



WORKING PAPER 99.14

**ECONOMIC STABILIZATION AND THE SOCIAL SAFETY
NET: ACHIEVING PUBLIC PROSPERITY**

Gunawan Sumodiningrat

March 1999

A joint research project on

**Linkages Between Indonesia's Agricultural Production, Trade and the Environment
funded by the Australian Centre for International Agricultural Research,**

between

CASER (Bogor) • CIES (Adelaide) • CSIS (Jakarta) • RSPAS (ANU, Canberra)

**Lead institution: CIES • University of Adelaide • Adelaide • SA 5005 • Australia
Telephone (61 8) 8303 4712 • Facsimile (61 8) 8223 1460 • email: cies@economics.adelaide.edu.au
Homepage: <http://www.adelaide.edu.au/cies/>**

**CASER/CSIS/CIES/ANU
joint research project on**



**Policy analysis of linkages
between Indonesia's agricultural
production, trade and
environment**

Rapid economic growth in Indonesia has been accompanied by significant structural changes, including for its agricultural sector and its unique natural environment. Recently questions have been raised about the impact of Indonesia's agricultural, industrial, trade and environmental policies on sustainable rural development. The nature of interactions between the economic activities of different sectors and the environment are such that an intersectoral, system-wide perspective is essential for assessing them. An international perspective also is needed to assess the impact on Indonesia of major shocks abroad, such as the implementation of the Uruguay Round agreements, APEC initiatives, or reforms in former centrally planned economies. There is increasing pressure on supporters of liberal trade to demonstrate that trade reforms at home or abroad affecting countries such as Indonesia will not add to global environmental problems (e.g., deforestation, reduced biodiversity). Again, this requires system-wide quantitative models of the economy and ecology, because typically there are both positive and negative effects at work, so the sign of the net effects ultimately has to be determined empirically.

To begin to address these issues, the Australian Centre for International Agricultural Research (ACIAR) has generously provided funds for a collaborative 3-year project (to mid-1999) involving the University of Adelaide's Centre for International Economic Studies (CIES) as the lead institution, Bogor's Centre for Agro-Socioeconomic Research (CASER) which is affiliated with the Ministry of Agriculture, Jakarta's independent Centre for Strategic and International Studies (CSIS), and the Economics Division of the Research School of Pacific and Asian Studies (RSPAS) at the Australian National University in Canberra. Being based on Indonesia with its rich diversity of environmental resources (and on which there are relatively good data) and its rapid economic growth, the project could also serve as a prototype for similar studies of other developing countries in Southeast Asia and elsewhere.

The key objective of the project is to assess the production, consumption, trade, income distributional, regional, environmental, and welfare effects of structural and policy changes at home and abroad particularly as they will or could affect Indonesia's agricultural sector over the next 5-10 years. Among other things, the analysis will focus both on the effects of economic changes on the environment, and on the impacts on Indonesia's agricultural production and trade of resource and environmental policy changes. The implications of regional and multilateral trade liberalization initiatives and Indonesia's ongoing unilateral trade reforms will be analysed, along with other potential domestic policy changes and significant external shocks such as the entry of China and Taiwan into the World Trade Organization. The analysis will draw on and adapt computable general equilibrium (CGE) models such as the national INDOGEM Model (built as part of an earlier ACIAR project) and the global GTAP Model.

The project is being undertaken in close collaboration with the Indonesian Ministry of Agriculture and ministries involved in trade, planning, and the environment. A Research Advisory Committee has been established to encourage close collaboration of representatives from those and other ministries.

ACIAR INDONESIA RESEARCH PROJECT

WORKING PAPER 99.14

**ECONOMIC STABILIZATION AND THE SOCIAL
SAFETY NET: ACHIEVING PUBLIC
PROSPERITY**

Gunawan Sumodiningrat

Deputy Chairman for Economic Affairs
National Development Planning Board
Jakarta, Indonesia

March 1999

Introduction

Indonesia's development process experienced success through the middle of 1997, with concrete improvements in public welfare. Signs of this success included a high rate of economic growth and an improving quality of life. For example, in 1990 approximately 27 million people, 15 percent of the population, lived below the poverty line. By 1996 this had fallen to 22 million, or 11 percent. However, before fundamental problems could be fully addressed, Indonesia was hit, in mid 1997, by a monetary crisis that soon developed into an economic and political crisis. These crisis conditions have shaken the basis of the national economy.¹

The economic crisis is the result of both fundamental problems and extraordinary events and conditions. The fundamental problems are the internal challenges of unemployment and poverty and the external problems of competition in the free-market era. The extraordinary events disrupting the economy included a severe draught in parts of Indonesia occurring simultaneously with a region-wide monetary crisis. This crisis resulted in a drastic devaluation of all regional currencies against the US dollar, with the Indonesian rupiah particularly suffering the greatest losses.²

These problems have caused economic activities to decline, especially in banking and in large-scale industries dependent on imports, and have caused disturbances in production, distribution, and consumption throughout the archipelago.³ The unfavourable conditions have caused large increases in unemployment levels in both urban and rural areas. According to the Central Bureau of Statistics (BPS, *Biro Pusat Statistik*) unemployment has reached 13.8 million.⁴ However, the Department of Manpower estimates that by the end of 1998 it will reach 13.4 million.⁵ The National Development Planning Agency (Bappenas, *Badan Perencanaan Pembangunan Nasional*) is working with these and

¹ See *Swasembada* No. 12/XIV/11 24 June 1998 and *Prospek*. No. 421 VII/8 June 1998 pages 43-45.

² A more detailed explanation concerning the cause of such crisis is given in the Attachment of State Address of the President of the Republic of Indonesia, given before the People's Representative Assembly, on 15 August, 1998, on the Accomplishment of the Five-Year Development Plan VI. (1 April 1997/98 up to 31 March 1998/99), specifically in Chapter 1: General.

³ See footnote 3

⁴ According to BPS, unemployment will reach 12.4 million by the end of 1998, broken down as follows: (1) 5.9 million previously unemployed; (2) 2.6 million new work force entrants; and (3) 3.8 million newly unemployed. These figures are based on a projected national economic growth of negative 10.1%. If the growth is assumed to be negative 13.2%, then the estimated unemployment may reach up to 13.8 million people.

⁵ The Ministry of Manpower estimates the end-1998 unemployment figure at 13.4 million people, consisting of: (1) 4.4 million previously unemployed; and (2) 2.7 million new work force entrants; 3) 4.9 million newly unemployed.

other departments to reach a consensus on the actual scope of the problem.

The monetary crisis has caused financial difficulties for the government and the private sector. Many private businesses have had to cut back operations or close down entirely. Of even greater concern is the explosion of both urban and rural unemployment, which may reach 18-20 million.⁶ The ability to obtain basic food and staples, education, and health care has fallen⁷ for large segments of the population. The number of people below the poverty line has risen sharply and could reach 80 million, 40 percent of the population, according to the BPS. Other estimates range as high as 113 million.⁸ Our challenge is to determine what concrete steps will overcome these crisis conditions to return to normal development.

The Social Safety Net Program (JPS, *Jaring Pengaman Sosial*) was established to alleviate the many of the more serious effects of the crisis by stimulating economic activity among the most economically disadvantaged segments of Indonesian society. This paper will explain the direction and policies for the stabilisation of the national economy, with special attention to SSN labor-intensive programs.

In particular, we must reach consensus regarding the principle of participative development with respect to the operation of the SSN and labor-intensive programs. This paper will discuss programs now in operation and those still in development. The model used in the District Development Program (PPK, *Program Pengembangan Kecamatan*), which gives help directly to the community, is expected to become the mechanism for the Social Safety Net Broadening Program (PJPS, *Program Perluasan Jaring Pengaman Sosial*) which will directly activate the public economic activities as a basis for sustainable national development.

Direction and policy for economic stabilisation

The national economy is now in a crisis situation, both micro and macro. For the last two or three months economic conditions have deteriorated. Production and export activities are have stalled in many sectors, unemployment is rising, the banking system is near collapse, the distribution network for goods and services is functioning poorly, and prices of staples are unstable and rising. Public confidence is low, as reflected in the weak and volatile rupiah exchange rate. This has put

⁶ Based on a report by the Minister of Manpower presented the Coordinating Meeting for Economy, Finance and Industry, Jakarta 29 June 1998.

⁷ *Kompas* Team Report: Weakening Purchasing Power: 40 Million People Face Food Deficiency, *Kompas*, 2 July 1998.

⁸ *Kompas* Team Report: 113 Poor People of Indonesia, *Kompas*, 18 June 1998.

upward pressure on domestic prices and has influenced the decline in production activities and domestic investment⁹.

The key to overcoming the crisis is a stabilisation strategy based on a confidence-building approach¹⁰. The general sequence of this strategy is to: (1) build confidence in macro national economic conditions, initially by domestic, followed by foreign, investors and entrepreneurs; (2) build confidence in stages to maintain a gradual, controlled revaluation of the rupiah; (3) slow inflation and lower the costs of basic goods and subsidies by stabilising the rupiah, the weakness of which is one root of current high inflation; (4) lower interest rates by lowering inflation and restructuring the banking system. Reorganisation of the banking system will inspire confidence in the business community, promoting a reactivation of domestic economic activity. Eventually we will reach the situation where economic activities return to normal, marked by increased employment, normal rates of inflation, and a rupiah exchange rate appropriate to the nation's economic fundamentals. This staged stabilisation process is expected to achieve normal conditions by the end of 1999.

Based on this approach, the program to stabilize the economy will follow two mutually supportive paths simultaneously. The first is the effort to regain the economic confidence of both the domestic and international communities. Reformation in politics, law, and economics is intended to reach this goal. The second is dealing with specific economic and monetary problems which require immediate attention.¹¹

Steps to regain public confidence

Steps to regain public confidence include immediate ones, such as: (1) efforts to return a feeling of safety to the economic actors and guarantee general safety and order in the community; (2) efforts to attain political consensus as a basis for a stable domestic social and political atmosphere. Other steps adhere to a specific timetable, such as those agreed with the IMF, including; (3) steps for improving governance, both in the public (government) and private (corporate governance) sector; and (4) repairing the banking sector and inspiring public confidence in the banking system, essential for financing the economy and implementing national development.

⁹ See Ginandjar Kartasmita, Indonesian Economy Towards Reforms, Globalization and Free Trade Era, P4 Manggala Training, BP7, Istana Bogor, 28 August 1998.

¹⁰ See Habibie and Confidence, *PILAR*, No. 17, year 1. 26 August - 8 September 1998.

¹¹ The agenda is stipulated in the document of agreement with the IMF dated 24 June 1998. See also the Additional Memorandum Concerning Economy and Financial Policies, unofficial translation, distributed by the Secretariat of the Office of the Coordinating Minister of Economy, Finance and Industry, April 1998.

Specific Economic and Monetary steps

The four matters having the highest priority are: (1) guaranteeing the supply of basic staples at affordable prices; (2) avoiding hyper inflation; (3) restoring the function of the Central Bank as a supporter of economic activities, including offering trade financing; and (4) improving the capability of main economic institutions, especially to face crisis and emergency situations.

Four sectors require economic and monetary policies, including: (1) fiscal and monetary policy; (2) monetary and banking reform; (3) restructuring domestic and foreign private debt; and (4) structural reforms in the real sector.¹²

In connection with the above economic and monetary policy areas, the State Budget (APBN, *Anggaran Pembangunan Belanja Negara*) has been revised several times and has been modified as much as possible to accommodate Social Safety Net programs to help groups in the community critically affected by the crisis.¹³ To support this policy, a short-term policy has been formulated which can subsequently be extended to constitute a basis for supporting sustainable economic activities. The highest priority of these short-term policies is the recovery of the public economic activities through the Social Safety Net Programs (JPS, *Jaring Pengaman Sosial*), improvement of the distribution system, strengthening small and medium enterprises and cooperatives, encouraging exports by eliminating all impediments, rejuvenating production activities, and making the investment climate more inviting.

¹² On this path, the steps emphasise efforts to develop governance, which is strongly geared towards achieving reform movement goals. The strong steps are intended not only to meet public aspirations, but also to fulfil the letter of intent with IMF. See the press release by the Coordinating Minister of Economy, Finance and Industry, Jakarta, 7 August 1998.

¹³ The government has decided to support worst-affected groups in the community, particularly the poorest sectors. To achieve this purpose the APBN has been re-calculated and as far as possible modified to accommodate Social Safety Net programs directed at assisting those groups. Steps taken include: 1) establishment of distribution points for subsidised essential goods; 2) increased expenditure for basic health services and education; 3) extension of labor-intensive programs to create purchasing power for those unemployed; 4) stimulation of local economies, particularly small-scale industry and cooperative groups, as well as crash programs intended to improve food agriculture activities. Other projects have been postponed to accommodate these social safety net programs, ensuring the APBN expenditure 1998/99 will remain within macro-economic and monetary guidelines. The IMF estimates the 1998 APBN will suffer a deficit of 8.5% of PDB. The revised APBN is still within the limit, as the extra expenditure will all be covered by foreign aid. See Dr. Boediono, State Minister for PPN/Chairman of Bappenas. Economy Stabilisation Program. The Secretariat of the Office of State Minister for PPN/Bappenas, Jakarta, August 1998.

Social safety net programs

Background of the Indonesian social safety net

Many countries over the years, finding themselves in similar dire circumstances, have responded by devising and implementing “safety nets” to better protect their poor and unemployed. Safety nets have a long and rich history and date back to at least the sixteenth century and the Poor Laws of England which provided food, wages, and lodging for destitute peasants. The Marshall Plan of the post-World War II era which used food assistance to reconstruct and transform war-ravaged Europe is another instance of such programs¹⁴. Closer to home, it may be worth noting that various kinds of social safety net efforts have long existed in the Asia region. Food assistance programs date back to the early 1940’s in India, for example. Sri Lanka has a long history of significant interventions in health and education sectors as part of its overall social safety net effort. The Philippines has more than two decades of experience in labor-based public works. And credit-based livelihood programs are most famously represented by Bangladesh’s long running Grameen Bank and related initiatives¹⁵.

Over the recent period, the government of Indonesia has, of course, also devised and implemented a number of social safety net policies and programs designed to ameliorate problems caused by the crisis. We have attempted to choose and design these programs based on state-of-the-art principles and, of course our own country conditions. The impact of the crisis in Indonesia has been widely but differentially felt and, as evidence throughout the world suggests, we have employed different kinds of responses for different kinds of impacts. Thus, we have, for example, developed: food subsidy and transfer programs for the most vulnerable and severely affected parts of the population, in both rural and urban areas; basic nutrition assistance and support for continuing education for those negatively impacted families with small children; public works programs for the rural landless, small holders, and the urban poor (especially) who have lost their main sources of income to the crisis; and micro-finance schemes for small- and medium-sized businesses which have temporarily lost access to standard credit facilities, while our banking system undergoes a major restructuring.

Ours is a large and heterogeneous country in the midst of far-reaching political and economic transition and, as a result, we have stressed the importance of “covering” as much of the affected

¹⁴ See Bezuneh and Deaton (1997), Food Aid Impacts on Safety Nets, Journal of Agricultural Economics for a description of these programs.

¹⁵ See K Subbarao, Jeanine Braithwaite, Alan Thompson et.al., Safety Net Programs and Poverty Reduction: Lesson from Cross-Country Experience, The World Bank, Washington DC, 1998.

population as we can by our social safety net efforts. Overall, the “participation rates” of the poor in the programs we have developed are therefore quite high. And this outcome is not just political expediency: as conventional wisdom from around the globe indicates, focusing on coverage argues, most importantly, that we place a high premium on raising the welfare of the poor, especially those most severely affected. We are aware, of course, that such coverage does not come without cost and we have made strong efforts to minimise the attendant negative impact on the state budget, in general, and reduce “leakage” in the design and implementation of our programs, in particular. Regarding the latter, we have stressed the importance of both geographic and self-selection targeting procedures and we have structured incentives into the design of programs to make these procedures work better. (Our public works/employment creation programs, for example employ wage rates that are sufficiently low so as to attract only the truly needy).

Minimising program leakage will all other things being equal, distribute relatively larger net benefits to the target group and therefore help to make programs more cost-effective, of course. We have done other things too to improve the cost-effectiveness of our programs, like increasing the share of total costs that go to providing actual benefits as opposed to administration, say, (by insisting on a high wage share in employment creation programs, for example) and reducing the poor’s participation costs in the programs (by necessitating relatively low transportation costs for and minimising forgone income by program participants, for example). And our efforts to increase transparency and accountability by community monitoring mechanisms should also help to keep costs reasonable.

As indicated above and broadly speaking, the Social Safety Net (SSN) programs that GOI has designed and implemented fall into four broad categories: food security, public health and education, employment and income generation, and the promotion of small- and medium-scale enterprises.

Food security programs attempt to provide an ample security upon the provision of basic necessity goods at reachable prices. Social protection activities help ensure the supply of important services in the area of public health and education, particularly for women and children to protect further deterioration of the following generation. Employment and income generation efforts provide extensive support for the recently unemployed through the implementation of labor intensive works. And small and medium enterprise support focuses on engendering a productive environment for community based economic activities through the use of cooperative principles.

In the old day, we have social safety net in the form of a city, where villagers could find jobs and income whenever village cannot

provide due to drought, harvest failure or waiting for harvest time. On the other hand, city people could find shelter and food whenever urban system could not provide due to war or other catastrophe. Today, with so many people around and so little opportunity and sources of income, the formal social safety net could become the way to rescue the unfortunate people due to crisis, and may lay down a foundation for more structured social safety net in the whole country. Below, allow me to present the past and present efforts in social safety net assistance are described. This description is followed by a presentation of a possible new model of SSN work. Finally, the paper concludes with a summary of the main points.

The social safety net programs

The Social Safety Net program has been initiated to overcome the effects of the economic crisis. The Social Safety Net program has four priorities: (1) improving food security; (2) creating employment; (3) developing small and medium enterprises; and (4) providing basic social services, particularly in health and education.¹⁶

To attain the objectives of the SSN program, funds are budgeted to nurture economic activities in five stages: rescue, recovery, reconstruction, growth, and stability. Various forms of aid have been centralised in the DIP mechanism, and been further defined in the SPABP mechanism and direct assistance to the public who have received block grants.¹⁷

These five stages the SSN program promote integrated, sustainable, equitably distributed growth by means of capacity building in community development. Non-government community development groups (LPSM, *Lembaga Pengembangan Swadaya Masyarakat*) are

¹⁶ As presented by the State Minister for National Development Plan (PPN)/Chairman of Bappenas at the Meeting between P3DT consultants and PPK, in Jakarta, 27 August 1998. See also *Kompas*, 13 August 1998, column 1-9, page 3.

¹⁷ Sector development is financed through DIP (project list) by sector and implemented by Technical Departments/LPND at the central level. Regional development is financed through SPABP (the letter of approval for regional development assistance budget) and implemented at the local level by local government/related institutions. The DIP sector mechanism has been gradually shifted to regional development assistance through the DIPP and SPABP mechanism, which is directly delivered to the community. See Gunawan Sumodiningrat, *Public Administration Stabilisation through Local Government Empowerment*, *Perencanaan Pembangunan* magazine, Bappenas, Edition no. 12 June-July 1998, and Kurnarjo, *Economy, Finance and Development Glossaries*, Balai Pustaka, Jakarta, 1996. Since Repelita 1, the amount of development assistance that has been shifted to regional assistance has increased continuously at the same rate as the increase of PBB value. It has also been stabilised since Repelita VI.

involved to supervise and monitor the use of the aid funds directly implemented by the communities themselves within the framework of cooperative activity groups (Pokmas, *Kelompok Usaha Bersama*). The most important principle in the execution of this project is participative development, by which various types of assistance can be delivered accurately through the appropriate planning program.

Social Safety Net policies with a total allocation of Rp. 17.25 trillion from rupiah development funds are implemented in 17 sectors, as described in Table 1. These funds are made available through two channels: (1) sectoral development policies through the Sectoral DIP, and (2) the SPABP (Inpres) mechanism for regional development policies, plus Rp. 2.713 trillion for the Social Safety Net Extension program.

The Social Safety Net Extension Program (PJPS, *Perluasan Jaring Pengaman Sosial*) is ready for implementation. In connection with the PJPS program the Provincial Government Level II (Region, or *Kebupaten* level) has to stabilise its vision and mission to deliver prosperity to the people.

Generally, Social Safety Net policies are intended to improve and speed up the ability to overcome the effects of the crisis, especially for people in the villages and rural and small towns who have been worst hit. The purposes of the SSN program are: (1) securing the supply of basic staples at affordable prices. Among other means, this is achieved through subsidising various staples.¹⁸ (2) providing employment opportunities in economically productive activities using the labor intensive system to give the unemployed sufficient purchasing power for basic needs; (3) guaranteeing basic health and education services at prices affordable by the general public; (4) reinvigorating public economic activities, especially small and medium enterprises, and increasing the participation of cooperatives to promote economic activities which are not only productive but include the spirit of cooperatives.¹⁹

¹⁸ Social Safety Net program subsidies include: 1) general subsidy for basic needs, 2) special markets; 3) food intensification crash program; and, (4) agriculture production facilities subsidy. Agriculture production facilities subsidy activities include: (1) urea fertiliser subsidy (carried out by the Ministry of Finance as the executing agency); (2) KCI fertiliser subsidy (carried out by Ministry of Finance as the executing agency); and (3) farmer small-scale industry loan subsidy (carried out by BI as the executing agency).

¹⁹ Action plans for small and medium enterprises (SMEs) include: 1) consolidation of data regarding characteristics requirements of the sector; 2) technical and fund assistance delivery mechanism to SME's is integrated with the SME's institutional development, (3) macro-level complementary policy and conditions; (4) plans to implement several pilot projects in various provinces. SMEs (including home enterprises) are identified and classified per province according to business sector, turnover and contribution to employment in 1996 (BPS). Using the available data, two kinds of SME action plans have been formulated: (1) viable and promising SME for export and import substitution activities (Action Plan 1); and (2) micro-enterprise and

Currently operating SSN programs are intended to include various programs aimed directly at the people. The SSN, through a more integrated, transparent, and accountable financial management and distribution mechanism, gives the public direct, fast, and sustainable access to funding. Table 1, which includes SSN programs with DIP Sectoral funding, describes these programs and funding levels.

The direction of the SSN is being refined in order to widen the creation of employment opportunities through the labor-intensive system. The creation of productive employment opportunities is intended to address the problem of high unemployment through an integrated development policy aimed at integrating special and routine programs which emphasise the development of productive economic activities. These activities should: (1) encourage small-and medium-scale enterprises appropriate to the characteristics and potential of the region; (2) maintain and rehabilitate community social-economic facilities and infrastructure; (3) protect social services; (4) improve business skills and management.

In connection with the SSN program the government is preparing to develop a national Stage III labor-intensive program, the PJPS, with a wider scope. This program emphasises the active and complete participation of the people through consultation and partnership. This is a short term program but it is hoped it will have continuing impact.

Generally the aims of the PJPS are: (1) create employment areas, sources of income, and business opportunities; (2) raise the buying power to reinvigorate community economic activities; (3) maintain community service systems and preserve the environment.²⁰

The components of social safety net programs

Food security program

The food security program is intended to guarantee a sufficient and affordable food supply. A number of areas require food diversification which has to be adjusted to the culture and characteristics of each area. This goal should be achieved as much as possible through encouraging local food production. One aspect of providing a sufficient affordable food supply is providing subsidies.

The program includes activities to strengthen the sustainable system of food supply and the raising of incomes, including: (1) providing subsidised staples and staples received foreign assistance; (2) “special market operation” (*OPK. Operasi pasar khusus*) which

cooperative SME's (Action Plan 2).

²⁰ As stated in the General Guide of Social Safety Net Extension Program (Creation of Emergency Employment Opportunity), by Coordinating Team for the Management of Social Safety Net Extension Program, year 1998/99.

provides food directly, especially rice, to the most need areas throughout Indonesia; (3) food intensifications crash program (*CPIP, crash program intensifikasi pertanian*); otherwise known as the “special effort”. It is abbreviated by *Upsus*. This program provides production facilities, such as excellent seeds and artificial insemination materials, advice and agricultural extension programs to strengthen field implementation; (4) subsidies to agriculture production including subsidies to fertiliser and working capital.

Productive Employment Creation Program

Work intensively and employment creation programs are intended to provide the widest possible employment opportunities. This is accomplished through a world intensive modal to create purchasing power among the unemployment so they can afford basic staples, reduce unemployment and encourage productive activities which are sustainable and will continue after the end of the program.

The crisis has caused a reduction in economic activities, especially in urban areas. This has caused many companies and other activities to rationalise their work force, resulting in many layoffs. Currently the number entering the work force continues to rise, adding to unemployment to reduce the effects efforts have been made to focus regular programs and add special one the productive employment creation program.

The components of this program are directed at raising work opportunities for all the unemployed, including hit by the crisis; all income groups, especially middle and low income groups; and all ability especially trained and skilled labor. The particular goal of the program components is to create sustainable economic activities to achieve this the “padat karya” programs are operated as a stimulant to raise the income of these suffering from the crisis. The components are involved: (1) urban rural work intensive conducted to increase the income of those hit by the crisis; (2) work intensively to reduce skilled unemployment is intended to create work opportunities among those with at least a technical school degree who have been laid off terminated; (3) forestry work intensive to create providence work opportunities for those who line in forested areas through refers taken activities through the agroforestry model: and (4) sectoral work intensive carried out through creation productive work in the development sector.

Social Protection Program

The social protection program has a direction to enforce the community access for the basic public facility’s mainly health and education. In health aspect is implemented by medicine supplies assistance directly to the community health center (*Puskesmas, Pusat*

Kesehatan Masyarakat) and also others local facility health centers. Education aspect has a direction to stay backs the school children group to the school. This effort can be hoping to and force education participating number. In order to do through several block grants to lightened school fees from the elementary school to the university level.

On the frame of a social protection program have been formulated several component program event consolidating programs or innovating programs. Both of the programs are specifically to alleviate the social impact as the result of the crisis.

Among of deeply impacts are a nutrition decrease problem on infant and basic education children age. Addressing to the social impact is fifteen years later becoming to the lost generation, because they have a minimum standard of life quality. To alleviate the deeply worst impact, government implements several activities as done among the sectoral. That activities are involved: (1) basic education through the scholarship for the student/university student from the poor family and consolidating school stay program (*wajib belajar*); (2) basic education through the assistance for community health serving (*yankesmas, pos pelayanan kesehatan masyarakat*), nursery and medicines helping, and also nutrition food assistance; and (3) social aspect through temporal home stay providing (*rumah singgah*) for the boy's street from the poor families, and fund grant for the orphanage and the old folks' home which are needed money.

Small to Medium Enterprises Program

The people's economic empowerment program is implemented through the support for small to medium enterprise's program. This program is directed to generate people's economic activities, mainly, to generate the economic activity with the scale of small to medium enterprises, and also to increase the participation of cooperative institutions in which generating of people's economic activities as well as productivity economic on local community and through cooperatives spirit. In the mind of small to medium industry are involved household scale enterprises even on the whole of the village. That entrepreneurship is basic on local culture. This effort can be down by capital encourage assistance, training, information guidance, facilitating, and promotion and partnership assistance.

It is now, the institutional agency is prepared the component program to available people's economic strengthening program. The targeting of this programs are a community groups as the small to medium enterprise's activator. The component program SME's specially have an achievement to eradicate the crisis impact and also to avoid deeply the worst impact as a result of long crisis. This effort has to

understand as a short-term development policy (crash programs) however, this policy have a forward linkage with the community capacity building policy. In order to give the assistance is important to understand that this program just a stimulating to develop the productivity and sustainability of the program implementing and also to generate the development results.

This component program is identified by each of intended beneficiaries (targeting) and the location in several district regions (second level autonomous regions) on the whole of Indonesia. The intended beneficiaries in of this program are priority for the people's economic productivity in the agricultural sector, household's handicraft, and small holder industrial trade and company.

Labor-intensive programs

To overcome the economic and monetary crisis and the effects of the natural disasters, the government has adopted policies and taken operational steps. It has both created programs and adapted regular programs to the labor-intensive model. These initiatives include: (1) creating special programs on the labor-intensive model; (2) adapting sectoral projects to the labor-intensive model; and (3) directing Inpres programs to the labor-intensive model.

These three initiatives represent an integrated approach to create wider employment opportunities to those most affected by the economic crisis. These employment opportunities cover all economic sectors, with priority given to sustainable productive economic activities. These funds, whether work incentives or working capital, should be regarded as stimulants, not merely donations or subsidies. The funding provided should be seen as an investment designed to empower large numbers currently unemployed²¹ by creating and supporting sustainable economic activities.

The labor intensive programs have these main purposes: (1) prepare sustainable and productive work and business opportunities for the unemployed, both skilled and unskilled or terminated from work; (2) restore community purchasing power and empower community

²¹ The definition of workforce in this paper differentiates by capability: 1) skilled labor, 2) trained labor and 3) untrained or unskilled labor. Workforce is also differentiated based on employment status: 1) full time; 2) part time; 3) false unemployment; 4) full unemployment. See Sisdjiatmo Kusumosuwidho, *Angkatan Kerja*, written in the report by the Demography Institute Team, Faculty of Economy, University of Indonesia, *Dasar-Dasar Demografi*, Publication Institute of Faculty of Economy, University of Indonesia, Jakarta 1981; and Prof. Dr. Ida Bagus Mantra, *Pengantar Studi Demografi*, First Edition, Nur Cahaya, Yogyakarta, 1985. In planning the intended beneficiaries of the program, data concerning those beneficiaries should be identified complete, accurate and up-to-date.

economy and community institutions in order to restore the national and local economy; (3) solve food scarcity problems and improve food security through development of food commodities; (4) overcome environmental degradation and protect critical areas through reforestation to restore the condition and function of the natural environment.²²

In connection with the above goals, the primary targets of the labor-intensive programs currently in operation include: (1) creation of employment opportunities for as many as 2.10 million skilled and unskilled unemployed people both in rural and urban areas; (2) development of productive economic institutions which are firmly established in the community as well as creation of new self-run businesses; (3) conservation of forests and reduction of critical land while providing food for the community; and maintaining social and economic facilities and infrastructure for the community.²³

Policies to widen employment opportunities in order to overcome the effects of the economic crisis were implemented in early 1998, beginning with a three-month program known as the Stage I Labor Intensive Crash Program. Starting in the 1998/99 fiscal year, the Stage II Labor-intensive Program will be implemented, including three programs: the Special Labor-Intensive Program, the regular DIP Labor-Intensive Program, and the *Inpres* Labor-Intensive program. These programs have varying priority distributions depending on the sector of activity (see Table 3).

Labor-intensive programs in the 1998/99 fiscal year will emphasise restoring economic activities weakened by the crisis. These programs will emphasise generating sustainable and productive employment opportunities in anticipation of rising unemployment. These programs already in operation include the Special Labor Intensive Program, the Sectoral Productive Labor Intensive Program (PKPS), and the *Inpres* Labor Intensive Program, described in more detail below.

Special Labor-Intensive Program

The Special Labor-Intensive Program consists of: (1) Draught Effects Mitigation and Work Force Problem Project (PDKMK, *Proyek Penanggulangan Dampak Kekeringan dan Masalah Ketenagakerjaan*) or Rural-Urban Labor Intensive, with an allocation of Rp.600 billion, expected to absorb approximately 56 million person-days of labor; (2) Skilled Labor Unemployment Mitigation Project (P3T, *Proyek*

²² As stated in the General Guide of Social Safety Net Extension Program (Creation of Emergency Employment Opportunity), by Coordinating Team for the Management of Social Safety Net Extension Program, year 1998/99

²³ As stated in the General Guide to the Social Safety Net Extension Program (Creation of Emergency Employment Opportunity), by Coordinating Team for the Management of Social Safety Net Extension Program, year 1998/99

Penanggulangan Pengangguran Pekerja Terampil), with an allocation of Rp. 400 billion, expected to use approximately 65,000 people; (3) Labor Intensive Forestry Sector Project (PKSK, *Proyek Padat Karya Sektor Kehutanan*), with an allocation of approximately Rp. 500 billion, expected to utilise approximately 44 million person-days.

Sectoral Productive Work Intensive Program (PKPS)

Sectoral Productive Labor-Intensive Programs consists of the following allocations: (1) Buildings (*Cipta Karya*): approximately Rp. 320 billion, with an estimated work-force utilisation of 13 million person-days; (2) Roads (*Bina Marga*): approximately Rp. 1.369 billion, with an estimated work-force utilisation of 81 million person-days; (3) Irrigation (*Pengairan*): approximately Rp. 315 billion, with an estimated work-force utilisation of 16 million person-days.

Inpres Labor-Intensive Programs

Inpres programs which are intended to use the labor-intensive approach include regency roads, irrigation maintenance, primary schools, community health centers, and development of supporting infrastructures for under-developed villages (P3DT).

The Stage II Labor-Intensive Program, currently in operation, appears to have the same characteristics of previous programs, that is, it is labor intensive, but at the operational level it has a number of variations, which can be examined in Table 4.

Implementation outcome and problems

Several major issues threaten to obstruct the smooth implementation of these programs.²⁴; (1) The coordination mechanisms among institutions, both vertical and horizontal, have not been firmly established, especially in determining the target groups, their number, and locations; (2) The funds distribution mechanism has not directly reached the lowest level of the community; (3) The target groups that are the intended beneficiaries have not been defined clearly as to their organisation, location, and types of activities; (4) Determining the levels of remuneration, which vary, make it hard to determine the standards for the evaluation of the program's success in increasing the income; (5) Programs run under the Farming Integrated Arms Forces scheme (AMP) are not in synchronisation with the programs run under the rural urban labor-intensive scheme (PDKMK); (6) The ability of C2-GEL²⁵

²⁴ As stated in the Progress Report of Labor-Intensive Program Coordination, year 1998/99 which was prepared by the Coordinating Team of the Central Program to Overcome Unemployment.

²⁵ C2-GEL is the tendering agency for small enterprises (GEL) qualified to bid as contractors, consultants or suppliers. This is regulated in the Presidential Decree (Keppres) 24/1995 jo Keppres 8/1997.

contractors to meet the administrative requirements to obtain funds is still low; (7) Community Self-Reliance Development Institutions (LPSM), whose role is to support community and government officials, appear unprepared to fulfil formal regulation requirements to conduct field activities as official contractors.²⁶

Because of these emerging problems, close attention should be paid to: (1) the procedure of distributing the funds directly to the beneficiaries through community self-reliance organisations known as the Village Community Resilience Institution (LKMD); (2) determinations about program proposals made by the program users at the local level through NGO's such as the LKMD and coordinated at the higher level through council sessions of the Development Work Regional Unit (UDKP); (3) management support and counterpart staff offered at each level in order to improve the capacity of planning and implementation; (4) internal monitoring through the functional channels from above to below with reporting from below to above; (5) independent monitoring performed systematically at each level by LPSM²⁷ or universities that report directly to the center about the design/process, impacts and community appreciation.

Considering these problems and conditions, the government is preparing the STAGE III Labor-Intensive Development Program, a national program with a wider scope called the Social Safety Net Extension Program.²⁸

²⁶ Explanation concerning this issue can be seen in Keppres No. 16/1994 jo Keppres 24/1995 jo Keppres 8/1997, especially in the Attachment III.

²⁷ LPSM (Community Self-Reliance Development Institution) is a Private Voluntary Organisation (PVO) acting as a management consultant on the counterpart team of the community and government officials in project management, monitoring and reporting. PVO's special tasks are to be the think tank in the steering committee, counsellor in the field, and to prepare operational guide and system. PVO is part of the Patron Team that consists of elements of planning, bureaucracy, finance, technical assistance, monitoring and evaluation.

²⁸ The Social Safety Net Extension Program emphasises the active and full participation of the community through counselling and partnership. This program is a short-term program but is expected to have a sustainable impact. In general, the purposes of Social Safety Net Extension program are: creation of employment and business opportunity as well as community income source; improving community purchasing power to regenerate people economy activities; and maintaining community service system as well as conserving living environment function. These are stated in the General Guide of the Social Safety Net Extension Program (Creation of Emergency Employment Opportunity), by the Coordinating Team for the Management of Social Safety Net Extension Program, 1998/99

Characteristics of labor-intensive programs

Development programs initiated and implemented by the end-beneficiaries, and continuously adjusted to reflect community growth levels, should become the cornerstone of national development policy²⁹. All programs should adhere to the principles of direct assistance, active participation, efficiency and transparency. Labor-intensive programs following these principles have the best chance of producing real improvement.³⁰

Labor-intensive programs supporting structural change

Development programs can only be deemed successful if they promote permanent, beneficial changes in community structure. The key to program sustainability is the acceptance of the program targets by the affected community. This can only be ensured if the community actively participates in all phases of program design and implementation — development from and for the people. Ideally, a community should initiate its own program in response to current conditions and opportunities, with the government acting as a supervisor, facilitator, and provider of material and expert resources not available within the community.

Program assistance, if directly managed by the community, can amplify structural changes already initiated independently by providing business opportunities, especially for the poorer members. Direct assistance,³¹ in this case, is aimed at fostering economic self-sufficiency. Again, this development assistance can only be truly effective if managed according to the principles of participative development, actively involving the community in all aspects of the program.

Many development-induced structural changes take place gradually. To aid the community in managing development program

²⁹ These five principles have been adopted in the village development program assistance. See the General Guide of the Village (Kecamatan) Development Program, fiscal year 1998/99, Central Counselling Team PPK, Jakarta, 1998. See also Ginandjar Kartasasmita, *Pembangunan Untuk Rakyat: Memadukan Pertumbuhan dan Pemerataan*, First Edition, PT. Pustaka CIDESINDO. Jakarta. 1996.

³⁰ This is based on the understanding that because development programs are intended to attain public prosperity, the direction of national development programs, including labor-intensive development programs, should take into account the development of human resources. This will develop the participants in the development of the economy, social economic activities, facilities and infrastructure, institutions, community social prosperity, monitoring systems and evaluation.

³¹ Direct assistance given to the community is in the form of a grant and managed by community groups with orderly and transparent record keeping. This record keeping serves to monitor and improve the program and enhances the capability of the community in managing the fund in accordance with the structural transformation process. See Gunawan Sumodiningrat, in Budhy Tjahjati S. Soegijoko, BS. Kusbiantoro (Editor), *Perencanaan Pembangunan di Indonesia (Bunga Rampai)*, PT Gramedia Widiasarana Indonesia, Jakarta, 1997.

assistance during transition periods, supplementary assistance, provided by either the government or development consultant, should be an integral component of development programs. Because program and supplementary assistance is designed to stimulate the process of strengthening community self-reliance, funds must be utilised productively.

Structural change should be a natural process, initiated and supported by the ultimate beneficiaries. Ideally, development programs should create new income opportunities and support a stable economic environment, encouraging community members to save. This growth of private savings is the key to continued prosperity, as access to capital allows local businesses to improve their technology base and to acquire higher-quality human resources, increasing the volume and profitability of the enterprise and benefiting the community as a whole.³²

Development program refinement

To deal with the effects of economic crisis, national development programs, both currently running and in preparation, need to be refined to reflect and accommodate the still-evolving situation. Problems must be identified and alternative strategies developed for these programs to remain effective.

Development program refinement consists of evaluating: (1) current community priorities; (2) activity locations; (3) funding sources; (4) funding allocation; (5) program mechanisms. As with new programs, refinement of existing programs should be undertaken in cooperation the affected community and targeted toward encouraging community self-reliance.³³

To create an accountable, effective system of resource allocation, development assistance should be classified as: (1) direct assistance, generally taking the form of funds, facilities or supporting infrastructure

³² The success of the assistance of development programs directly managed by the community by their own community groups, can be examined in the implementation of Under-developed Village Assistance (IDT) programs. Such IDT programs consist of: (1) assistance up to Rp.20 million per village per year, disbursed in three stages; (2) supplementary program and technical assistance; (3) the under-developed village supporting infrastructure development program (P3DT). A more detailed explanation concerning the implementation strategy of empowering community can be read in: Coordinating Team of Regional Development Assistance: Pemihakan dan Pemberdayaan Masyarakat: Pengalaman dan Pelaksanaan Program IDT, Deputy for Local and Regional, Jakarta, 1998.

³³ These issues are expected to guide discussions at each level: village, regency, province and central government. With the same basis for discussion, the division of roles between community and government at each level of development will become clearer, in accordance with each level's function. Such a guide, which was established for a five year period, is basically the same as the yearly target of the five-year development plan (SARLITA).

given directly to the community; (2) supplementary assistance, disbursed through the village, district, regional or central administration.

Programs belonging to either class should be sub-classified as: (1) crash programs intended to deal with emergency situations resulting from the crisis; (2) medium-term programs, or pilot projects; (3) long-term programs designed for normal economic conditions.

The overriding goal of all programs should be to stimulate the emergence of self-funding and productive social economic activities in the target communities, generally by encouraging the establishment and growth of collective business groups. As the long-term success of these groups is directly dependent on the commitment and enthusiasm of community members, it is imperative they be fully involved in all phases of program refinement by applying the principles of participative development.³⁴

Principle of participative development

The principle of participative development asserts that the community must become the key player in the development process. The role of other players should be to assist the local communities to identify problems, design remedies, and implement the subsequent programs in a sustainable manner. Active participation in development programs, supplemented by policies and initiatives designed to address fundamental issues of social inequality and competitiveness, can set most communities firmly on the road to self-reliance.³⁵

With the growing capability of local communities to manage their own development process, central and local government intervention is expected to diminish. Where possible, development activities should be undertaken by the communities themselves. Only if communities lack the required expertise should outside parties intervene by providing professional resources.

Participative development and community empowerment are fundamentally cooperative processes. All parties must agree on the vision, mechanisms, coordination, and instruments of the development

³⁴ As presented in the directing address of the Deputy for Economy, Bappenas, in the Development Coordination Meeting (Rakorbang), Province of Jambi, Jambi, 3 August 1998.

³⁵ In facing this current critical situation, special efforts are required to overcome simultaneously the problems of deteriorating conditions in the areas of social-economy, unemployment and foreign currency. These efforts might be implemented through, among others, optimisation of potentials and development experience that have been acquired until the present time. Development experience is the basic resource in determining future development actions. In this reform era, it is not necessary to replace everything that has already existed. The direction of reforms must be well defined so that it will not interfere with the expected direction of development, ie. to realise community prosperity.

program. Free and open discussion with equal weight given to all views, continuous coordination of program components, and free flow of information are the prerequisites to participative development.

New development strategies, which reflect local demands and national economic development and integrate growth and equitable distribution, include: (1) empowering economically disadvantaged communities; (2) stabilising and decentralising the economy; (3) refining and stabilising patterns of change in community economic and social structures.

Under this new development paradigm, the government's task is to refine the implementation of community-based development programs through improving the resources and capabilities of development institutions and the bureaucracy. Strengthening development institutions through adopting the principles of participative development will further enhance community-level administrative and managerial capacity, which are prerequisites for good governance.³⁶

Participative development encompasses several fundamental components:

A vision-mission- and action-oriented development policy. The vision is development by the people for the people. The mission is achieving self-reliance and prosperity for the whole society through integration, growth and equitable distribution. The action is implementation of programs through a community empowerment policy.

Development Guide A Five-Year Development Plan, at national and local levels, that reflects and accommodates community requirements and capabilities.³⁷

Development Planning Mechanism An integration of top-down and bottom-up planning implemented through the regional development control and planning establishment (P5D).

Development Supplementary Team Motivates and coordinates inter-sector and inter-regional development programs and facilities

³⁶ Good governance, both public and corporate, is an essential component of the economic stabilisation program aimed at overcoming the current crisis. See Dr. Budiono, State Minister for PPN/Chairman of BAPPENAS, Economic Stabilisation Program. See also State Speech, The President of the Republic of Indonesia to the People's Consultative Assembly, 15 August 1998.

³⁷ Development planning runs in accordance with structural changes in the community directly affecting community life, such as: human resource development, economic development, establishment of infrastructure, establishment of institutions and sustainable development programs, in order to promote community structure changes through technology improvements. Every program has a planning guide, which reflects community growth and aspiration. The programs are incorporated into REPELITA and implemented yearly programs of 20 development sectors stipulated in APBN. Delivery is by direct assistance to the community, managed in a community group (pokmas). See Gunawan Sumodiningrat, Poverty Relief Program through Local Development Assistance Integration, Monitoring meeting MPMK, IDT, P3DT for Provincial Bappeda and PMD, Jakarta, 19 February 1998.

effective interaction between communities and local and central government bodies.

Development Instruments Funding sources such as governmental development funding sources (APBN/APBD), private sector sponsorships and local savings.

In connection with these matters, the APBN is the appropriate instrument to initiate the structural changes in areas of activity where empowerment is to take place. The APBN is the financing instrument for development which collects various development financing sources, then allocates them through subsidies to stimulate the growth of self sufficiency through natural development mechanisms. The market mechanism is the hoped-for natural development mechanism. APBN financing sources for motivating development include routine, DIP, SPABP, and PBB. To strengthen the effectiveness of the aid flowing among the people and regions development budgeting is being moved from the Central DIP mechanism toward use of the SPABP (Inpres) mechanism. The SPABP has been further sharpened by the use of specific grants in the form of revolving block grants. The funds for this development program are directly used by the people in the form of revolving block grants allocated through community groups (pokmas).³⁸

Program assistance, which is directly managed by the community, will further motivate structure changes that have been independently initiated by the community. Therefore, this direct assistance further spreads and strengthens community ability, especially the least economically advantaged, in improving living standards by providing business and productive employment opportunities in order to realise self-dependence. Development management is accomplished by applying participative development principles. Program assistance allocated by the government in the APBN in the form of subsidy

³⁸ Sectoral development financed through the sectoral DIP (*Daftar Isian Proyek*, Project List) has a centralised nature because the operation is conducted by the technical departments or LPND at the central level. Regional development financed by the SPABP (Surat Pengesahan Anggaran Bantuan Pembangunan, Certification of Development Assistance Funds) is decentralised in nature because the operation is conducted by the regional governments or by autonomous agencies connected to the regional level. The DIP sector mechanism is being changed in stages to give help to the regions through the DIPP mechanism and SPABP, channelled directly to the people. See, Gunawan Sumodiningrat, *Strengthening Public Administration Through Empowering the Provincial Governments*, *Perencanaan Pembangunan* magazine, Bappenas, Number 12, June-July, 1998, and Kunarjo, *Glossary of Economics, Finance, and Development*, Balai Pustaka, Jakarta, 1996.

assistance must also be understood as a grant that must be productively utilised (revolving grant).

Kecamatan development programs (PPK)³⁹: a model of development program

In order to maintain existing development program benefits, communities must be assisted in acquiring and implementing program assistance aimed at generating economic activity. All elements of the community, especially regional government personnel, must be part of this process by establishing and facilitating community groups (*Pokmas*). These groups are expected to form the embryo of cooperative institutions capable of planning, executing and sustaining independent development activities.

Several existing development assistance programs deliver assistance directly to the community. One such program, the Kecamatan Development Program assistance (PPK), an extension of the Underdeveloped Village (IDT) Inpres program operating through the Under-Developed Village Supporting Infrastructure Development (P3DT) program, prioritises development that is directly managed by the community through local institutions, coordinated by mutual discussion at the *kecamatan* level.⁴⁰

PPK is a **sustainable community institutional development model** that applies participative development principles. The participative development model emphasises development that is directly managed and implemented by local community, particularly in the villages by a unit coordinated by local institution in a development mutual discussion organisation at the *kecamatan* level.⁴¹

Through PPK, direct assistance in the form of revolving grant is given to each village under coordination of the *kecamatan*. Each *kecamatan* coordinates five villages possessing certain criteria. Each

³⁹ Kecamatan is Subdistrict level.

⁴⁰ Adapting various assistance programs, which are directly delivered to the community, support PPK assistance implementation. Centralised program assistance using the central DIP mechanism has been gradually shifted to SPABP (the letter of approval for regional development assistance budget) mechanism. Support is also given by 'personnel empowerment' by involving elements of non-government organisations (LSM), other community-based institutions, and universities. In this regard, the role of guiding team has become very important, especially at Regional Level II as the unit for regional mutual discussion.

⁴¹ In order to realise the development process that is from by for the community, accommodating real village community needs, a forum has existed called LKMD (Village Community Resilience Institution). It is suggested that the name should be altered to LSMD (Village Community Self-Dependence Institution). Decision-making coordination at the kecamatan level should be in the forum called UDKP (Development Work Regional Unit).

kecamatan receives three grants of Rp. 500 million to Rp. 750 million each year. Such direct assistance to the villages under *kecamatan* coordination might be used to fund social investment in the forms of public utilities infrastructure, economic investment that produces revolving credit, and capacity-building investment. In fiscal year 1998/99 1,500 *kecamatan* have been assigned, encompassing 7,500 villages.

Finance management units (UPK), established and operated by community members, need to be established at the village and *kecamatan* levels. As financial institutions, UPK's can manage various assistance programs as well as organising community-based revolving credit. UPK could develop into alternative (LKM), community-owned financial institutions applying both banking and cooperative principles. An LKM could, in turn, evolve into a cooperative legal body (following cooperative regulations) or a legal banking body (following the banking regulations). Plans call for all *kecamatan* to adopt this mechanism and receive PPK assistance.

Conclusion

The monetary and economic crisis affecting Indonesia has caused a serious and wide-spread economic recession, resulting in massive unemployment, a loss of business opportunities and a weakening the community purchasing power. This problem requires transparent, integrated and immediate solutions.

To tackle these problems effectively, government, development professionals and the public must: (1) learn from past experiences by adopting advantageous practices and avoiding the repetition of mistakes; (2) optimise existing resources; (3) maintain programs with proven beneficial effects; (4) improve existing programs not delivering satisfactory results; (5) design and implement innovative solutions; and (6) abandon practices detrimental under the current conditions.

Special action needs to be formulated and directed towards community economic empowerment, as a rescue and recovery program which will lay the foundation to restore normal growth and development.

Development policy in this reform era must promote and stabilise inter-sector, inter-region, and inter-sector-region development to enable all communities to adapt to the global economic environment. This effort should be undertaken systematically by involving the community in development planning policy, from the planning document preparation to the yearly development target allotments, and in the budgeting process, both at the national and local level.

Development in this reform era should give wide support to: (1) creating an opportunity for active community participation in an economic development process which is more democratic through cooperative activities and mutual partnership as a realisation of community economic democracy (development from by for the community); (2) defending and empowering the community in relation to a regional autonomy program, which is carried out dynamically and genuinely; (3) encouraging structural change stabilisation by the community itself through by community modernisation. This can be accomplished in connection with anti-monopoly efforts. Speculative activities must be controlled and avoided through adoption of virtuous moral values; and; (4) integrating and correlating inter-human, inter-region, and inter-sector economic activities, as and, as well, integrating macro and micro national development, to apply an economic system which is socially just for all the Indonesian people.

With the coming of the reform era, development programs, aimed directly at the community can accomplish these objectives. Transparency is the key to the reformation of national development in order to enhance public prosperity. Support from all levels of the bureaucracy, from central to local, from community self-reliance development institutions, and from the community at large are required for the successful achievement of these activities. This will enable us to achieve our goal: Attaining public prosperity through sustainable, productive economic activities.

Appendix 1

Glossary of Terms and Abbreviations

APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i>	Provincial Budget
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i>	National Budget
BAPPEDA	<i>Badan Perencanaan Pembangunan Daerah</i>	Regional Development Planning Agency
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i>	National Development Planning Agency
BKD	<i>Badan Kredit Desa</i>	Village Credit Board
BKPM	<i>Badan Koordinasi Penanaman Modal</i>	Capital Investment Coordinating Board
BI	<i>Bank Indonesia</i>	Bank Indonesia
BPJK	<i>Bantuan Pembangunan Jalan Kabupaten</i>	Kabupaten Road Development Assistance
BPJP	<i>Bantuan Pembangunan Jalan Propinsi</i>	Province Road Development Assistance
BPS	<i>Biro Pusat Statistik</i>	Central Bureau of Statistics
CGI		Consultative Group on Indonesia
DIP	<i>Daftar Isian Proyek</i>	Project List for Sectoral Development
DIPP	<i>Daftar Isian Proyek Pembangunan</i>	Project List for National Development
GBHN	<i>Garis-garis Besar Haluan Negara</i>	Project National Guidelines
HOK	<i>Hari Orang Kerja</i>	Mandays
IDT	<i>Inpres Desa Tertinggal</i>	Under-developed Village Program
IMF		International Monetary Fund
Inpres	<i>Instruksi Presiden</i>	Presidential Instruction
JPS	<i>Jaring Pengaman Sosial</i>	Social Safety Net (SSN)
Jo	<i>Juncto</i>	related to
KADIN	<i>Kamar Dagang dan Industri</i>	Indonesian Chamber of Commerce
Kabupaten		Administrative District
Kecamatan		Administrative Subdistrict
Keppres	<i>Keputusan Presiden</i>	Presidential Decree
KUK	<i>Kredit Usaha Kecil</i>	Small Credit Program
Kupedes	<i>Kredit Umum Pedesaan</i>	General Credit for Village Enterprise
LDKP	<i>Lembaga Dana dan Kredit Perdesaan</i>	Fund and Credit Institution of Village
LKM	<i>Lembaga Keuangan Alternatif milik Masyarakat</i>	Community Financial Institution
LKMD	<i>Lembaga Ketahanan Masyarakat Desa</i>	Community Resilience Institution
LPND	<i>Lembaga Pemerintah Non-Departemen</i>	Non-department Government Institution
LPSM	<i>Lembaga Pengembang Swadaya Masyarakat</i>	Private Voluntary Organization
LSM	<i>Lembaga Swadaya Masyarakat</i>	Community Council
LSMD	<i>Lembaga Sosial Masyarakat Desa</i>	Social Institution of Village Community
MIS	<i>Sistem Informasi Manajemen</i>	Management Information System
MPMK	<i>Memantapkan Program Menggapus Kemiskinan</i>	Consolidating Program to Alleviate Poverty
NGO		Non-government Organization
P3DT	<i>Pembangunan Prasarana Pendukung Desa Tertinggal</i>	Village Infrastructure Development for Developing Village
P3T	<i>Proyek Penanggulangan Pengangguran Pekerja Terampil</i>	Skilled Labor Unemployment Mitigation Project
P5D	<i>Pedoman Penyusunan Perencanaan dan Pengendalian Pembangunan di Daerah</i>	Guidance for Regional Development Planning and Controlling
Pancasila		the Indonesia National Guidance and Principles State
PBB	<i>Pajak Bumi Bangunan</i>	Tax of Land and Building
PDB	<i>Pendapatan Domestik Bruto</i>	Gross Domestic Income
PDKMK	<i>Proyek Penanggulangan Dampak Kekeringan dan Masalah Ketenagakerjaan</i>	Draught Effects Mitigation and Work Force Problem Project
Pengairan		Irrigation

PJPS	<i>Program Perluasan Jaring Pengaman Sosial</i>	Social Safety Net Extension Program
PKPS	<i>Padat Karya Produktif Sektoral</i>	Sectoral Productive Labor Intensive Program
PKSK	<i>Proyek Padat Karya Sektor Kehutanan</i>	Labor Intensive Forestry Sector Project
PMTAS	<i>Pemberian Makanan Tambahan Anak Sekolah</i>	Nutrition Program for School Children
Pokmas	<i>Kelompok Usaha Bersama</i>	Cooperative Activity Groups
POLDAS	<i>Pola Dasar</i>	
PPK	<i>Program Pengembangan Kecamatan</i>	Kecamatan (Subdistrict) Development Program
PPL	<i>Petugas Penyuluhan Lapangan</i>	Field Counselling Extension Services
PPN	<i>Pajak Pertambahan Nilai</i>	Value Added Tax
PVO		Private Voluntary Organisation
Repelita	<i>Rencana Pembangunan Lima Tahun</i>	Five-year Development Plan
RTRWN	<i>Rencana Tata Ruang Wilayah Nasional</i>	National Plan of Area Spatial
RUTR	<i>Rencana Umum Tata Ruang</i>	General Plan of Spatial
Sarlita	<i>Sasaran Repelita Tahunan</i>	Annual Targets of Five-year Development Plan
SPABP	<i>Surat Pengesahan Anggaran Bantuan Pembangunan</i>	Document of Development Assistance Budget
Simpedes	<i>Simpan Pinjam Perdesaan</i>	Village Institution for Credit and Saving
SMEs		Small to Medium Enterprises
SSN		Social Safety Net
Takukesra	<i>Tabungan dan Kredit Kesejahteraan Keluarga</i>	Saving and Credit for Family Unit
UDKP	<i>Unit Daerah Kerja Pembangunan</i>	Development Work Area Unit
UPK	<i>Unit Pengelola Keuangan</i>	Community-based Financial Management Units
UUD	<i>Undang-Undang Dasar</i>	Constitution

Table 1: Activity and Fund Allocation for Social Safety Net Program (Rupiah Portion)

Sub-sector	Purpose	Allocation (Rp.)
Industry	Support the home enterprise development, community handicraft industry, small and medium industry.	65.7 billion
Agriculture	Improve food production. Provision of prime seeds, intensification of agriculture, and provision of appropriate technology	1,031 trillion
Forestry	Operate labor-intensive program in forestry	513 billion
Irrigation	Maintain and rehabilitate small and medium irrigation networks in order to support the food production improvement program	1,017 trillion
Work force	Operate labor-intensive programs	1,010 trillion
Domestic trade	Support and improve domestic trade distribution network, particularly the distribution of nine staple foods	15.9 billion
Foreign trade	Support the expansion of foreign export activities, now stalled due to disruptions in the distribution network of export commodities	21.8 billion
Small scale enterprises and cooperative groups	Support the efforts to develop local entrepreneurs through the development of cooperative groups, small and medium enterprises.	147.2 billion
Road infrastructure	Improve transportation facilities, especially maintenance and upgrading of road and bridge networks supporting food production. Road maintenance and upgrading is a labor-intensive program.	1,174 trillion
	Support the pilot connection program for isolated areas by providing land transportation network.	78 billion
	Improve the sea transportation network	44.3 billion
	Improve air transportation network	43.6 billion
Energy	Support rural electricity development to serve poor and isolated communities and encourage productive activities in rural areas.	336.8 billion
Regional development	Provide additional funds for the integrated local community agriculture program, rural development, local government, under-developed villages, critical land rehabilitation, basic education, community health service, settlement environment service and fresh water management	2,918 trillion
Education	Assist students with financial difficulties at all education levels.	4,514 trillion
	Support extra-curriculum activities through provision of expert instructors	114.3 billion
	Support activities in the fields of youth and sports	70,5 billion
Social prosperity	Improve social service activities for the incapable groups of the community, abandoned children or elderly and others.	124.1 billion
Health	Fund hospitals, community health services and disease prevention and eradication	1,998 trillion
	Increase Inpres funding for school children additional nutrition program (PMT AS)	414.4 billion

Housing and settlement	Support main settlement activities such as environment improvement in urban slum areas, including reconstruction of traditional market buildings destroyed during the May 1998 riots. The implementation of this fund will also provide employment opportunity for the urban workers by utilising labor-intensive programs. The implementation of this project will involve small-scale entrepreneurs and cooperative groups as suppliers (sub-contractor) for the facilities/infrastructure construction.	1,351 trillion
Religion	Support religious education and counselling through the provision of education funds for students facing funding difficulties.	229.3 billion
Law	Support law enforcement activities in the fields of economy and politics such as regulations for bankruptcy, political party, general elections and the improvement of laws and regulations dating from the Dutch colonial era.	18.3 billion

Source: Bappenas (August 1998)

Note: the details do not include allocated funds from the CGI (Consultative Groups on Indonesia)

Table 2 Activity and Fund Allocation to Support the Social Safety Net Program

Component	Purpose	Allocation (Rp.)
Village development assistance	Develop social economic activities through the improvement of production and marketing of goods and services for rural community; construction and maintenance of supporting facilities and infrastructure in under-developed villages, improvement of human resources capabilities; community institution strengthening; development of loan and funding institutions owned by the village community in order to generate capital circulation.	476.9 billion
Development assistance for under-developed villages	Improve the comprehensive poverty elimination efforts through direct assistance to community groups for productive social economy activities, supplementary assistance for community groups and development assistance for the construction of infrastructure in under-developed villages.	204.6 billion
Development assistance to local government Level II	Support the efforts of providing employment opportunity to impoverished community members through labor-intensive programs. Rehabilitate and construct village markets where required. Rehabilitation of primary schools, health centers, as well as farming production development through field counselling program (PPL), integrated public farming development, development of under-developed communities in rural areas, and tree-planting.	3,765 trillion

Development assistance to local government Level I	Support the effort to overcome poverty, create employment opportunities and economic stabilisation through various activity sectors in the APBD Level I (regional budget), critical land rehabilitation through tree-planting activities, operation and maintenance of irrigation networks which are capable of irrigating 1.6 million hectares of farm land, rehabilitation and improvement of road and bridges, regional development programs as well as management of conservation areas.	1,741 billion
Development assistance for primary schools	Extend the scope of education to decrease the number of school leavers.	594.9 billion
Development assistance for health facilities	Assist efforts to strengthen the Social Safety Net in the fields of community health, especially for critical community groups, through the improvement of health service and nutritive foods for children and youths, provision of medicine, provision and extension of community health center, training and education for nurses and paramedic staff, placement of health workers, provision of equipment for nurses and non medical equipment, integrated regional health service, improving environment health in the settlement area as well as provision of fresh water.	845.9 billion
Assistance for PMT AS	Provide additional nutrition and medicine to eradicate worms.	414.5 billion
Social Safety Net Extension Program	Assist the community directly. Intended to improve community purchasing power to meet basic needs for food, clothing, housing, education and health. The assistance is used to develop community productive economy activities run by small and medium enterprises, in accordance with the characteristics of each region, based on the market demand, both domestic and foreign. Maintain and rehabilitate economic and social facilities and infrastructure of the community that directly support community economy activities. Training held to improve skill and management of community economic activities in order to further develop productive economic activities.	2,713 trillion

Source: Bappenas (August 1998)

Note: The details do not include allocated funds from the CGI (Consultative Group on Indonesia)

Table 3 Summary of Labor-Intensive Programs

Department	ACTIVITY	Allocation (Rp.)
Crash Programs		
Labor	1. Address problems related to draught and crisis - 28 million HOK	598,585 billion
	2. Employ skilled workers - 65,000 jobless people	399,185 billion
	3. Armed Forces agriculture integration program (as a part of the solution to the problems caused by the draught and labor issues as well as forestry labor-intensive program)	
Forestry And Horticulture	Forestry labor-intensive program - 30.6 million HOK	505.8 billion
Routine Programs		
Labor	Development of Productive Efforts and Labor-intensive Technology Dissemination for about 15,000 jobless people in various areas (27 provinces)	17.0 billion
Forestry and Horticulture	Development of Community Effort on Critical Land, Establishment of Community Forest in the surrounding area, and Development of Natural Silk Farming	5.8 billion
Trade And Industry	Development of small and medium agro-industry, home industry, and small and medium enterprises for domestic and foreign markets.	2.5 billion
Transmigration, Forestry And Settlement	Maintain Settlement Facilities and Infrastructure, Connection Road Rehabilitation and Land Productivity Improvement.	2.6 billion
Agriculture	Develop Mangrove Cultivation of corn and rice on horticultural land, Develop Prime Agribusiness, Develop New Rural Seeding Center, Terracing, and Micro Water Use Networks. Improve of Farming Land Use and Irrigation.	44.7 billion
Public Works	Develop and Conserve of Water Resources, and Develop of Water Resources. Flood Management, Swamp Area Development, and Irrigation	27.6 billion

Source: Bappanas (July 1998)

Table 4 Labor-Intensive Program Mechanism, Fiscal Year 1998/99

Activity Type	Fund channel	Counterpart	Community Base	Monitoring
Special Labor-Intensive				
1. PDKMK	DIPP	None	None	Internal
2. P3T	DIPP	NGO	Community Group	Internal
3. Forestry	DIPP	NGO	Community Group (Farmers)	Internal
Sector Labor-Intensive				
1. Cipta Karya	DIPP	None	C2Gel	Internal-External
2. Bina Marga	DIPP	None	C2Gel	Internal-External
3. Pengairan	DIPP	None	C2Gel	Internal-External
Inpres Programs				
1. BPJK	SPABP	None	C2Gel	Internal-External
2. OP Pengairan	SPABP	None	Community Group (P3A)	Internal
3. P3DT	SPABP	None	LKMD	Internal-External
4. Rehabilitation of Primary School	SPABP	None	Community Group	Internal