
BEYOND

KRISMON

*The Social Legacy
of Indonesia's
Financial Crisis*

Peter Stalker



United Nations Children's Fund
Innocenti Research Centre
Florence, Italy

UNICEF
Innocenti Insight

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1. BEYOND KRISMON

■ THE SOCIAL LEGACY OF INDONESIA'S FINANCIAL CRISIS

An all-powerful political family. Two decades of rapid economic growth. One of the world's steepest reductions in poverty. Then the crises. Monetary implosion. Political collapse. The threats of mass impoverishment and national disintegration.

Indonesia has generated some startling headlines in the last five years. And the drama seems set to continue. Democracy has been re-established, but authority sits precariously—and is under threat from many directions. Aceh and Irian Jaya agitate for independence. Maluku and other provinces are torn by religious strife.

For the world's fourth largest nation these are dangerous and confusing times. Indonesia is undertaking a complex series of interwoven transitions: from a one-party state to a multi-party democracy; from corrupt crony capitalism to a regulated market economy; and from a hierarchical and centralized administration to one where power is dispersed across hundreds of districts. But it sets out on this perilous journey saddled with a huge burden of debt—a handicap that could cripple human development for years ahead.

■ THE 'NEW ORDER' FOR CHILDREN

Modern-day Indonesia is still largely the creation of ex-President Soeharto's 'New Order' government which took over in 1966. At that point, the country was emerging from a period of ferocious violence and was in a desperate

state. The economy was in ruins. Of the 100 million population, two-thirds languished below the poverty line.

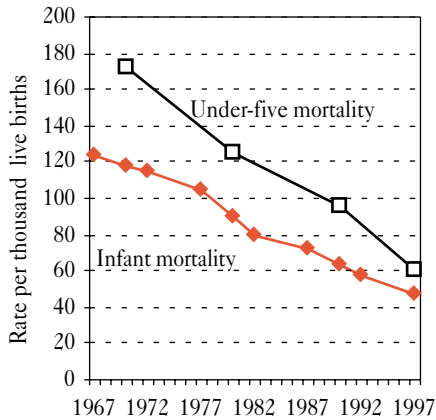
By any standards what happened from the 1970s to the 1990s was remarkable. Soeharto soon stabilized the economy and opened the country up to private foreign investment. Indonesia set off in a new direction, driven initially by the oil industry; later by investment in manufacturing. Annual economic growth regularly reached seven per cent and although it dipped in the 1980s it surged again in the 1990s. The country rapidly became richer: between 1965 and 1995 per capita income quadrupled. Moreover, this growth was shared relatively equitably. Indeed, between the mid-1960s and 1990, Indonesia saw a greater levelling of incomes. As a result there was a fairly rapid decline in income poverty. In 1970 an estimated 60 per cent of the population had been living in poverty and more than 20 per cent were destitute,¹ but by 1993 the official proportion living in poverty was down to 14 per cent.

At the same time, the New Order government had launched some high-profile social development programmes. Between 1973 and 1979 it built more than 61,000 primary schools—one of the world's most dramatic expansions of primary education. The government also established a country-wide network of primary health-care centres, the *pusat kesehatan masyarakat*, or '*puskesmas*', as well as a quarter of a million health posts, the *posyandu*.

In addition, it launched a high-powered

1 - Booth, 2000, p. 75.

Figure 1 – Infant and under-five mortality 1967-97



Source: World Bank (2000)

family planning campaign. So although over this 30-year period the population almost doubled—to 207 million by 1999—the fertility rate was halved, and between 1971-80 and 1990-99 the annual population growth rate fell from 2.3 to 1.6 per cent.²

This combination of economic growth and social investment paid dividends. As Figure 1 illustrates, the infant mortality rate per thousand live births dropped steadily: between 1967 and 1997 it fell from 124 to 47. And there was a steeper fall in under-five mortality.

Indonesia also made corresponding advances in education—enrolling many more children in primary school: between 1965 and 1994 the gross enrolment ratio rose from 72 to 115 per cent.³ This investment in education in turn helped to boost wages.⁴

By the mid-1990s Indonesia still clearly had a long way to go, and lagged behind neighbouring countries. But for such a huge country—with 62 million children under 15 years old—it did seem to have made real inroads into poverty and deprivation.

CASCADING CRISES

All these achievements were jeopardized by the cascade of crises that overtook the country from 1997. The first was an El Niño-induced

drought, which cut back food production and created the tinder for widespread forest fires that sent a choking haze of smog across neighbouring countries. Before the smoke had cleared Indonesia was then swept up in the Asian financial crisis and suffered a devastating monetary collapse: the *krisis moneter* or *krismon*. Between November 1997 and July 1998, the rupiah (Rp.) sank to less than one-sixth of its pre-crisis value, inflation rocketed to 68 per cent for 1998 and the economy shrank by 14 per cent—effectively dropping the country to its 1994 level.⁵

The economic shock ignited further social unrest. From early 1998 Jakarta and other cities were shaken by riots, looting and arson. Indonesians took to the streets protesting not just against government policies, but also against one of the more pernicious legacies of the authoritarian New Order era—the rot of corruption, collusion, and nepotism: *korupsi, kolusi, nepotisme*, or KKN.

By May 1998 the political crisis had come to a head. The New Order edifice started to crack and the president resigned in favour of his vice-president. This resolved some immediate political questions in Jakarta but did little to defuse tensions elsewhere. In Aceh a population that had long suffered from military repression continued to press for independence. In East Timor, despite months of vicious intimidation, the population voted for independence and in October 1999 control of the former Indonesian province passed to an interim United Nations administration. Meanwhile violence based on religion had been erupting in Maluku and West Kalimantan.

By mid-2000 some of these crises had subsided, while others had mutated in new directions. On the agricultural front, the drought had broken and food production revived. The economy also made a hesitant recovery: the government had brought inflation under con-

2 - Badan Pusat Statistik, 2000, p. 27.

3 - World Bank, 2000.

4 - Dufflo, 2000.

5 - Hill, 1999, p. 19.

trol fairly quickly and—at vast expense—had recapitalized insolvent banks. By 1999 economic growth was again positive and in 2000 it could reach four per cent.

The political settlement also held. The June 1999 elections produced a compromise

administration which, despite its confessed failings, survived the August 2000 meeting of the People's Consultative Assembly. However, the secessionist and religious violence continues: by mid-2000 the Christian-Muslim clashes had cost more than 2,500 lives.

2. HOW THE CRISIS HURT INDONESIANS

The Asian financial crisis had repercussions all over the world. But by common consent Indonesia was the country worst affected. Not only did it suffer the steepest economic decline, it was also the only country where the monetary crisis set off a social and political chain reaction that threatened the dissolution of the state.

The international community was understandably concerned. Decades of progress achieved under the New Order regime suddenly seemed far less robust. National and international organizations made alarming predictions. Some suggested that the sharp burst of inflation would plunge as much as 40 per cent of the population into poverty: the poorest would be unable to eat, or to afford health care, or to send their children to school.

■ CUSHIONING THE BLOWS

Fortunately some of the worst scenarios were not realized. The monetary crisis certainly cut into the social fabric but not as fatally as had been feared. There seem to have been two main reasons for this. First, Indonesians' own traditions of self-help, *gotong-royong*, helped to cushion the worst blows as people fell back on the support of their extended families. Many of those who lost their jobs in factories or construction returned, if only temporarily, to the relative stability of the countryside. Between February 1997 and February 1998 employment in manufacturing and construction fell by 10 per cent and 12 per cent respectively, while employment in agriculture increased by 15 per cent.⁶

A second source of support was govern-

ment action. Probably the most crucial early measure was to tighten macroeconomic management so as to curb the spiralling inflation that was threatening to wreck the lives of the poor. Then the government made efforts to construct a 'social safety net'. This included subsidies for food and education, support for key health services, and the creation of labour-intensive employment. Did these official defensive measures work?

■ MONITORING THE CRISIS

Some of the answers are now emerging from data collected by Indonesia's National Statistics Agency (*Badan Pusat Statistik*, BPS). One of its most important contributions is the National Socio-Economic Survey (*Survei Sosial Ekonomi Nasional*, 'Susenas') which covers 202,000 households.⁷ BPS conducts the Susenas annually, though it is usually only every third year that it collects the data needed to monitor changes in overall levels of poverty. BPS carried out the latter survey in February 1996 and February 1999. In addition, at the end of 1998 it conducted a 'Susenas-type' survey which collected some of the same data but from a smaller sample.

Given the urgency of the crisis, however, and the need to act quickly, the government and the international organizations wanted more rapid feedback. Fortunately there were a number of ongoing sample surveys they could draw on—and which also employed BPS enumerators. One was the 'Indonesia Family Life Survey' (IFLS). This is a project of the US-

6 - Economist Intelligence Unit, 2000, p. 29

7 - Betke, 2001.

based Rand Corporation which monitors the situation of 7,700 households across 13 provinces. Although designed to be nationally representative, it is thought to have a bias towards urban and middle-class households. The IFLS is a 'panel' survey that returns to the same households each time and thus provides 'longitudinal' data. There were full IFLS surveys in 1993/94 and 1997/98. In addition there was a supplementary survey from a 25 per cent sub-sample in August–December 1998.

A second source of rapid information was the '100 Village Survey'. This is an initiative, sponsored by UNICEF, which was designed to monitor the situation of poorer families. It is not strictly representative either since it focuses disproportionately on rural and relatively poor areas. Nor is it a true panel survey; although it tries to go back to the same people it does not make exhaustive (and expensive) efforts to find them and instead 'tops up' the sample with new respondents. Nevertheless it is quite extensive, covering 12,000 households in ten districts across eight provinces.

A third source of information was the 'Kecamatan Crisis Impact Survey', which was financed by the Ford Foundation. This is an opinion survey that tries to build up an overall picture by talking to government officials in each of the country's 4,025 *kecamatan* (sub-districts). This survey can be considered representative, since it covers every sub-district, but since it relies on individual opinions the result is essentially qualitative. All these sources were used to monitor the impact on poor families. They suggest the following picture:

- *Poverty* – There has clearly been an increase in the proportion of people living below the poverty line. But the extent of the increase has proved contentious. Early in the crisis both the IFLS and the 100 Village Survey were used to generate suggestive—and disputed—estimates. These concluded that the proportion of people living in poverty had risen from 14 per cent to around 19 per cent.⁸ Subsequently however, when the full Susenas data became available, and there was

greater agreement on methodology, a darker picture emerged. This indicated that between February 1996 and February 1999 the proportion of the population living below the poverty line had increased substantially—from 17.5 to 27.1 per cent.⁹

- *Urban and rural* – The people worst affected were those in urban areas. This was because the crisis started in the financial system, where the collapse of the currency, rocketing interest rates, and the flight of foreign capital brought much of the formal sector, particularly manufacturing and construction, to a halt. People in rural areas suffered the knock-on effects, through inflation and a fall in agricultural wages as more people competed for the same jobs. But, in general, rural areas were less directly affected, particularly in the outer islands. The IFLS found, for example, that between 1997 and 1998 per capita household expenditure fell nationally by 24 per cent. But this was composed of a 34 per cent fall in urban areas and a 13 per cent fall in rural areas.¹⁰ It should be borne in mind however that expenditure information can be misleading since people may be sustaining expenditure by selling assets. So the real drop in living standards could actually have been much greater.
- *Regional variations* – Indonesia is a huge and diverse country, so one might have expected some parts to have suffered more than others. These contrasts emerge from the Kecamatan Crisis Impact Survey. In each *kecamatan* the investigators interviewed three government officials—the agriculture officer, the school supervisor, and the health officer. They reported on the impact of the crisis in their sub-district, indexing their opinions along a five-point scale, from 'somewhat improved' to 'very much worse'. The issues they reported on included food security, employment, health, education, and the strategies that people adopted to

8 - Popple, Sumarto and Pritchett, 1998, p. 14

9 - Suryahadi et al., 2000.

10 - Frankenberg, Thomas and Beegle, 1999, p. 21, Table 2.1.

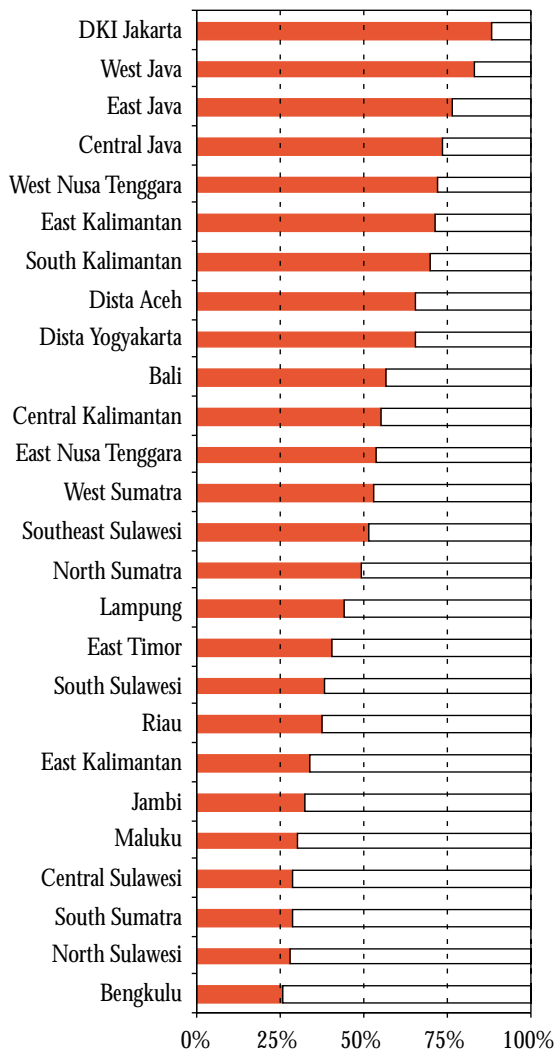
cope with the crisis, such as selling assets. This survey confirmed that urban areas had been the worst hit, but it also identified rural areas that had suffered. The crisis was felt most deeply in Java—even rural Java. Other provinces were less affected: large parts of Sumatra, Sulawesi, and Maluku got off relatively lightly. Indeed those areas that produce cash crops or minerals for export would have benefited from the crisis since the depreciation of the rupiah would have boosted their incomes.¹¹ The cross-regional variation is illustrated in Figure 2 for responses concerned with the forced selling of assets. For each province this shows the proportion of *kecamatan* where the situation was worse than before the crisis. It should be emphasized, however, that these results indicate changes. They do not reflect actual levels of poverty. Thus although West Java and Jakarta were strongly affected by the crisis these were, and remain, among the richest parts of the country, while Maluku though less affected was, and is, poorer.

- *Education* – It had been feared that the crisis would force parents to withdraw their children from school in large numbers. In the event, this does not seem to have happened. Data from Susenas, the IFLS, and the 100 Village Survey indicate fewer dropouts than anticipated. Dropouts seem to have been concentrated at the lower secondary level and even then were only temporary.

This is illustrated in Figure 3 with data from the 100 Village Survey.¹² This shows the proportion of all children of the relevant age group who were actually attend-

Figure 2 – Forced sales of assets

This chart ranks the provinces according to the percentage of *kecamatan* (sub-districts) that reported that the situation with respect to asset sales had got 'worse' or 'much worse'. Thus in Jakarta the situation had deteriorated in 88% of *kecamatan*.

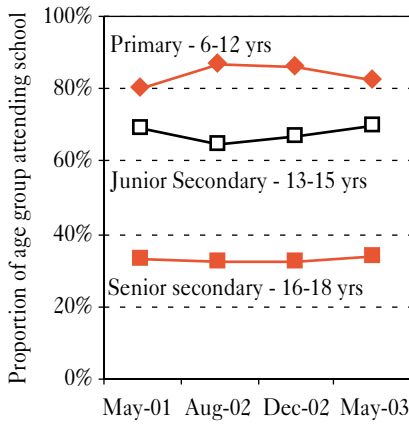


Source: Sumarto et al (1998)

11 - Sumarto, Wetterburg and Pritchett, 1998.

12 - Cameron, 2000a.

Figure 3 – School attendance 1997-99



Source: Cameron (2000a)

ing school—it will therefore be somewhat lower than enrolment (the rise in primary school attendance in August reflects the beginning of the school year). In any case, by May 1999 school attendance at all three levels appeared to be marginally higher than before the crisis.

- **Health** – The health story is less encouraging. As a result of the crisis, fewer people were using government health facilities. The IFLS survey found that between 1997 and 1998 the proportion of adults that had used public health services in the month prior to the survey fell from 7.4 to 5.6 per cent.¹³ However this seems to have been not just because people could not afford the fees but also because they were dissatisfied with a deteriorating service that was running short of drugs and other supplies. As a result they were turning away from the public clinics, the *puskesmas*, and instead choosing private

clinics and traditional healers. More worrying still was a fall in the use of public health facilities by children. This is indicated in Table 1 which shows that the proportion of children using health services dropped from 26 to 20 per cent. Most of this fall is in visits to the *posyandu*, the local clinics in rural and urban areas that are staffed by volunteer health workers and that are the main source of preventive care, including immunization, vitamin A distribution, and growth monitoring. The drop was especially alarming for children under five—from 47 to 28 per cent. Again this probably reflects a weakness in provision. The *posyandu* rely on volunteer workers who might be less willing to offer time when their households were under stress. At the same time government support to *posyandu* through the national women’s organization, the Family Welfare Movement (*Pembinaan Kesejahteraan Keluarga*, PKK) will have weakened.

Table 1 – Children’s use of health facilities

	1997	1998
Using any health services	26%	20%
Using <i>puskesmas</i>	7%	6%
Using <i>posyandu</i>	15%	8%
<i>Under five</i>	47%	28%
Using private services	8%	8%
Using traditional	1%	1%

Note: Data refer to the proportion of children using services in the four weeks prior to interview.
Source: Frankenberg et al. (1999)

13 - Frankenberg, Thomas and Beegle, op cit., p. 65, Table 5.1.

3. DID THE SOCIAL SAFETY NET CATCH THE POOR?

The crisis had clearly taken a toll, even if not at the catastrophic level initially feared. This was partly thanks to individual and community resilience. But may also have been because of government action. As the scale of the crisis became evident in 1997 the government, along with international donors, moved quickly to install a 'social safety net' (*Jaring Pengamanan Sosial*, JPS). The JPS was developed by the National Development Planning Agency, BAPPENAS. It had four main components: subsidized food; scholarships for poor schoolchildren; subsidies for health clinics and medicines; and employment creation. Most of the funds for the JPS programmes came as loans from the World Bank, the Asian Development Bank, and bilateral donors.

FOOD SUBSIDIES

Of these components the special market operation programme (*Operasi Pasar Khusus*, OPK) was probably the most significant, particularly at the beginning of the crisis when there was a danger that food would suddenly be priced beyond the reach of many households.

The decisions as to who would get subsidized food were based on an ongoing monitoring system run by the National Family Planning Coordinating Board (*Badan Koordinasi Keluarga Berencana Nasional*, BKKBN). BKKBN classifies households into four levels of welfare status—on whether, for example, their house has an earth floor, or whether the family can afford certain consumer items. This system is fairly rough and ready and not very sensitive to rapid changes in people's circumstances. Moreover there is some scepticism as to whether the enumerators actually visit all

households rather than simply making well-informed guesses. In the 100 Village Survey, for example, the majority of respondents claimed not to have been classified.¹⁴ Nevertheless the BKKBN list did offer at least some basis for targeting—and identified 17 million people as in need of assistance.¹⁵

Based on the BKKBN list that had been created in January 1998, the OPK programme started in August 1998. Initially it entitled each eligible household to purchase 10 kilograms of rice per month at Rp. 1,000 per kilogram—less than half the market price. Later the allocation was raised to 20 kilograms. The National Logistics Agency, Bulog, made the appropriate amount of rice available in each district.

The government may have wished to target the cheap rice only at the poor, but local officials, who were responsible for the actual distribution, found themselves under pressure to share the food more equally. This may have defused some social tension, but it meant that the poor got less than they should have done. Indeed surveys in some districts suggest that they actually received less than richer families.¹⁶ The poorest in urban areas may also have missed out because, if they had settled there unofficially, they would not have the valid ID card required to qualify for official assistance.

The targeting may not have been that precise, nevertheless the OPK programme offered a lifeline to millions of poor families. It involved a substantial investment: the total cost in 1999 was Rp. 3.7 trillion (US\$460 mil-

14 - Cameron, 2000b.

15 - Fane, 2000, p. 34.

16 - Suryahadi, Suharso and Sumarto, 1999.

lion). But it was probably money well spent. Certainly it made a better contribution to poverty alleviation than the annual petroleum and electricity subsidies, which are worth Rp. 25 trillion annually and primarily of benefit to better off families.¹⁷

Parallel to the OPK there was also a programme for five urban slum areas using rice distributed through the World Food Programme. This reached over half a million households in 1999 with five kilograms of rice per month. In this case, however, the food was distributed by NGOs and did not require ID cards. This programme appears to have been highly effective at reaching the poorest slum dwellers.¹⁸

EDUCATION SUBSIDIES

Another major concern about the economic crisis was that parents who were unable to pay school fees or meet other expenses would have to withdraw their children from school. The economic crisis of 1986/87, for example, had resulted in a significant decline in school

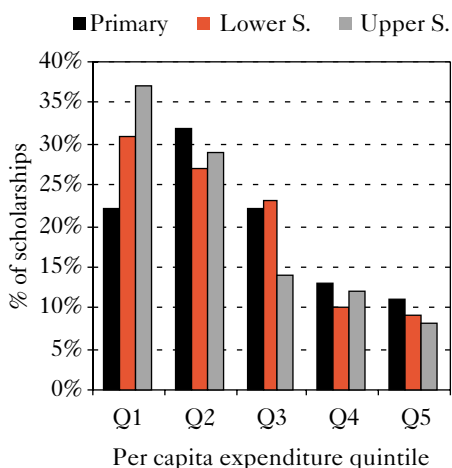
enrolment. To try to prevent a repeat of this the government started a supplementary education programme for the 1998/99 school year. This had two parts. The first consisted of block grants to schools in the poorest areas to enable them to maintain supplies and the quality of education. The second was a system of monthly 'scholarship' payments for the poorest children. These were given at three levels: primary, Rp. 10,000 (US\$1.20); lower secondary, Rp. 20,000; and upper secondary, Rp. 30,000. Though these were called scholarships they were based not on academic testing but on financial need.

The funds were allocated in the first instance to schools in such a way that the 'poorer' schools received proportionally more. Then within each school the scholarships were distributed by a committee that consisted of the head teacher, the chair of the parents' association, a teacher representative, a student representative, and the head of the village or urban community. These committees made decisions based partly on the BKKBN data but they also used other criteria, such as the distance that the child lived from the school, or whether he or she had a physical handicap or came from a large or single-parent household.

The scholarships programme aimed to reach 6 per cent of primary-school students (it was not given to children in the first three classes), 17 per cent of lower secondary students, and 10 per cent of upper secondary students. In the 1998/99 school year the programme distributed between 1.2 and 1.6 million scholarships. In 1999 the total cost was around Rp. 1.1 trillion.

The scholarships programme appears to have been quite successful. This is illustrated in Figure 4 which is based on an analysis of the 100 Village Survey.¹⁹ Had the targeting been more precise the bars would have dropped more steeply from left to right. In the event the targeting seemed to be more accurate at the lower secondary level, which is probably

Figure 4 – Distribution of scholarships



This shows the distribution of scholarship by income group. Had there been no targeting each one-fifth of households would have received 20 per cent.

Source: Cameron (2000b)

17 - Tabor, 2000, p. 10.

18 - *ibid.*, p. 24.

19 - Cameron, 2000b.

where the money was most needed. At the primary level, it seems not to have distinguished well between the poor and the very poor. Nevertheless, overall the poorest 40 per cent of households received 55 per cent of the scholarships. In addition there was a good gender distribution: indeed at the secondary level girls did marginally better than boys.

Similar conclusions emerged from a smaller survey of households in northwest Java. Here the researchers found that the programme had been popular and well administered: very few families claimed that their children had been missed out in favour of richer neighbours. This was thought to have been because the selection process was primarily in the hands of teachers rather than of government officials.²⁰

The scholarships programme delivered a subsidy to poor families. For this reason alone it can be considered worthwhile. But did it stop parents withdrawing their children from school, or would they have kept their children at school anyway? The 100 Village Survey allows for some monitoring of the behaviour of individual families. One analysis concluded that the scholarships were most important at the lower secondary level where they were estimated to have reduced the drop-out rate from 9.7 to 7.3 per cent.²¹ On the other hand the scholarships had little or no effect on parents' decisions at primary or upper secondary levels. One possible reason is that children of lower secondary school age are the most vulnerable to being withdrawn from school in order to work.

Fortunately enrolment ratios seem to have held up generally throughout the crisis. The scholarships programme made some contribution, but so too did the block grants to schools which helped prevent any further decline in quality. Another important factor was a more liberal attitude by schools. In the 1986/87 crisis schools dismissed children who could not pay the fees. This time they allowed them to stay.

However the scholarships may also have made indirect and less measurable contributions to attendance. In some cases, for exam-

ple, the payments became more like the block grants because some schools intercepted the funds in order to pay the fees of children who were already in arrears. Thus they helped maintain quality standards for all, which would help overall attendance. Another possibility is that the scholarships kept children at school who might have dropped out eventually; some parents who were determined to keep their children at school had borrowed money or sold assets to do so, but would not have been able to sustain this for very long.

■ HEALTH SUBSIDIES

A third component of the JPS was a series of additional allocations to health and nutrition programmes. These included, for example, block grants to health centres to sustain services and to enable them to maintain supplementary feeding for pregnant and lactating women. There were also grants to strengthen maternal and child health care by village midwives, as well as subsidies for medicines and imported health equipment.

Unfortunately these allocations were at the expense of other activities such as the control of communicable diseases. Total public health expenditure did not increase; in fact it fell from the beginning of the crisis—by 7 per cent during 1997/98, and by a further 12 per cent in 1998/99.²² Nor was the targeting very effective. Data from the 100 Village Survey indicate that, although there were considerable variations, the subsidized services related to the safety net were used more or less equally by poor and non-poor households.²³

■ JOB CREATION

The fourth major component of the JPS was job creation. This involved a range of different labour-intensive activities. In some cases the government simply redesigned existing programmes to make them more labour intensive.

20 - Hardjono, 1999.

21 - Cameron, 2000b.

22 - World Bank, 1999, p. 4.

23 - Suryahadi, Suharso and Sumarto. *op. cit.*, p. 16.

In other cases it gave block grants to communities to enable them to undertake their own public works activities. Individual ministries also embarked on special labour-intensive works. And official donors and NGOs introduced additional food-for-work programmes.

In theory the beneficiaries of these programmes should be 'self-selecting' in that only the poorest should be prepared to work for the low wages on offer. In practice this seems not to have happened since the wages were not particularly low. Often the works were in the hands of contractors who made no special efforts to attract the neediest workers. Indeed they often paid wages higher than the local

wage rate, thus attracting workers from other employment.²⁴ For this and other reasons, including favouritism in the allocation of work, these schemes do not seem to have been specifically beneficial to the poor.

Indonesia's safety net programme thus had an uneven record. It had a valuable, if not sharply targeted, food programme, and a better targeted education programme. But it had less success in maintaining health programmes or in creating new jobs. The JPS probably helped people survive through traumatic times. Will the country now be able to resume on an upward human development trend?

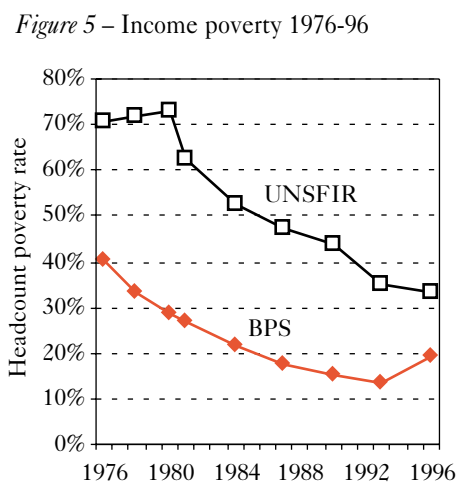
24 - Sumarto, Suryahadi and Pritchett, 2000.

4. QUESTIONING THE 'NEW ORDER' LEGACY

There are two main causes for doubt. One is that in retrospect, Indonesia's former achievements, while respectable, now seem shallower. So in some ways the country will be starting from further back and building on weaker foundations. The second worry is that the monetary crisis and the debts it has created may have undermined the government's capacity to invest in human development.

THE POVERTY LEGACY

One of the New Order administration's proudest boasts was to have dramatically reduced the proportion of the population living in poverty. This trajectory is reflected in Figure 5 in the lower line, labelled 'BPS', which shows a steady drop from 40 per cent in 1976 to 14 per cent in 1993. The rise in the BPS estimate for 1996 was due primarily to a change in methodology.²⁵



Source: Dhanani and Islam (2000)

Calculations of poverty rates everywhere are fraught with difficulty. There is general agreement that the national poverty line should be sufficient to pay for a consumption of 2,100 calories per day. And it is also conventional to assume that the cost of this will be higher in urban than in rural populations. But beyond this consensus lie greyer areas that are susceptible to a wide range of interpretations. How much should people be expected to spend on non-food items, for example? And how much higher is the cost of living in urban areas? Depending on the answers to such questions the poverty line can shift up or down. Since in Indonesia a significant proportion of the population are clustered around the official poverty line the number judged to be living in poverty can vary significantly.

The general consensus now is that previously the poverty line as established by BPS was set too low. The United Nations Support Facility for Indonesian Recovery (UNSFIR), for example, argues that the poverty line underestimated both the cost of living in rural areas and the proportion of expenditure that poor people typically devoted to non-food items—taking the latter to be around 15 per cent when in reality it is nearer 30 per cent. Using its own assumptions on the rural cost of living and on non-food expenditure UNSFIR calculates for 1993, for example, that the poverty line would rise from the BPS figure of Rp. 21,000 to Rp. 28,000. This is a significant increase, and since a large number of people were living around the BPS poverty line many more would thus be defined as poor. On this basis the poverty rate would rise from 14 to 34

per cent. Applying the same methodology throughout the period gives the upper UNSFIR line in Figure 5.

This suggests that the New Order's achievement had a less impressive result than might have appeared. Nevertheless the gradient of the two lines is similar so there clearly was a significant improvement. How much of this was due to government policy on poverty alleviation? Probably very little. During the 1980s, thanks to the oil boom, the government was able to increase its expenditure, but it did not specifically target this at the poor. Even the grants it gave to the regions were devoted largely to the development of infrastructure, and initially at least were not aimed at the poorer areas.

The steady reduction in poverty was more a result of general economic growth that had widened employment opportunities for the poor. Many were able to benefit from agricultural development, since in the 1980s this was still fairly labour-intensive. And the expansion of industry after 1981 also absorbed many unskilled workers. At the same time food prices had kept fairly stable, which also helped the poor. Nor did the structural adjustment programmes of the 1980s do too much damage since the cutbacks tended not to strike at the poor directly. By the late 1980s and early 1990s, however, the reduction in poverty seemed to taper off, which may have been because growth was increasingly being concentrated in the more capital-intensive industries that required fewer, and more highly skilled, workers.²⁶

By late 1999, there seemed to be general agreement that the level of income poverty was of the order of 25 to 30 per cent and that this represented a significant increase.²⁷ Nevertheless even this may underestimate the true impact of the crisis on the very poorest. For example, even if the number of poor people had remained the same, their incomes as a group might have fallen even further behind those of the rest of the population. This would show up in estimates of the 'poverty gap', which registers just how far the expenditure of the poor as a whole lies below the poverty line. At the same time it is also possible that there

are widening disparities within the poor—that the very poor are falling further behind those who are moderately poor. On both these measures it seems that the crisis has exacerbated poverty: between February 1996 and February 1999 there were increases in both the poverty gap and in the severity of poverty.²⁸

There are other ways in which a 25 per cent rate might give an over-optimistic picture. One weakness of income poverty measures is that they are based primarily on assessments of cash expenditure. But a poor family might sustain expenditure temporarily by taking decisions against its long-term interests. Thus a family that pulls a child out of school so that he or she might work might thereby inch itself above the poverty line—increasing household expenditure but at the expense of future prospects. It is difficult to measure this kind of 'prospect poverty'. But one could consider, for example, that any family that has at least one child aged between 6 and 18 years who has not completed lower secondary education (to age 15), and is not currently in school, is 'prospect poor'. On this basis in February 1999 it has been estimated that when the income poverty rate was 27 per cent the addition of those who were also prospect poor would bring the total poverty rate up to 34 per cent.²⁹

Another way of looking at poverty is to consider not just those who are currently poor, but also those who remain vulnerable, who might suddenly drop below the poverty line—if they suffer a sudden shock: a bad harvest, say, or an illness. One estimate of the extent of vulnerability suggests that if the overall poverty rate were 20 per cent the 'vulnerability rate' could be anywhere between 30 to 50 per cent.³⁰

Even more people are likely to be considered poor if the concept of poverty is broadened to encompass not just a shortage of cash but a lack of basic capabilities that reflect poor standards of health and education. UNDP has attempted to measure this through the con-

26 - Booth, *op. cit.*

27 - Sutanto, Irawan, and Said, 1999.

28 - Suryahadi et al., *op. cit.* p. 25.

29 - Pradhan et al., 2000.

30 - Pritchett., Suryahadi and Sumarto, 2000.

cept of 'human poverty' and has produced a human poverty index (HPI) that incorporates deprivation along three main dimensions: longevity, educational achievement, and standard of living. These indicators do not necessarily overlap. An individual could be poor along one dimension but not along another: it is possible, for example, to be an illiterate millionaire. So the HPI does not give a 'head-count' of the proportion of people living in human poverty—one that could be compared with the proportion living in income poverty. Nevertheless it offers a useful guide. The 2000 UNDP *Human Development Report* accords Indonesia a HPI index for 1998 of 28 per cent, which compares with 19 per cent for China, 19 for Thailand, 16 for the Philippines, and 14 per cent for Malaysia.³¹

UNSFIR estimates that the HPI for Indonesia came down fairly steadily in the 1990s: from 35 per cent in 1990 to around 22 per cent in 1999 (the latter is lower than the UNDP estimate since it uses slightly different data).³² As the HPI reflects more fundamental characteristics of a country it is less volatile than the income poverty rate which can change suddenly in response to a bout of inflation.

Overall, therefore, Indonesia has had considerable success in reducing poverty, but not on the scale previously imagined. Millions of people still live on the brink of survival. A similar fragility is evident in other areas—nutrition, health and education.

■ THE NUTRITION LEGACY

During the New Order period, Indonesia made substantial progress in food production. One aim was to become self-sufficient in rice. This goal was fleetingly achieved in the mid-1980s, but in recent years production has generally fallen about 10 per cent short of consumption, and as a result Indonesia has become the world's largest rice importer. Another aim has been to achieve low and stable food prices. However the price cannot be set very low since Indonesia has around 14 million small paddy farmers who rely on rice sales for income.³³ In order to protect local farmers

there has usually been an import tariff on rice, which early in 2000 was 30 per cent.³⁴

Using a combination of local produce and imports, total average daily food consumption increased between the 1960s and the early 1990s from 2,000 to 2,700 calories. But this is not evenly distributed, so many people will be consuming less than their daily needs.

This is very evident for children, whose healthy growth is sensitive to the quantity and quality of food that their parents provide. Here again there has been some success. For children under five years the proportion who were underweight fell over the period 1989-99, from 36 to 25 percent. But there are considerable regional variations: lower rates in Java are offset by rates above 40 per cent in West and East Nusa Tenggara and over 50 per cent in Aceh. It is also important to point out that most of the gains have been among the moderately malnourished. The proportion of severely malnourished children remains stubbornly high—around 8 per cent in 1999. This means that of Indonesia's 23 million children under five years, 1.8 million are severely malnourished.³⁵

Of even greater concern is the plight of children aged six months to two years—a critical period of life when malnutrition does the most damage. As Figure 6 indicates, between 1995 and 1998 malnutrition actually rose for this group. And in terms of severe malnutrition the level in 1999—8 per cent—is higher than it was ten years earlier.³⁶

These rates refer to children who weigh less than they should for their age. Low weight for age typically reflects an underlying problem of chronic malnutrition. Another indicator of malnutrition, is low weight for height, 'wasting', which often occurs at times of famine when children are suddenly deprived of sufficient food. The normal Susenas surveys do not collect data on children's height. Indications of wasting must come therefore from smaller

31 - UNDP *Human Development Report*. 2000, p. 157.

32 - Dhanani and Islam, *op. cit.*

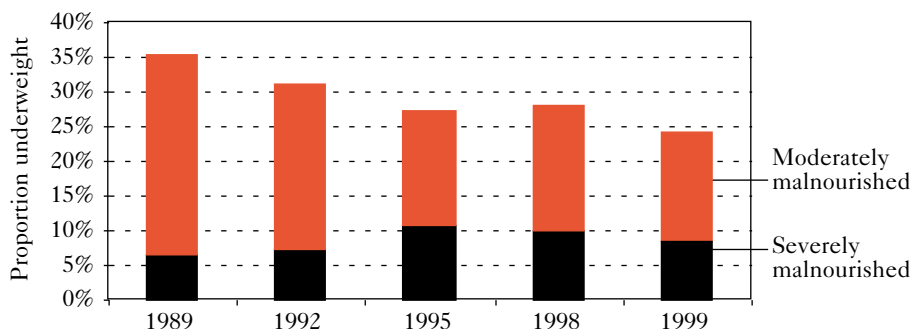
33 - Tabor and Soekirman, 2000.

34 - Tabor, *op. cit.*

35 - Jahari et al., 2000.

36 - *ibid.*

Figure 6 – Malnutrition: the proportion of infants from 6 to 23 months underweight



Source: Adapted from Jahari et al (2000)

sample surveys. In early 1999, for example, the Nutrition Surveillance System maintained by the NGO Helen Keller International (HKI) found alarmingly high levels of wasting in the urban slums of the larger cities, ranging from 19 to 29 per cent.³⁷

In addition to protein-energy malnutrition that hampers children's growth, many children and women also suffer from deficiencies in micronutrients, notably vitamin A, iodine, iron and zinc. A shortage of vitamin A, for example, can lead to blindness and weakened immunity, and a shortage of iron to anaemia and risks to pregnancy. The HKI survey also found that as a result of the crisis both iron deficiency and vitamin A deficiency were increasing among young children and their mothers.

Malnutrition is a complex issue related not just to overall food consumption, but also to many other factors, including the quality of food, health standards, and the levels of education of parents. The high rates of malnutrition in Indonesia, especially among the youngest children, whose food consumption would not necessarily impinge greatly on the family budget, must be due not merely to a lack of food but also to inadequate feeding practices—including the type of complementary food given and the family's levels of hygiene.

Clearly Indonesia has a long way to go to ensure adequate standards of nutrition. In the long run the only way to achieve food security

is through equitable human development that provides all families with the means to acquire sufficient food and the knowledge with which to use it well. Indonesia seems likely to fall short on both counts. Many of the poorest are alarmed at the proposed withdrawal of the OPK food subsidy programme. It is important therefore to maintain food subsidies in some form, especially if they can be more accurately targeted. At the same time there need to be much more effective programmes for child feeding and for nutrition education.

THE HEALTH LEGACY

Indonesia's continuing high levels of child malnutrition are also a major contributor to infant mortality. As Figure 1 on page 2 illustrates, infant mortality more than halved between 1967 and 1997—from 124 to 47 deaths per thousand live births. This was accompanied by an even steeper fall in child mortality—from 172 to 60 per thousand live births.³⁸ While these reductions are welcome, the achievement has been less than elsewhere. In Thailand, for example, the infant mortality rate is now down to 30 and in Malaysia it is only nine.³⁹ Moreover the average of 47 deaths per thousand live births in

37 - Helen Keller International, 1999.

38 - World Bank, 2000.

39 - UNDP, op. cit. Indicator Table 9.

Indonesia covers wide regional variations—only 28 in Jakarta, but 67 in South Kalimantan and 81 in West Nusa Tenggara. Indonesia's achievement in immunization coverage has also been overstated: instead of the 80 per cent widely reported in the 1990s it is probably nearer 60 per cent.⁴⁰ Around four million children are born each year in Indonesia; of these 300,000 die before their fifth birthday—an average of 300 per day.

Mothers are also at grave risk. Thousands of women die each year from causes related to childbirth. The maternal mortality rate has come down, from around 800 in 1980-87⁴¹ to around 373 by 1995. Even so the rate remains disturbingly high, and shockingly so in some regions—around 800 in Maluku and over 1,000 in Irian Jaya.⁴²

When mortality rates come down this is usually the result of a combination of factors—typically rising levels of economic development combined with more effective health services. In Indonesia improvements in public health provision probably played a minor role, since the country has been investing relatively little in its public health services, certainly less than neighbouring countries. Over the period 1996-98 public expenditure on health was only 0.6 per cent of GDP, compared with 1.3 per cent in Malaysia and 1.7 per cent in Thailand, and an average of 2.2 per cent for all developing countries.⁴³

Indonesia has a network of 7,100 health centres, the *puskemas*, to which are linked 23,000 sub-centres, over 4,000 mobile clinics, and 19,000 village maternity rooms. In addition there are 240,000 *posyandu*, the monthly health service posts run by volunteers who promote maternal and child health.

Although the public network is extensive and well distributed across the country it is not as effective or as well used by the poor as it should be. One issue is charges. In 1998 each visit to a health centre or a sub-centre cost on average Rp. 2,300 (approximately the price of a kilo of rice). These charges clearly deter some people. Susenas data for 1995 suggest that the richest one-fifth of households were 50 per cent more likely to use public outpatient health facilities than the poorest families,

and the imbalance was even greater in the rural areas.⁴⁴

However, other people may be deterred by the quality of care on offer. Underfunding has reduced the standards of equipment and the supplies of drugs. There are similar problems with the *posyandu*: far fewer people use them than might have been expected. In 1997 more than one-third of children under five did not go to the *posyandu*.

Dissatisfaction with public services has been driving more people to seek private care. Around half of total national expenditure on health takes place through the private sector. This includes treatment in private hospitals and clinics, often by doctors employed by the public sector who are also allowed to offer private care during normal hours in public facilities. Such treatment is correspondingly more expensive: each consultation with a private nurse costs on average Rp. 6,300, and with a private doctor Rp. 20,000. In addition many people also use traditional healers.

Even before the crisis people had been deserting the public clinics. According to the World Bank the share of public providers had fallen below 30 per cent by 1995 and by 1998 had slipped below 20 per cent. Around 28 per cent of people sought modern private care while most of the rest opted for traditional healers or self-treatment.⁴⁵

The unpopularity of public health centres is partly a consequence of underfunding. As Figure 7 illustrates, real public health expenditure had been rising up to the mid-1990s, but it started to fall off again when the crisis hit.⁴⁶ Until relatively recently even the fees paid by users did not necessarily support the clinics since local governments were diverting much of the income to finance non-health activities.⁴⁷

Finance is not the only issue. The management of health services also leaves much to

40 - Betke, op. cit.

41 - UNICEF, 1989.

42 - UNICEF, 2000, p. 38.

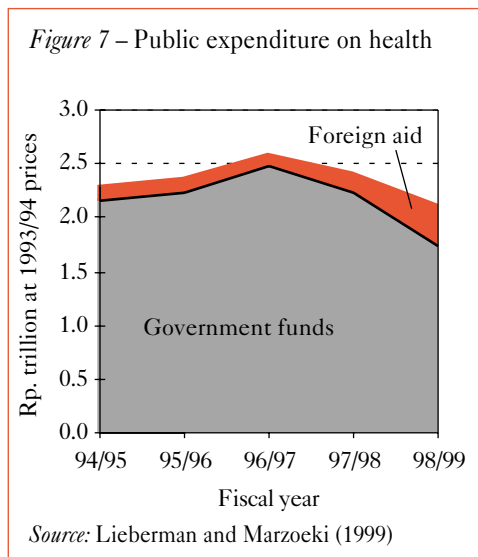
43 - UNDP, op. cit., Indicator Table 16.

44 - Lieberman and Marzoecki, 1999.

45 - *ibid.* p. 4.

46 - *ibid.* p. 7, Table 2.

47 - Achmad, 1999, p. 11.



be desired. As with other public services this has been very much a hierarchical system. The government was concerned about the administrative capabilities of those who might be working in remote communities, so the Ministry of Health has required health staff to rigidly follow detailed handbooks and procedures and fill out many lengthy reports. While this may have helped assure some basic standards it has also discouraged initiative, leaving staff little flexibility to adjust their budgets to local needs.

Of course some top-down health delivery systems can work quite effectively if they are well organized and have firm political support. President Soeharto took a strong interest in family planning, for example, and he directly supervised the National Family Planning Coordinating Board (BKKBN). When he became concerned about maternal mortality in 1996 he launched the Safe Motherhood programme. But more routine health matters were less likely to be addressed. Indeed it has been reported that President Soeharto never attended cabinet meetings on health issues.⁴⁸

In comparison with the command-and-control structure that drove the family planning programme, the *posyandu* have had much less support, administrative or financial. Nor have they put down strong community roots. Although these health posts have been

expanded into every district in Indonesia they have not been very responsive to community needs and have lacked a stable base of volunteers. Moreover, training of volunteers has generally concentrated on technical rather than social issues.

The centralized nature of the New Order brought some advantages. The president could ordain that health facilities be dispersed throughout the country, even if these resources were often spread very thinly. Thus doctors would find themselves posted to remote areas. So even if they devoted much of their energy to private practice they were at least available on the spot. But the longer term legacy is more doubtful. Now that the centrally controlled system has been weakened it is not clear what will take its place.

THE EDUCATION LEGACY

The situation is similar with education. The New Order government was determined to achieve universal primary education and went a long way in this direction. Between 1973 and 1991 the number of children increased by around one-third, but the government more than doubled the number of primary schools.⁴⁹ From 1984 it made primary education compulsory and by 1999 it had achieved a net primary enrolment ratio of 93 per cent.⁵⁰ A notable feature is that the ratio for girls is the same as that for boys.

Since 1994 there has also been a policy to extend compulsory education to the three years of lower secondary school. In 1999 the enrolment ratio was 59 per cent for lower secondary school, and 39 per cent for senior secondary school. At the secondary level there are marginally more girls than boys. As a result Indonesians have become steadily better educated. As Figure 8 illustrates, around two-thirds of the population now have at least primary education.

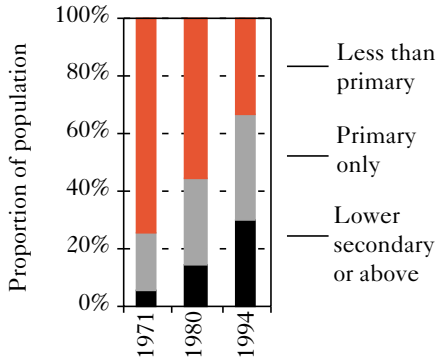
However this massive expansion of school availability has not been matched by improve-

48 - *ibid.*

49 - Prijono, 1999, p. 161.

50 - Badan Pusat Statistik, 2000, p. 53.

Figure 8 – Education levels, 1971-94



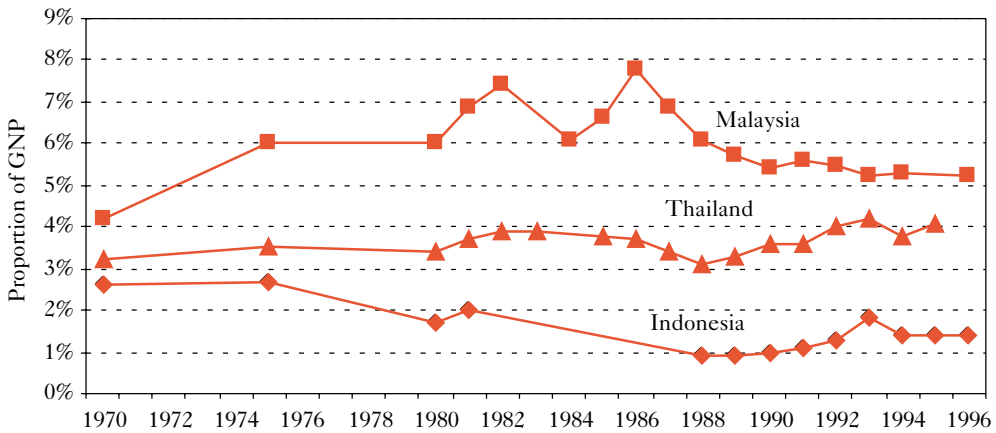
Source: UNICEF (2000)

particularly in the urban areas and for secondary education.

The government has made efforts to abolish entrance and tuition fees at both primary and junior secondary levels. However fees probably represent only around 10 per cent of the total expense to parents since they still have to pay for uniforms, supplementary textbooks and other necessities, and also make contributions to parent-teacher associations.

These payments make up in part for government underfunding. According to the World Bank, Indonesia's central government spends only around 1.4 per cent of GNP on education, a far lower proportion than neighbouring countries. And, as Figure 9 shows, this proportion is lower than in the 1970s.

Figure 9 – Central government spending on education as a proportion of GNP – 1970-96



Source: World Bank (2000)

ments in quality. The standard of teaching is poor—a result of inadequate training and low salaries, as well as a curriculum overburdened with state ideology. Most teachers need to take second jobs to survive. As a consequence of low funding, many schools, particularly in the rural areas, lack textbooks and basic equipment.

Education can also be expensive. In the past most schools have charged an entrance fee and a 'voluntary contribution'. Then parents have to pay monthly tuition fees, as well as buy school uniforms. These costs mount up,

Either because they never enrolled or because they subsequently dropped out, 20 per cent of children still do not complete primary education. At junior secondary level the enrolment ratio is lower, which, combined with dropout, means that the proportion of 13 to 15 year olds not in school rises to 30 per cent.⁵¹

Most children not at school will be working. Estimates of the total number of child

51 - UNICEF, 2000, p. 100.

workers vary considerably. The August 1999 Susenas survey, for example, concluded that ten per cent of children aged 10-14 were working. The rates were higher in rural (14 per cent) than urban (4 per cent) areas. But a national rate of 10 per cent seems unlikely since it is far lower than the proportion of children not in school. Estimates that combine labour and education data suggest that the proportion of child workers may be twice as high, and that about half of working children also go to school.⁵²

Not all child work is harmful. The labour force data suggest that three-quarters of child labourers are unpaid family workers—carrying out small tasks on family farms for example. But many other children are engaged in far more hazardous employment, working as scavengers, for example, or on plantations exposed to pesticides, or on construction sites or in transportation. Nowadays child workers are increasingly employed in urban areas where the work is likely to involve longer hours and to be more dangerous or exploitative.

THE GOVERNANCE LEGACY

The delivery of health and education services in Indonesia has been strongly conditioned by the authoritarian style of government. Policy has been set at the top, often in the office of the president, and then transmitted downwards on the assumption that it would be enacted in the remotest villages.

The current pattern was set in 1974 with legislation that divided the country into provinces of which there are currently 28. The provinces are subdivided into districts. In the rural areas the districts are the *kabupaten* (regencies) which are also subdivided in *kecamatan* (sub-districts) and finally into *desa* (villages). In urban areas the district-level units are the *kota*, which are also divided into *kecamatan*, and the equivalent of the villages are the *kelurahan*. In 1979, this system was developed in order to impose a uniform structure of administration on each village. Although ostensibly to facilitate local government, in practice the purpose was more to establish a military-style chain of command.

At the same time, the New Order govern-

ment steadily reduced the scope for political organization. In 1971 it had forced the main opposition parties to merge, and it decreed that between national elections there could be no party activity below the district levels. Meanwhile it vetted all candidates for local office, particularly the *bupati*, the head of each *kabupaten*.

This system eroded many distinctions between the administration and the ruling political party. It also allowed the bureaucracy to become a vehicle for patronage, enabling it to siphon off vast amounts of money. Ultimately the New Order had little faith in the Indonesian population, which it envisaged as an unreliable and unstable 'floating mass' that would need to be controlled by the government or by the army.

The government also took charge of the main organizations of civil society. Rather than allowing these to work independently it created a series of national 'mass organizations' to represent different constituencies, such as women, youth, or workers. But their representational functions were limited: essentially these organizations served as channels for patronage and as a means of rallying support for government programmes and campaigns.

As well as creating its own organizations the government also tried to co-opt local élites and existing traditional structures, notably the *adat* communities that influenced many cultural and social arrangements. On the one hand the government tried to restrict the areas in which *adat* communities could operate. Thus it effectively displaced mechanisms such as the communal rice barns that acted as a form of social safety net. On the other hand it tried to co-opt their traditions of mutual self-help, known as *gotong-royong*—regularly tapping this to recruit people for many labour-intensive development activities.⁵⁴

The main alternative sources of authority to that of the government were religious organizations, predominantly Islamic, which not only provided moral leadership but also undertook social development activities. In many parts of the country these are based on Islamic

52 - Irawan, Hendriati and Hestyanti, 1999.

53 - Suharyo, 2000, p. 6.

54 - NR International, 1998, p. 27.

boarding schools called *pesantren*, at the head of which there is an influential spiritual leader the *kyai*. The current president was once a teacher at his father's *pesantren*.

The New Order's efforts to repress or to co-opt alternative forms of organization worked well during the 1970s. The government was able to use oil money to impose its authority and the population seemed prepared to trade democracy for the benefits of rapid economic development. As the oil revenue fell, however, and it became clear that growth was not necessarily delivering development, new focuses of resistance started to emerge. Since the government had clamped down on political activity many people channelled their energies instead into religious or social welfare organizations. They also established many new non-governmental organizations, many of which focused on environmental protection. Because the term 'non-governmental' could be interpreted as 'anti-governmental' the preferred designation became *Lembaga Swadaya Masyarakat* (institution for self-help).⁵⁵

Since 1999 the new government has transformed the political possibilities and removed many formal restrictions. But creating a democracy that lives and breathes throughout the country will be a far slower process. Much of the ethos of the New Order remains. Corruption is widespread. And a generation of government officials have been instilled with the idea that a superior's decisions, however misguided, should never be questioned. At the same time, community organizations remain stunted.

The absence of effective channels for political action has driven protests into more destructive directions. Lacking ways of expressing themselves politically many communities have resorted to religious or ethnic violence, or have demanded greater independence or autonomy from the central government.

Faced with the prospect of national disintegration the government in 1999 passed decentralisation laws that would establish a dramatically different form of administration. This scheme was remarkable in many respects. The first is that it effectively bypasses the provincial layer of administration, giving

power straight to the districts, the *kabupaten*, in the rural areas and the towns, the *kota*, in the urban areas. The provinces will be left with a minor residual role—coordinating various activities and undertaking some functions that cannot be carried out at the district level. This determination to avoid concentrating power at the provincial level reflects a long-standing wariness of anything that smacks of a federal structure.

A second aspect of the process—also designed to preserve national integrity—is a new form of revenue sharing. People in some parts of the country felt they had gained little from the exploitation of their natural resources since the income had largely flowed to Jakarta. In future such revenue will be shared more equally between central and local governments. This means for example, that Aceh, Riau, East Kalimantan and Irian Jaya will have more funds at their disposal, so some of the poorer provinces will benefit.

Another striking aspect of the proposed decentralization process is its speed. The laws passed in 1999 envisaged that the new system would be launched in January 2001 and be completed by June—an extremely demanding schedule.

While the determination to decentralize has been widely welcomed, the process has raised a number of anxieties. The most immediate worry is the speed of its introduction since few of the necessary mechanisms will be in place before the process gets underway. But there are also longer-term worries particularly for services to women and children. One is that the districts are unlikely to have the personnel or the skills to administer such activities. Presumably some administrators will have to be transferred from Jakarta to the districts but it is not clear how or when. Another worry is that when local political leaders gain control over development budgets they will feel less inclined to invest in health or welfare services, and may be tempted to use the funds instead for higher-profile infrastructure projects. The Government has made efforts to agree with

⁵⁵ - *ibid*, p. 32.

the districts to sustain a minimum investment floor of 15 per cent of regional budgets for basic health services, though it is not clear how this will be carried through.

Finally there is a danger of widening the gaps between regions. Regional disparities in Indonesia are less than in other countries in Southeast Asia, such as Thailand and the Philippines. Even so, the per capita income in Bali, for example, is more than twice that in

East Nusa Tenggara.⁵⁶ In the past transfers from the central government have helped equalize incomes and, until the mid-1990s at least, regional disparities appear to have been narrowing.⁵⁷ However, in recent years the gaps may have been widening again, and with greater decentralization the more prosperous and the better organized districts will be in a stronger position to attract staff and to pay for higher levels of service.

56 - Badan Pusat Statistik, 2000, p 87.

57 - Islam, 1999, p. 4.



5. THE THREAT OF DEBT



Most countries caught up in the Asian financial crisis appear to have weathered the storm. But prospects for Indonesia are far more uncertain, especially for the one-quarter of the population below the poverty line, who will struggle for survival in a more difficult and ambiguous environment. They have lost the old certainties of the New Order but are unsure what happens next.

The achievements of the previous administration, whether in poverty or in the delivery of social services, were substantial, but less impressive than they may have appeared. The government pushed through measures by fiat rather than allowing them to be shaped by the demand from an educated and empowered population. And while it had quantitative achievements in terms of headline numbers—the total of children enrolled in school, for example, or clinics constructed—it was less successful in delivering real quality.

More alarming for the future, however, is the threat to social funding. Indonesia was already lagging in terms of social spending. Now the situation is likely to get even worse. As a consequence of the monetary crisis the government is now deep in debt. In 1999, in order to recapitalize the banks it sold \$72 billion-worth of bonds. The IMF estimates that servicing this debt will absorb one-third of government expenditure in 2000, and around one-quarter in 2001 and 2002.⁵⁸

Meanwhile the international financial institutions are pressing the government to balance its budget. This seems likely to squeeze other priorities, particularly the social sector. Indeed this has already happened. Since 1997/98 the government health budget

is reported to have shrunk by 20 per cent and the education budget by 40 per cent.⁵⁹

A crisis that erupted within the financial sector has thus had severe social consequences. Community and government action, with the help of international donors, may have absorbed some of the sharpest blows. But millions more people have been plunged into poverty. The health service is deteriorating, and millions of children are malnourished. In the end, however, the greatest damage could be far more persistent and insidious. Unless there is a major effort to protect social spending, Indonesia's children could be paying for the folly of bankers for years to come.

58 - International Monetary Fund, 2000, press release No. 00/4.

59 - Asiaweek, 7 July 2000.

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BEYOND KRISMON: THE SOCIAL LEGACY OF INDONESIA'S FINANCIAL CRISIS

Most of the countries caught up in the Asian financial crisis appear to have weathered the storm. But Indonesia's prospects are far more uncertain. In this Innocenti Insight, development journalist and writer Peter Stalker describes how the financial turbulence of the *Krisis Moneter*, or *Krismon*, set off a dramatic social and political chain reaction, with effects on children that could reverberate for years to come. *Beyond Krismon* examines the legacy of Soeharto's New Order regime in terms of child well-being, the impact of the financial crisis on areas essential to their survival and development and the crippling burden of debt that may jeopardize the nation's hopes for the future.

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