



EFFORTS TO ACHIEVE AN INCLUSIVE DEVELOPMENT AND GROWTH IN INDONESIA: A STORY FROM JAKARTA

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Abstract

During the so-called New Order era (1966-1998) Indonesia had experienced a rapid economic development process with economic growth rate at 6 to 8 per cent annually. The regime also managed to push down poverty through rural economic development based on modernization in agriculture and industrialization. With this achievement, Indonesia was ever mentioned as among new coming “Asian Tigers” along with Malaysia and Thailand. However, this achieved economic performance at macro-level hid some boils, as the result of the adopted development strategy which created inefficiency and market distortions. Indonesia was suffered from high economic costs and growing gap in income. During the era, the development process was indeed exclusive only for certain groups of society, i.e. those who were considered important by policymakers, and certain region, i.e. Java.

After hit by an extremely severe economic crisis ever happened since the country’s independence in 1945, known as the Asian financial crisis, which led Indonesian economy to an economic recession with -13 percent of economic growth in 1998, Indonesia has become a different country. It has embarked upon a far-reaching institutional transformation and has become one of the region’s most vibrant democracies. In social and economic terms, Indonesia has also seen much progress.

This paper is a story from Jakarta on that ‘house-replacement’ program for poor households. The main issue this paper deals with is the question on whether the program has made the replaced households better off. For that purpose, a field survey on a large number of replaced poor households has been conducted. Findings of the survey show that although there is always some dissatisfaction among some individuals or households who have to move to other places, in general, the respondents are happy with the program. More importantly, the program does not take away employment opportunities and income sources from them, and neither increase their living costs.

INTRODUCTION

After hit by an extremely severe economic crisis ever happened since the country’s independence in 1945, known as the Asian financial crisis, which led Indonesian economy to an economic recession with -13 percent of economic growth in 1998, Indonesia has become a different country. It has embarked upon a far-reaching institutional transformation and has become one of the region’s most vibrant democracies. In social and economic terms, Indonesia has also seen much progress. Wide reforms in all economic, social and political areas have been carried out, and a new development strategy has been adopted namely ‘inclusive’ economic development and growth. In this inclusive development, the Indonesian government



has adopted triple-tracked strategy, i.e. “pro-growth”, “pro-job” and “pro-poor”. This triple-tracked strategy is considered very important for Indonesia, given the fact that despite a robust economic growth after the 1998 crisis, Indonesia is still facing a serious problem of poverty (Tambunan, 2012).

Even Jakarta as the capital city of Indonesia is still obviously a place of poverty. The serious extent of poverty in Jakarta can be found in many parts of the city especially in the river bank. For instance, a very poor neighborhood on the river bank of Ciliwung in the subdistrict of Manggarai, Central Jakarta. The City government has various programs to alleviate poverty directly or indirectly, including providing better access to education, healthcare and housing. With respect to the latter, since the last few years the City government has been removing many poor households from their unhealthy illegal semi permanent houses along many river banks into well constructed but not expensive apartments in some parts of the City.

INCLUSIVE ECONOMIC DEVELOPMENT

According to such as Ali and Zhuang (2007), Ali and Son (2007), and Rauniyar and Kanbur (2009) there is no agreed-upon and common definition of inclusive economic development. The concept, however, is based on other 2 concepts: inclusion and economic development, and inclusion is a process and also a goal. Inclusion is about society changing to accommodate difference by removing all barriers which discriminate or exclude certain individuals/groups of society. It sees society as the problem, not the person. In Rauniyar and Kanbur (2009), it is stated that inclusive economic development is understood to refer to economic growth coupled with equal economic opportunities. It focuses on creating economic opportunities and making them accessible to everyone in society in all levels, not just to the poor. An economic development process is said to be inclusive when all members of a society participate in and contribute to that process equally, regardless of their individual circumstances or backgrounds. In the same way, inclusive economic growth is one that emphasizes that economic opportunities created by economic growth are available to all, particularly the poor, to the maximum extent possible. Inclusive economic development therefore is the process of ensuring that all marginalized/excluded groups of a society are included in the development process. Because inclusion involves all members of a community, then collaboration, partnership, and networking among individual members in the community are core strategies to achieve inclusion (Tambunan, 2012).

But in order to give all members of a community the same opportunities, according to Sachs (2004), inclusive development strategy requires three most important components. First, ensuring the exercise of civil, civic and political rights. Thus, as emphasized by Sen (1999), democracy is a truly foundational value, as it also guarantees the transparency and accountability necessary for the working of development processes. The idea of inclusive economic development came after the introduction of the Millennium Development Goals (MDGs), which is motivated by the fact that many countries in the world have achieved remarkable results in their long-term economic development in terms of high economic growth, high income per capita, and rapid structural change from agricultural based towards industrial based



economies. But, in many of these countries, poverty is still high and the gap between the rich and the poor has become wider. It is widely acknowledged that sustained poverty reduction depends on a rapid pace of economic growth. But the connection is not automatic. Some fast-growing economies have failed to tackle poverty, while some slower-growing ones have been more successful (Tambunan, 2012). Even, UNCTAD (2010) argues that fundamental problem in achieving the MDGs has been the lack of a more inclusive strategy of economic development that could integrate and support its "human development" ambitions.

It is not difficult to understand why many countries in the world especially in South Asia and some parts of Africa still struggle with poverty (or even poverty has increased) and have a large proportion of their citizens living in extreme states of deprivation (notably sub-Saharan Africa). It is because many groups, so called "disabled" people such as women, children, people with HIV/AIDs, ethnic minorities, nomads, and people in conflict/refugee situations have been excluded from or marginalized in relation to participation in economic development. Poverty is a consequence and also a cause of disability, and, thus, poverty will not be alleviated without including disabled persons in the process of economic development (Tambunan, 2012).

From the above discussion, key issues of the inclusive economic development are thus poverty, participation, collaboration, and networking. This means that poverty alleviation is or should be the centre of inclusive economic development policies, and to eliminate or reduce poverty, not only direct policies to alleviate poverty are needed but also economic development policies, programs and projects should be in favor of poverty reduction, of course not at the cost efficiency, productivity, and competitiveness.

INDONESIA'S INCLUSIVE DEVELOPMENT STRATEGY

In 1997-98 Indonesia was heavily hit by a big economic crisis. The political system had been fundamentally transformed by the implementation of democracy, decentralization, and amendment of the 1945 constitution. Social life had been drastically changed. Some of the public institutions had no longer become functional.

Although during the 'New Order' era there were many pro-poor programs which led poverty rate to decline significantly showing that the government in that period also tried seriously to address the poverty problem in the country, the gap between the rich and the poor did not decline significantly. In fact, during the era, obviously that the adopted development strategy was more 'exclusive' rather than 'inclusive', as many regulations, policies and facilities were more in favor of a small group of mainly big companies (known as conglomerates) at the cost of micro, small and medium enterprises (MSMEs) (Tambunan, 2012).

In this new era, known as the era of reform (*reformasi*), government attention has been shifting toward so-called 'inclusive' economic development. In his address on national development in regional perspective before the special plenary session of the House of Regional Representatives of the Republic of Indonesia in Jakarta, August 2009, Susilo Bambang Yudhoyono, the President of the Republic of Indonesia stated that the paradigm of development for all in Indonesia's context, can only be carried



out by adopting six subsequent fundamental development strategies (SNRI, 2011). The first one is an inclusive development strategy, that ensures equity and justice that respects and maintains the Indonesian people's diversity. The central and regional governments ought to constantly renew the common understanding and consensus in developing Indonesia. This consensus is guided by Indonesia's medium and long-term visions and missions. Indonesia's long-term direction for 2005-2025 is stated in Law Number 17 of 2007 on National Long-Term Development Plan, whereas Indonesia's medium-term direction is given in each five year stages, the Medium-Term Development Plans (RPJMs). Each of the stages has a scale of priorities and development strategy that constitute a continuity of scale of priorities and development strategies of preceding periods. The basic scale of priorities and strategies of the respective RPJMs are summarized in the following (MNPD, 2010, page I-23):

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

Regional governments must also take into account the current RPJM when formulating or adjusting their respective regional development plans to reach national development targets. For the implementation of the 2005-2025 National Long-Term Development Plan, the RPJM is to be further elaborated into the Annual Government Work Plan (RKP) that will then become the basis for formulating the Draft Government Budget (RAPBN).

Currently is the RPJM 2010-2014. As with the RPJM 2004-2009, the RPJM 2010-2014 is also divided into three economic development strategies, including the 'pro growth, pro job, and post poor' strategy. Through the 'pro growth' strategy economic growth had accelerated and was accompanied by the improvement of the distribution of income (growth with equity). The RPJM 2010-2014 has 14 national priorities, regional priorities which are Sumatera, Java-Bali, Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua, and field priorities which consist of social-cultural,



economic, science and technology, infrastructure, political, defense and security, law and state apparatus, region and spatial, and natural resources and environment.

The second fundamental development strategy is that in the framework of development for all, Indonesia's development consequently must have a territorial dimension. Each province, each regency/municipality, is the country's center of growth, that must capitalize on all the potentials of the respective regions, whether their natural resources, human resources or geographic locations. This is the reason why the Indonesian government seriously encourages the regions in the border areas to seize on the opportunities of regional development cooperation such as IMT-GT and BIMP-EAGA, as well as the border cooperation with Australia and Timor Leste. The development with territorial dimension also signifies that the government continues to stimulate each region in enhancing their respective comparative and competitive advantages. However, the inter-regional balance must also be preserved, in order to avoid any possible inter-regional imbalance (Tambunan, 2012).

The third fundamental development strategy is to create an integrated national economy in the globalization era. As Indonesia is an open economy, national economic development could not thus be implemented in a vacuum.

The fourth fundamental development strategy, which also becomes one of the keys of success of development for all, is the local economic development in every region, with the purpose of developing a strong domestic economy nation-wide. A strong domestic economy is the main asset for a nation in order to be glorious in the midst of globalization onslaught. The lessons Indonesia got from the 2008-09 global economic crisis is the fact that the country which is able to withstand the negative impact of global recession is the country with a strong domestic economy. Furthermore, a strong domestic economy also ensures the nation's self-reliance.

The government continues to stimulate that the products of one region can easily be used as the basic materials in other regions, or to be used as finished products. For this purpose, the central as well as regional governments have been doing to minimize the number of trade barriers between regions, such as official levies or collections. Especially unofficial levies or collections that precisely obstruct the emergence of investment and business community in the respective regions (Tambunan, 2012).

The fifth fundamental development strategy is the harmony and balance between growth and equity, or "growth with equity". Such a strategy is also a correction over the previous development policy, which is known as the trickle-down effect. The trickle-down effect strategy assumed the need of prioritizing economic growth over equity. In reality, in many countries, including Indonesia, this theory has failed in creating welfare for all. So, in order to simultaneously realize growth and equity, Indonesia has adopted a triple-track strategy, namely a pro-growth, pro-job, and pro-poor strategy in the national economic development. With this triple-track strategy, national economic development strategy is adopted with a high economic growth, through the promotion of investment as well as domestic and foreign trade (Tambunan, 2012).

The sixth fundamental development strategy is the essence of just and equitable development, which is the development that emphasizes on the promotion



of human quality. In this strategy, the Indonesian people are not considered merely an object but, conversely, the subject of development. The human resources become the actors as well as the focus of the development goals, so that the living quality of Indonesians could be improved. For this purpose, therefore, the paradigm of development for all gives a high priority to education, health, income as well as a better living environment. Environment here is referred to not only a healthy and lasting environment, but also a social, political and security environment which is orderly, safe, pleasant, and democratic. The life expectancy of Indonesians continue to rise from 68.6 years old in 2004 to 70.7 years old in 2009. The infant mortality rate also declines from 33.9 per 1000 life births in 2004 to 26.2 per 1000 life births in 2009 while the maternal mortality rate declines from 307 per 100,000 life births in 2003 to 228 per 100,000 life births in 2007. Meanwhile, the illiteracy rate (for inhabitants above 15 years old) in 2008 has dropped to 7.9 percent, compared to 9.6 percent in 2004. In general, Indonesia's human development index has gone up from 68.7 in 2004 to 71.1 in 2008 (Tambunan, 2012).

Poverty Alleviation Policies

Although poverty in Indonesia since the New Order era until the present time tends to decline continuously, the country is still facing poverty problem. In Jakarta, in 2013 around 3,55 percent of its total poverty were those living under the current poverty line (BPS, 2013).

In this inclusive development, the Indonesian government has adopted triple-tracked strategy, i.e. "pro-growth", "pro-job" and "pro-poor". With respect to pro-poor strategy, currently, the Indonesian government has various programs to alleviate poverty directly or indirectly. The implementation of these programs is not to substitute but to complement economic growth as the main engine to eliminate poverty. The most popular one among these programs is the National Self Reliant Community Empowerment Program (PNPM) with aim to empower the people directly at the sub-district and village levels. With the PNPM, the people in the villages may decide on the development priorities of their respective regions (Tambunan, 2012).

Other pro-poor programs are including Unconditional Direct Cash Assistance (BLT), Public Health Insurance (*Jamkesmas*), School Operational Support (BOS), the provision of subsidies (such as subsidies for food such as rice, fertilizers, and program credits), and Family Hope Program (PKH), which are earmarked for poor and near-poor families all over the archipelago. The government also allocate budget for micro, small and medium enterprises (MSMEs) in the form of subsidized credits, and the banking sector has been requested to channel certain portions of their fund as credit for MSMEs. The followings figures and tables may give some idea about the importance of MSMEs credit in Indonesia, as part of the pro-people or pro-poor or inclusive development programs (Tambunan, 2012).

Some Indicators of Inclusive Development

Access to Basic Infrastructure

Basic infrastructure is among important indicators of inclusive development. Table 1 presents four (4) sub-indicators regarding infrastructure, of



Brunei Darussalam	0.94	1.01	1.09	1.02	1.98 (1999)	1.76	100.0 (1994)	99.0 (2009)	54.7	79.8	...	...
Cambodia	0.87 (1999)	0.94	0.53 (1999)	0.82 (2007)	0.34 (2000)	0.54 (2008)	34.3 (1998)	69.3 (2005)	92.6	85.9	5.8 (1997)	21.1
Indonesia	0.98	0.97	0.83	0.99	0.76 (2001)	0.96	76.3 (1991)	93.3 (2007)	61.8	60.5	12.4	18.0
Lao PDR	0.79	0.91 (2008)	0.69 (1999)	0.81 (2008)	0.49 (1999)	0.78 (2008)	26.5 (2001)	35.1 (2006)	96.8	98.5	6.3	25.2
Malaysia	0.99	0.99 (2008)	1.05	1.07 (2008)	1.02 (1999)	1.30 (2008)	73.6 (2003)	78.8 (2005)	53.4	56.1	5.1	9.9
Myanmar	0.95	0.98	0.97	1.02	...	1.37 (2007)	75.8 (1997)	79.8 (2007)	79.3	74.2	...	4.3
Philippines	0.99	0.98 (2008)	1.09 (1999)	1.09 (2008)	1.26 (1999)	1.24 (2008)	83.1 (1993)	91.1 (2008)	57.3	62.7	9.1	22.1
Singapore	...	...	...	...	...	...	...	...	64.0	71.1	4.9	23.4
Thailand	0.98	0.98	0.99	1.08 (2010)	1.14 (1999)	1.31 (2010)	85.9 (1996)	99.1 (2009)	86.3	81.1	2.8	13.3
Viet Nam	0.93 (1999)	0.95 (2001)	0.90 (1999)	0.92 (2001)	0.76 (1999)	0.73 (2001)	70.6 (1997)	90.8 (2006)	90.1	89.4	17.7	25.8

Note: * E=earliest years, L = latest years

Source: ADB (2011)

Social Safety Net

Table 3 presents three indicators of social safety nets (SSN): (i) social protection (SP) and labor rating (LR) on labour market performance affected by labour market regulations to reduce the risk of laborers of becoming poor or to ensure a minimal level of welfare for all people ; (ii) social security expenditure on health (social security schemes and other schemes of compulsory health insurance) as a percentage of government expenditure on health (G_H); and (iii) government expenditure on social security and welfare (e.g. benefits in cash or in kind to, among others, persons who are sick, fully or partially disabled, old aged, survivors, families, children, unemployed) as percentage of total government expenditure (G_{SSW}).

Table 3:
Selected Indicators on SSN in ASEAN countries based on latest data

Member countries	SP & LR*		GH			GSSW		
	2005	2010	1995	2000	2009	1995	2000	2010
Brunei Darussalam	...	...	...	...	...	3.7	3.6	4.8(2004)
Cambodia	2.5	3.5	...	...	...	5.1	2.4	4.0
Indonesia	3.5	...	10.1	6.2	13.7	...	...	....
Lao PDR	3.5	3.5	1.3	1.4	12.1	...	...	....
Malaysia	...	...	0.8	0.6	0.8	3.5	3.7	4.8
Myanmar	...	...	1.6	3.1	1.6	...	...	...
Philippines	...	...	11.4	14.7	19.7	1.9	3.9	6.7
Singapore	...	...	4.0	4.8	11.2	5.0	3.5	12.5 (2009)
Thailand	...	...	7.1	9.4	9.1	3.5	5.6	7.4
Viet Nam	4.0	4.5	7.0	19.7	31.4	...	...	...

Note: * A rating of "1" = a very weak performance, and a "6" rating = a very strong performance.

Source: ADB (2011)

Good Governance and Institutions

Table 4 presents three indicators to assess good governance and institutions: (i) voice and accountability (V&A); (ii) government effectiveness (GE); and (iii) corruption



perceptions index (CPI). These indicators are not based on national data but on perceptions surveys of firms, households, nongovernment organizations, and multilateral organizations. The first two indicators are ratings from the World Bank's Worldwide Governance Indicators, range from -2.5 to +2.5, with higher values corresponding to better governance outcomes; while the third indicator is the corruption perceptions index from Transparency International, which gives a score from 0 (highly corrupt) to 10 (very clean) (ADB, 2011).

Table 4:
Selected Indicators on Good Governance and Institutions
in ASEAN countries based on latest data

Member countries	V&A		GE		CPI	
	1996	2009	1996	2009	2009	2010
Brunei Darussalam	-1.1	-0.8	1.0	0.9	5.5	5.5
Cambodia	-1.0	-0.9	-1.3	-0.7	2.0	2.1
Indonesia	-1.2	-0.1	0.2	-0.2	2.8	2.8
Lao PDR	-1.1	-1.7	-0.7(1998)	-1.0	2.0	2.1
Malaysia	-0.3	-0.5	0.9	1.0	4.5	4.4
Myanmar	-2.1	-2.2	-1.2	-1.9	1.4	1.4
Philippines	0.2	-0.1	0.0	-0.1	2.4	2.4
Singapore	-0.2	-0.4	2.0	2.2	9.2	9.3
Thailand	0.3	-0.4	0.4	0.2	3.4	3.5
Viet Nam	-1.5	-1.5	-0.2	-0.3	2.7	2.7

Source: ADB (2011)

A STORY FROM JAKARTA

The serious extent of poverty in Jakarta can be found in many parts of the city especially in the river bank. Among very poor neighborhoods in Jakarta is along the river bank of Ciliwung in the subdistrict of Manggarai, Central Jakarta. The City government has various programs to alleviate poverty directly or indirectly, including providing better access to education, healthcare and housing. With respect to the latter, since the last few years the City government has been removing many poor households from their unhealthy illegal semi permanent houses along many river banks into well constructed but not expensive apartments in some parts of the City.

To have more information about the result of this City government program, a survey was conducted in 2013 to poor households who were relocated to well-development but not expensive apartments in Waduk Pluit. The survey has a total of 186 respondents (Table 5). Five (5) main questions were asked to a total of 186 respondents, namely (i) whether they were agreed to be reallocated; (ii) the quality of their new environment compared to their old one; (iii) transportation or access to school and workplace from their new location; (iv) facilities inside their new house; and (v) physical condition of their new house.

Table 5
Total Respondents by number of occupants

Number of occupants	Number of respondents	
	Number	% Distribution
1 - 3 persons	35	18.82



4 - 5 persons	145	77.96
> 5 persons	6	3.23

Source: field survey 2013

Table 7, shows that no one from the respondents had problem with the program; they welcome it as they realized that it would improve their living condition or they would be better off, and probably more importantly, they would not experience flooding anymore, as they did every year during the raining season. Another important benefit that they mentioned during the survey was that they feel more comfortable as now they have a place to live legally.

With respect to the second question, the answer is positive suggesting that their new environment is better than that of their previous one. Regarding the third question, a small portion of the total respondents said that their new location is far from the location of their children's schools or their workplaces, or transportation is rather difficult that can generate extra costs for them. For the remaining issues, i.e. facilities inside their new house and physical condition of the building, generally, they are satisfied.

Table 6
Findings from the Survey

Questions	Number of respondents	
	Number	% Distribution
Program		
-agree	186	100.0
-not agree	-	0.0
New environment		
-much worst	-	0.0
-similar	-	0.0
-much better	186	100.0
Access		
-easy	152	81.72
-rather difficult	34	18.28
-difficult	-	0.0
Inside facilities		
-not sufficient enough	-	0.0
-sufficient enough	172	92.47
-very sufficient	14	7.53
Physical condition of the building		
-not good enough	-	0.0
-good enough	22	11.83
-good	164	88.17

Source: field survey 2013

CONCLUSION

The serious attention of the Indonesian government toward 'inclusive' economic development should be highly appreciated and some progresses have been achieved since then. However, Indonesia is still facing three most serious problems namely lack of efficiency in bureaucracy and administration, especially at the regional/local government level; lack of law enforcement especially in fight against corruption which in fact has become worst since the fall of the New Order regime (1998), which it is now happened in all levels of administration and community; and lack of infrastructure, not only roads, ports, electricity, telecommunication and



transport facilities, but also in school buildings, particularly in left-behind, frontline, most outer, and post conflict regions.

Although yet many other factors also play important roles, directly as well as indirectly, in making inclusive development successful, no doubt that without solving these three problems, inclusive economic development would be just another political slogan without any real impact on the welfare of the community. So, reform in bureaucracy and administration, development of infrastructure both quantity and quality, and law enforcement or corruption elimination once and for all should be included as national priorities together with others which include improvement in access to education and health care to all individuals including those living in left-behind, frontline, most outer, and post conflict regions, poverty alleviation (i.e. access to productive employment for all), food security (i.e. access for all), energy (i.e. access for all), and environment protection.

Resettlement program for the urban poor, not only in Jakarta but also in other urban areas or cities in Indonesia is indeed a good program of inclusive development, but not to reduce poverty or number of poor people but only to improve their living condition. In other words, this program should not be the focus of poverty alleviation policy. Instead, full access to good education and productive employment or business opportunities should be the key poverty alleviation measures. Even, without better future for those resettled poor people regarding their education and income, the resettlement program can be a failure in the long-run.

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