8,192	553	409	560	121	665	151
Chemical Industry	15,459	2,431	56,436	22,337	165	147	1,741	6,479	249
Non Metallic Mineral	3,535	61	3,523	596	217	932	314	3,904	646
Metal, Maschinery, Electronics	961	1,050	2,466	375	7,179	1,003	1,160	1,339	456
Other Industry	3,339	52,987	2,740	6,596	9,631	32,436	7,117	6,949	560
Electricity, Gas and Water	..	..	..	0	5	466	8,420	6,276	4,594
Construction	1,998	395	843	2,007	1,500	1,774	1,483	1,538	118
Hotels	1,109	1,713	154	2,459	683	930	552	4,050	344
Real estate	900	996	293	4,501	255	1	0	0	0
Transportation and Communication	3,260	146	1,588	1,489	3,118	2,022	1,885	2,375	31
Others	3,098	1,210	1,639	1,675	1,517	1,088	854	4,054	19,725
Total	60,748	101,160	88,143	58,673	25,172	49,427	36,748	50,577	33,502

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b Investment January-April 2006
.. : Data are not available.

Source: Investment Coordinating Board.

Table 45. Investment Climate Indicators, 1998-2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Private Investment Environment										
Private Investment/Gross Domestic Fixed Investment (%) /a	67.5	68.8	72.1	71.4	69.0	65.4	75.7	79.4	..	
Credit to Private Sector (stock, % GDP) /b	39.1	13.4	12.2	11.7	11.7	12.0	12.8	13.0	12.0	March 2006
Real lending Rate /c	-25.9	6.9	14.7	8.5	5.4	8.3	8.6	3.8	2.0	March 2006
Highest Marginal Corporate Tax Rate (%)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	
ICRG Composite Risk Rating /e	41.0	51.8	54.8	56.3	58.3	60.8	6.4	65.5	67.0	April 2006
Governance /d										
ICRG Corruption Rating (1-6, bad to good) /e	1.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	2.5	April 2006
ICRG Bureaucratic Quality Rating (1 - 6) /e	2.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	April 2006
ICRG Law and Order (1 - 6) /e	2.0	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	April 2006
Corruption Perception Index (0-10, bad to good)	2.0	1.7	1.7	1.9	1.9	1.9	2.0	2.2	..	
Openness										
Trade (imports+exports)/GDP (%)	96.2	62.9	71.4	68.2	57.8	52.9	59.5	62.7	54.6	Q1 2006
FDI inflows (net, % GDP)	-0.4	-2.0	-3.0	-2.3	0.1	-0.3	0.4	0.8	..	
WTO Member?	yes	yes	yes	yes	yes	yes	yes	yes	yes	
Weighted Mean Tariff (%) /f	8.3	8.1	7.6	6.7	6.9	6.8	8.6	8.7	8.5	
Heritage Trade Policy Index (1-5, bad to good)	2.0	2.0	3.5	3.5	3.0	3.0	3.0	2.5	..	
Infrastructure										
Paved Roads, % of total	47.3	57.1	57.1	58.9	57.6	58.3	..	..	..	
Motor vehicles (per 1000 persons)	87.8	89.5	92.0	100.1	108.5	118.7	133.2	158.2	..	
Telephone lines and cellular subscribes per 100 inhabitants	3.3	4.0	5.0	6.6	9.2	12.7	18.0	22.6	..	
Internet Users (per 10,000 people)	32.2	61.7	97.0	191.4	212.4	376.4	666.8	846.0	..	
Electricity consumption (kwh per capita)	325.4	352.4	383.8	370.4	408.4	418.2	455.5	499.9	..	
Wages and Productivity										
Minimum Wage (US$ per year)	180	266	314	341	485	581	617	624	749	
Value Added Per Worker in Manufacturing (US$ per year)	2,402	3,160	3,933	4,083	4,911	6,000	6,436	6,773	..	
Labor Force with Secondary Education (% of total)	18.4	23.7	24.1	35.2	41.4	45.4	45.9	46.2	..	

/a Private investment includes state enterprises.
/b Since 2000 GDP based on National accounts 2000 Base.
/c Average Annual
/d Governance indicators produced by Transparency International, Heritage Foundation, and also from Kaufmann et al (2001).
/e ICRG= International Country Risk Guide.
/f Weighted by total tariff line
.. : Data are not available.

Source: World Development Indicators, United Nations, Central Bureau of Statistics, and Staff Calculations