



PRESIDEN
REPUBLIK INDONESIA

ANNEX

REGULATION OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA NUMBER 5 OF 2010 REGARDING THE NATIONAL MEDIUM-TERM DEVELOPMENT PLAN (RPJMN) 2010—2014

BOOK I NATIONAL PRIORITIES

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CHAPTER I INTRODUCTION

The 2010-2014 National Medium-Term Development Plan (RPJMN 2010-2014) is the second phase of the implementation of the 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025) that was promulgated through Law Number 17 of 2007. The RPJMN 2010-2014 subsequently becomes the basis for ministries/government agencies in formulating their respective Strategic Plans (Renstra-KL) and is to be taken into account by regional governments in formulating/adjusting their respective regional development plans in the context of attaining the national development targets. . For the implementation of the plan, the RPJMN is to be further elaborated into the Annual Government Work Plan (RKP), that will become the basis for formulating the Draft Government Budget (RAPBN).

Article 4 of Law Number 25 of 2004 on the National Development Planning System states the following :

The National Medium-Term Plan (RPJMN) is **the elaboration of the Vision, Mission, and Program of the President**, the formulation of which is based on the National Long-Term Development Plan (RPJPN), and contains the national development strategy, general policies, programs of ministries/agencies and cross-ministries/agencies programs, regional and cross-regional programs, and the macroeconomic framework, which covers the overall economic situation, including the direction of fiscal policy in a work plan that comprises a regulatory framework and indicative funding framework.

In order to comply with this stipulation, the 2010-2014 RPJMN is compiled in three books, that form one integral unit, with each of the books containing the following :

Book I

contains the strategy, general policies, and macroeconomic framework, that comprise the elaboration of the Vision, Mission, Action Program, and the eleven national development priorities of President-Vice President Susilo Bambang Yudhoyono-Boediono, with the vision of : **“The realized Indonesia that is prosperous, democratic, and just.”**

Book II

contains the development plan, that encompasses fields of social life, that are contained in RPJPN 2005-2025, with the theme of : **“Strengthening Synergy**

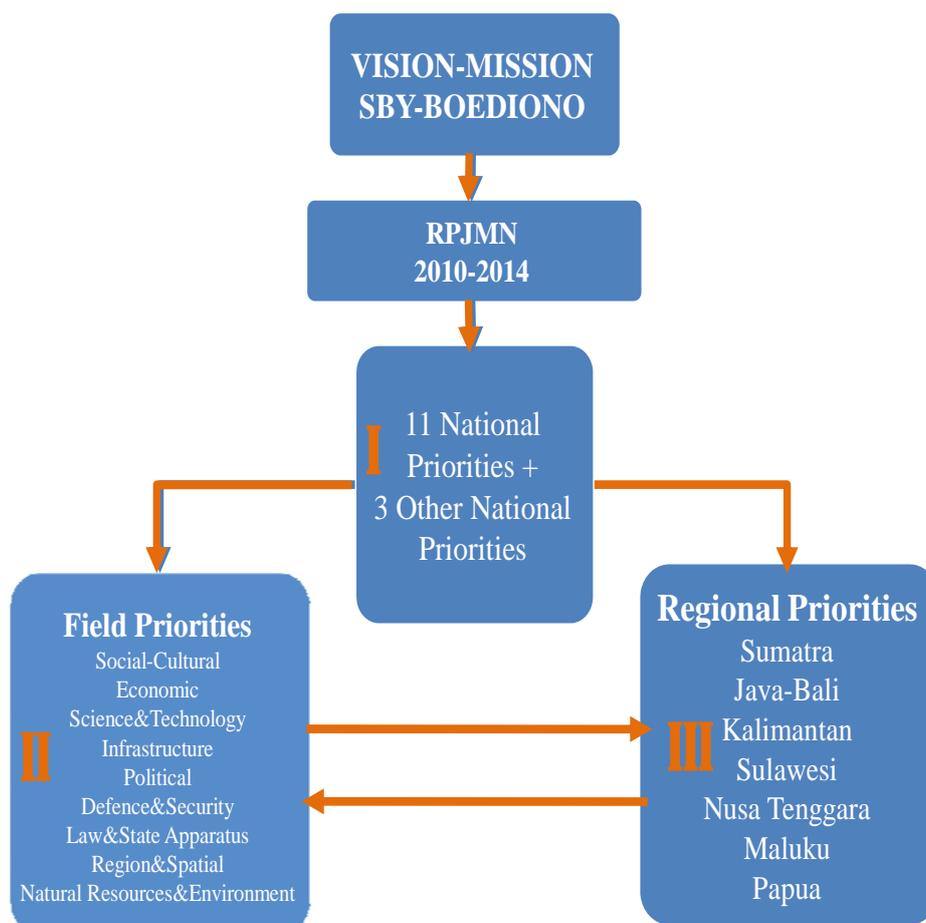
Among Development Fields”, in the context of realizing the national development vision, that is contained in Book I.

Book III

contains the regional development plan, that is compiled under the theme of : “Realizing Synergy Between the Central and Regional Government and Among Regional Governments” in the context of realizing the national development vision that is contained in Book I.

Thereby, RPJMN 2010-2014 is the guideline for the Central/Regional Governments, society, and the business community in implementing development in the context of attaining the goal of the nation as contained in the Preamble of the 1945 Constitution of the Republic of Indonesia.

**DIAGRAM 1
RELATION OF BOOK I, II, AND III**





CHAPTER II OVERALL CONDITION

2.1. Background

The 2010-2014 National Medium-Term Development Plan (RPJMN 2010-2014) is the elaboration of the Vision, Mission, and Program of the President, the formulation of which is guided by 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025). The Vision, Mission, and Programs of President Susilo Bambang Yudhoyono and Vice President Boediono explicitly stated their aspiration and conviction for realizing Indonesia that is more advanced and prosperous, more self-reliant, more secure and peaceful, and more democratic and just.

Indonesia is a grand nation. It is a nation that is in the midst of carving its new history in order to continue to grow and progress. To become a grand and advanced nation is the common ideal of the Indonesian people. It is the ideal for becoming a nation that is prosperous, self-reliant, democratic, and just. It is the noble ideal of the entire Indonesian people, from Sabang to Merauke, from Mianggas to Rote Island. The entire Indonesian people aspires for a better Indonesian future. History has taught that the Indonesian people had succeeded in surpassing various trials, challenges, and impediments. The Indonesian people had succeeded in remaining steadfast, in continuing its resolute steps, and in succeeding to safely pass through a long historical process.

Since over ten years ago the Indonesian people had decided to pursue a new path in traversing its history, namely the democratic path. After being adversely affected by a multidimensional crisis, that had shaken the foundation of national life, the Indonesian people had been able to recover. Indonesia had become capable to again develop, and even had been able to develop more soundly, so that its self-respect as a nation had again become recognized and respected by the world community.

A decade ago, the economy had experienced a crisis, with economic growth contracting by over 13 percent, the rupiah exchange rate collapsing, the inflation rate reaching 70 percent, government debt skyrocketing to above 100 percent of GDP, and poverty and unemployment rising significantly. All economic activities had practically slumped and stalled. Social disturbances and physical conflicts had been rampant. The political system had, through the implementation of democracy, decentralization, and amendment of the constitution, been fundamentally transformed. Social life has been drastically changed. Some of the public institutions had no longer become functional. The Indonesian people had been experiencing a euphoria of reforms and freedom. Such sudden transition process had created difficulties in its management because of the heterogeneity and complexity of the problems being encountered.



In the last five years, in the midst of the condition of the nation that had not yet fully recovered and with global challenges becoming ever more difficult, as manifested in the instability of crude oil prices, the increasing prices of food, and the occurrence of the global financial crisis, that has resulted in the world economic crisis, Indonesia had been able to gradually but steadfastly manage and redevelop the nation in all fields. The economy has recovered and had reached a high economic growth rate that is accompanied by equity (growth with equity), and has in fact been able to restore the degraded natural environment. The social system that upholds noble values had been developed. Likewise, a political life that is secure, peaceful, just, upholds ethical values, and is democratic had been developed. A strong and creative cultural life and national identity had continuously been enhanced. Equality before the law had been increasingly enforced. The secure and peaceful condition had been restored and maintained in conflict regions, mainly in Aceh, Maluku, and Papua.

The implementation of development in the 2004-2009 period had yielded encouraging results, even though still leaving some unfinished tasks ahead. Onward, Indonesia possesses a big opportunity for becoming an even more advanced nation, but the various challenges and trials will not be trivial. The world population will continue to increase, nature had started to become filled up and saturated for being able to meet the continuing increase in the needs of man. Energy, food, and water are commodities that will become increasingly more scarce and valuable and still to be continually secured and need to be managed in the context of maintaining environmental harmony. Technological progress and globalization will provide opportunities, but will also pose challenges and problems for Indonesia's human resources.

The Indonesian people is steadfast to strategically step forward in the 2010-2014 period to jointly overcome the problems and challenges faced and to utilize all of the existing potentials and opportunities. All these are endeavored by the Indonesian people for attaining their ideal goals, namely (i) to realize an increased prosperity of the people, through economic development that is based on its competitive advantage, its natural resources, its human resources and national culture, that are fully buttressed by progress in the mastery of science and technology, (ii) to realize a society, nation and state that is democratic, cultured, has self-respect, and that highly upholds responsible freedom and upholds basic human rights, and (iii) to realize development that is just and equitable, that is carried out actively by all of the people, the yields of which can benefit all of the Indonesian people.

2.2. Achievements of National Development in 2004-2009

In the 2004-2009 period, through hard work and in the midst of various domestic and international challenges, the Indonesian people had succeeded in creating a more secure, peaceful, just, democratic, and prosperous Indonesia. Indonesia had not only succeeded to recover from the crisis, but had also been able to develop its national resiliency, achievements, and sound reputation in the world community.



Indonesia's development success has already yielded various achievements and appreciation at the global level. Progress in economic development in the last five years have made Indonesia to be able to further narrow down the gap with the progress of developed nations. The developed nations that are part of the OECD (Organization of Economic and Cooperation Development) have recognized and appreciated the progress of development of Indonesia. Therefore, Indonesia, together with China, India, Brazil, and South Africa have been invited to join the group of 'enhanced engagement countries', namely nations that are increasingly involved with developed nations. Indonesia has also become part of the G-20 nations, namely the twenty nations that form 85 percent of the world GDP, that have a very important role in the determination of global economic policies.

In the last three years much progress had already been attained in the efforts to realize the three development agendas of RPJMN 2004-2009.

The efforts to realize Indonesia that is secure and peaceful have already yielded results. Throughout Indonesia there are no longer significant disturbances to security. Peace attained in Nanggroe Aceh Darussalam and in various other conflict areas, such as Maluku, Central Sulawesi, and Papua, has already show an increasingly secure condition. The relatively high population mobility is one of the signs of the improved security situation in the country. Likewise, the increased domestic as well as foreign investments is an indication of the attained improvement in the security condition.

Significant improvements are also evident in the efforts to realize Indonesia that is just and democratic. Indonesia has succeeded to go through a political transformation process that has changed the political system of our nation from an authoritarian nation to become a nation with a relatively democratic political system. The existing state institutions have evidently operated in a more dynamic manner in the implementation of the roles and functions stipulated to them by the constitution. Independent state institutions that have been established in the reform era on the basis of the stipulations of the 1945 Constitutions that had been amended and on the basis of new legislative products have already shown relatively good performances.

The legislative general election had been implemented in an honest, just, secure, and unimpeded manner, three times since the political reforms had been launched in 1997/1998. The consolidation of democracy had reached its apex with the implementation of the direct general election of the President and Vice President for the first time in 2004, that was followed by the direct general elections of regional heads in 2005. In 2003, all of the regional heads had still been indirectly elected by the Regional Parliament (DPRD), while in 2007, two-thirds had already been directly elected. Now, all of the regional heads of provinces and districts/cities throughout the nation has already been directly elected by the people. Also outstanding is that the implementation of the elections and all elections of regional heads had proceeded in a democratic, honest, just, secure, and peaceful manner.



Accountability at the regional governments level had continued to improve. Regional heads that had been able to have excellent performance during their terms of office had generally been reelected. Some of the heads of districts/cities with optimal performance had in fact become elected as governor or vice governor. The government also need to continue the process of developing all state institutions at the central and regional levels. Various independent institutions had been formed for strengthening the checks and balances mechanism.

Even in the last five years, civil liberties have been improving, as evident from the greater guarantee to the freedom of expression, freedom from fear, freedom to engage in business, and to freedom of association.

With such achievements, Indonesia has more steadfastly progressed in the process of consolidating democracy in accordance with the stipulations of the 1945 Constitution.

One of the important part in the transformation process of the agenda for realizing justice is the developed system of good governance and clean government. Indonesia has succeeded in rising from a nation, that had a governance that was deemed poor, due to the prevalence of corruption, collusion, and nepotism (KKN), into a nation with an improved governance and becoming more credible, and that has become free from various individual and group interests.

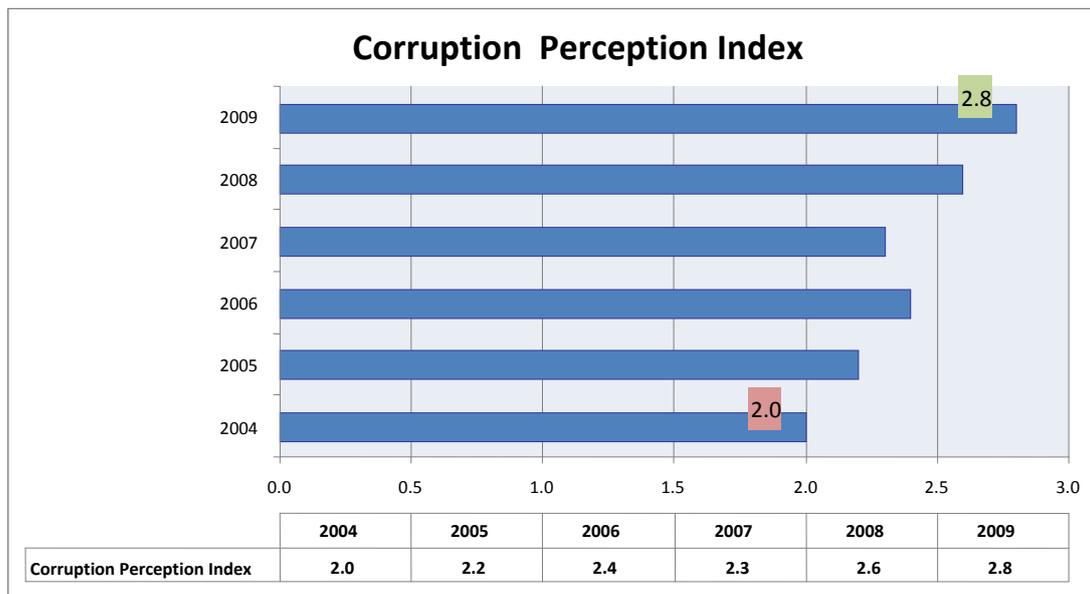
In the field of law enforcement, including the efforts to eradicate corruption, legal actions against corruptors had been implemented indiscriminately. This shows that no one is immune from legal action. This also includes law enforcers. The affirmative action by state prosecuting attorneys, the police force, and the Corruption Eradication Commission (KPK) had succeeded to expose and investigate penal cases that have caused losses to the state finance. The realization of Indonesia that is clean from corruption had been supported by the formulation of legal products that are effective, and by the consistent and uncompromising enforcement of the laws and regulations. Through these measures, Indonesia has been able to enhance its standing in the world community.

The UNDP report entitled 'Tackling Corruption, Transforming Lives' of 2008, states that the corruption perception index (CPI) of Indonesia has shown much improvements. In a scale from 1 to 10, with the scale of one indicating a perception of a nation being most corrupt, and a scale of ten to a country indicating it being the least corrupt, the CPI of Indonesia had been improving from 2.0 in 2004 to 2.6 in 2008, and 2.8 in 2009.

At the same time, efforts to carry out reform of the bureaucracy in a planned, comprehensive, and in phased manner had continually been consolidated. Bureaucracy reform measures had been aimed at improving public services because the bureaucracy are the servants and protectors of the public interests. Measures that have been and will continue to be pursued cover improvements of the work system and culture, performance measurement, discipline enforcement, institutional and administrative

reform, and improvements in the appropriate remuneration system. These include improving transparency and accountability in the governance process. All these are the essence of the application of the principles of good governance.

DIAGRAM 2
CORRUPTION PERCEPTION INDEX OF INDONESIA



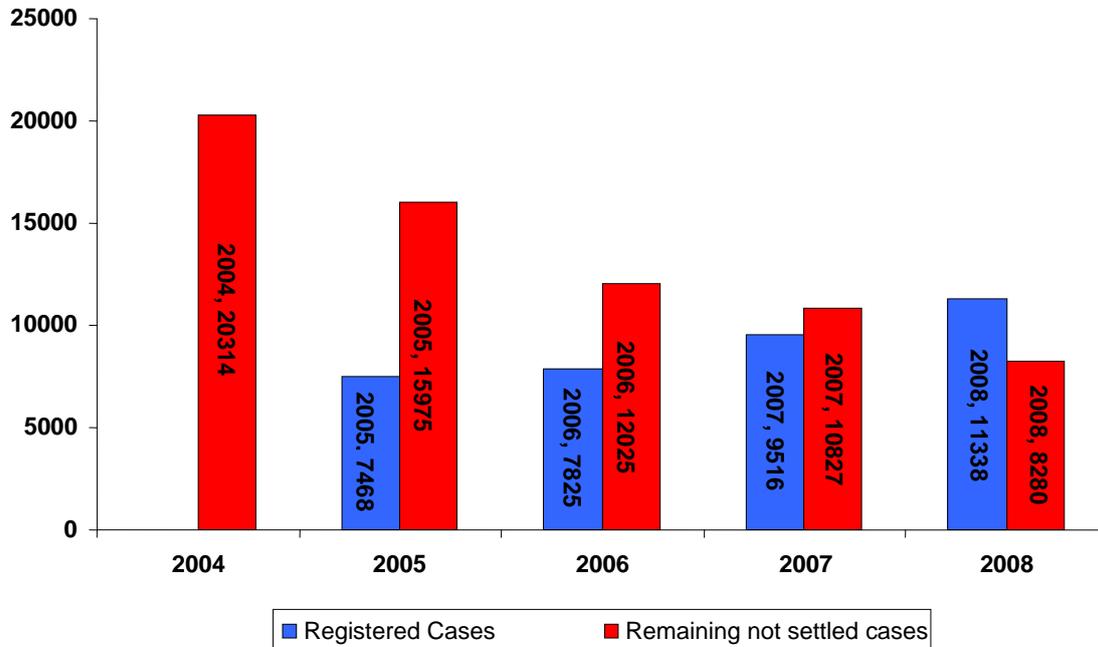
Source : UNDP

The achievements in the development of the law is not independent from the role of the judiciary institutions. The handling of legal cases at four judiciary institutions, namely the General Courts, the Religious Courts, the Military Courts, and the State Administration Courts, have in the last five years shown an increasing performance. From 2005 to 2008, the legal cases that had registered at the Supreme Court had increased by 51 percent (see Diagram 3). In terms of cases with judicial rulings, the effectiveness of the Supreme Court had also increased, as indicated by the decrease in backlog cases. In 2004 the backlog cases had totaled 20,314 cases, which fell to 8,280 cases in 2008.



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DIAGRAM 3
GRAPH OF REGISTERED CASES AND OF BACKLOG CASES



In the efforts to increase prosperity, big challenges had been faced by the government in the 2004-2009 period. In December of 2004, the tsunami hit Aceh, that was followed by the natural disaster occurring in the Nias islands. In addition, the global economic shocks that was continued by the energy and food crises that had occurred in 2006 and towards the end of 2007, had created pressures to the Indonesian economy. Such pressure was continued by the occurrence of the financial crisis in the United States since 2008, that had triggered the global economic crisis, that was reflected in slow economic growth experienced by various nations.

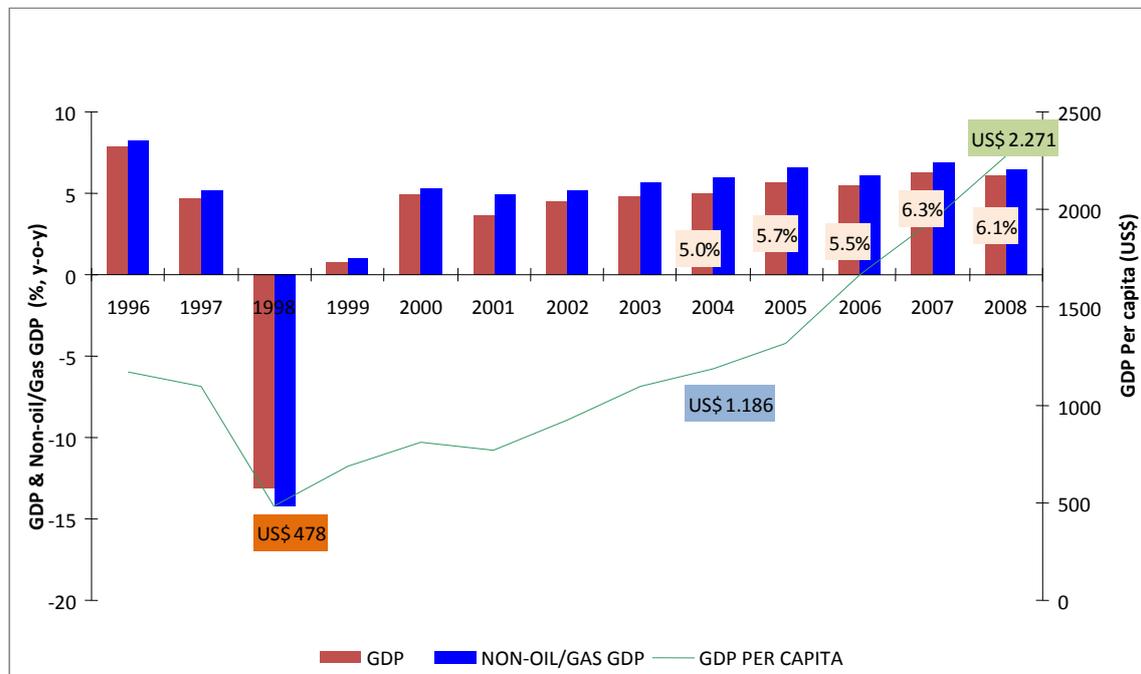
Towards 2009, such pressures are still alarming as the world economic situation still poses a lot of uncertainties. At that time, many had predicted that the impact of the global economic crisis will continue in coming years for the entire world economy. Indonesia was classified as the few countries in the world that various international institutions are strongly believed to be able to weather the global crisis. This was verified by the Indonesian economy still being able to have positive growth, since the start of the crisis in 2008 as well as in 2009.

In the 2004-2009 National Medium-term Development Plan, three economic development strategies had been determined, namely the 'pro growth, pro job, and pro poor' strategy. Through the 'pro growth' strategy, economic growth had accelerated that was accompanied by the improved distribution of income (growth with equity). Such acceleration of economic growth had involved the greater number of employment

opportunities created, so that larger number of households of Indonesia had been able to free themselves from the poverty trap and had been able to strengthen the economy in its ability to withstand shocks. This shows that the ‘pro growth, pro job, and pro poor’ strategy had provided a development direction that is correct and has yielded the desired results.

More specifically, in the ‘pro growth’ agenda, economic growth had been accelerating. In the 1997-1999 period, the economic crisis had resulted in the economy contracting by an average of 2.9 percent per year. In the 2000-2004 period, namely in the economic recovery period, the economy again had a positive growth, namely by 4.5 percent. While in the 2005-2008 period, economic growth had reached an average of 6 percent. In fact, if excluding the oil and gas sector, the non-oil/gas economic growth had already approached 7 percent, namely by 6.6 percent in 2005-2008, compared with 5.4 percent in the 2000-2004 period. In 2009, up to the third quarter, the average economic growth had reached 4.2 percent, so that for the whole of 2009, economic growth is estimated to reach an average of 4.3 percent. The performance of Indonesia’s economic growth has made Indonesia to be deemed as a well performing economy in view of many nations having experienced negative economic growth rates.

DIAGRAM 4
ECONOMIC GROWTH AND GDP PER CAPITA





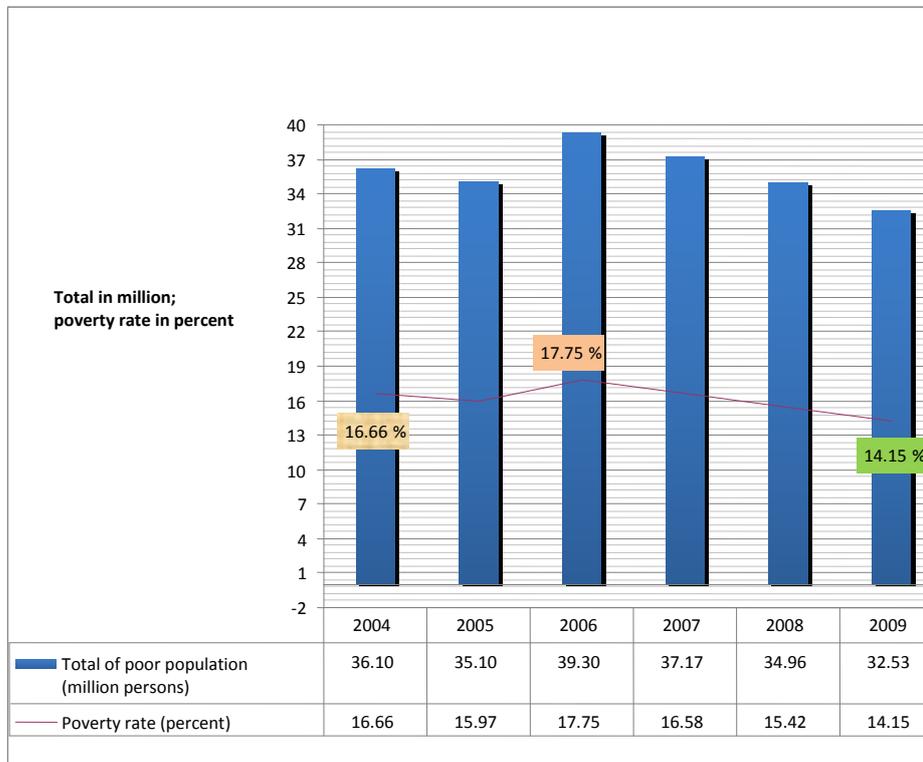
Such acceleration in economic growth is also reflected in the increase in income per capita. Indonesia's income per capita had reached USD 2,271 at the end of 2008, an increase of almost twice from the income per capita in 2004 of USD 1,186. Such increase had made Indonesia to classified as a lower middle income country.

The accelerated economic growth had been able to reduce the poverty rate. Based on the poverty line, the poverty rate had declined to 14.1 per cent (32.5 million persons) in March 2009 from 16.7 per cent (36.1 million persons) in 2004. In addition to being contributed by the relatively high economic growth, the reduced poverty rate was also attributed to various intervention programs, which form part of the efforts to meet the basic rights of the people. These efforts are continually being implemented for providing wider access to low income communities so that they can benefit from the acceleration of economic growth. These measures are pursued through among others the following :

First. the provision of subsidies (such as subsidies for food, fertilizers, and program credits), and in the form of social assistances, such as the program for Social Health Security (Jamkesmas), the School Operational Assistance (BOS), and the Family Hope Program (PKH). The PKH is implemented for meeting the basic needs of households that they themselves cannot yet fulfill. In addition, budget allocations had also been made in the form of the Unconditional Cash Transfer (BLT) as part of the National Program for Self-Reliant Community Empowerment (PNPM), the credit guarantee fund/financing for micro, small, and medium business entities (UMKM) and cooperatives, through the Smallholder Credit Program (KUR).

Second, facilitating and expanding business opportunities by eliminating various levies that had arisen in various regions that had been due to the euphoria of reform and decentralization, that have increased the costs of doing business for micro, small and medium enterprises. Various efforts had been pursued for improving the business climate. One of which is by amending the Law on Regional Taxes and Service Charges, with the aim of forcing greater discipline to regional governments in their determination of new levies without eliminating the spirit of fiscal decentralization. Other steps include the issuance of Presidential Instruction (Inpres) Number 6 of 2007 and Presidential Instruction (Inpres) Number 5 of 2008 that contain action programs for improving the business climate for micro, small, and medium enterprises.

DIAGRAM 5
TOTAL OF POOR POPULATION AND POVERTY RATE

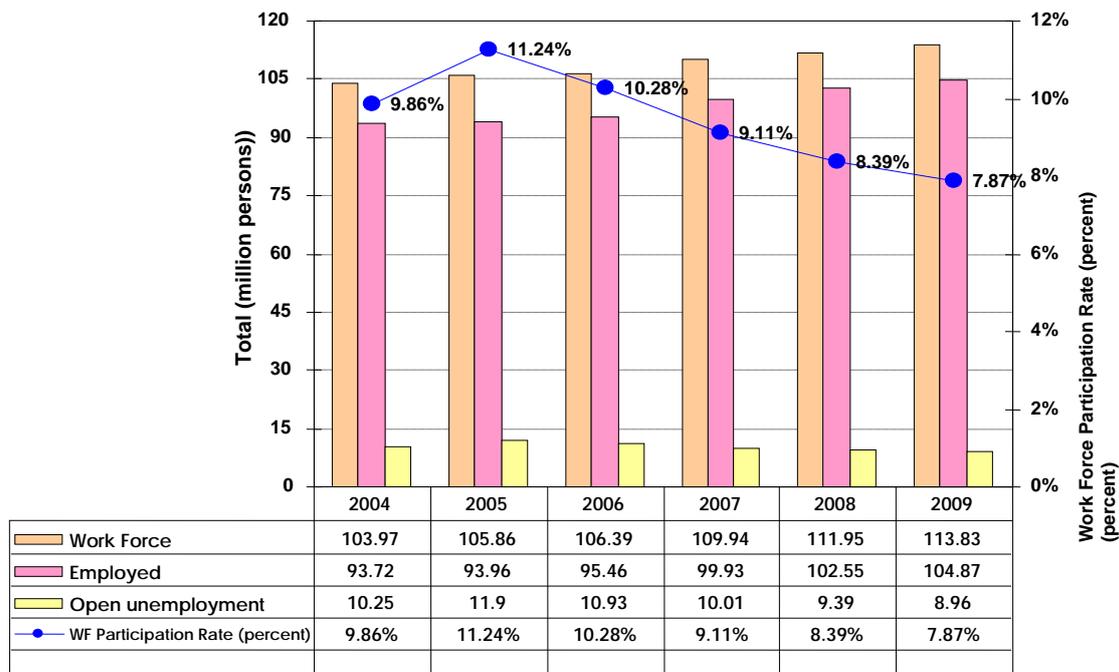


Significant improvements had been attained in the efforts to reduce unemployment due to the 'pro job' strategy. In the 2001-2004 period, the increase in the total number of the work force had still reached 1.72 million persons per year, with the total of employment opportunities that could be created reaching only 970 thousands per year. In the 2005-2009 period, the total work force increased by 1.99 million persons per year while the created employment opportunities reaching 2.73 million per year. Thereby, the total number of unemployment could be reduced from 10.25 million persons in 2004 to 8.96 million persons in 2009, with the open unemployment rate declining from 9.89 percent to 7.87 percent. Employment opportunities had still been created, even though workers discharges had occurred since the end of 2008, when the total number of enterprises submitting applications for discharges had been substantial that coincided with the ending of production contracts, especially those for exports. Formal workers rose by 3.26 million persons and informal workers rose by 7.65 million persons. The migration of 'surplus labor' from informal employment to more productive and higher wages formal employment is the main aim of development, economic growth, and of efforts to reduce poverty.



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DIAGRAM 6
TOTAL OF THE LABOUR FORCE, EMPLOYED WORKERS, AND OPEN UNEMPLOYMENT



With regard to the development of the infrastructure, various strategic infrastructures had been completed, among others development of the Hasanuddin Makassar Airport, development of the Suramadu Bridge, and the further development of 11 full container terminals for supporting export and import activities, covering the harbors of Tanjung Priok, Tanjung Perak, Belawan, Tanjung Emas, Panjang, Makassar, Banjarmasin, Pontianak, Bitung, Samarinda, and Palembang. In addition, 11 dams had been constructed that can contain approximately 79 million cubic meter of water for meeting the needs of water for irrigation, households, industries, and for electricity generating stations. The program for accelerating the construction of the 10,000 MW Coal Fired Electricity Generating Stations had significantly increased the electrification ratio to around 66.3 percent and the ratio of villages with electricity to around 96.8 percent, with the losses rate of around 11.5 percent. The program was aimed at reducing the dependence on oil fuels and for improving the energy mix of electricity generating stations. Meanwhile, the development of the information and communications infrastructure had been able to increase the teledensity of fixed lines (including fixed wireless access/FWA) by almost 140 percent, namely from 4.79 percent to 11.49 percent, with the growth of cellular by 340 percent, and the growth of internet users reaching 101 percent.

The government had also encouraged the participation of private companies, the general public, and regional governments in the operation of the infrastructure



facilities. The scheme for the development of the infrastructure through the Public Private Partnership (PPP) scheme, as contained in Presidential Regulation Number 67 of 2005 had continually been revised. Such revisions had also been accompanied by the formulation of the technical guidelines for implementing the PPP at the central and regional levels. The government had also launched the 2008-2009 Economic Policy Package as contained in Presidential Instruction Number 5 of 2008 on the Focus of Economic Development in 2008-2009 as a follow-up to the various preceding policies. Such steps were carried out for overcoming problems that impede investments in infrastructure, including problems that are related to participation of the private sector. An important element of that policy package is the framework for the PPP, including the mechanism for preparing projects, the transparent and accountable tender process, the risk allocation between investors and the government.

Significant progress had also been attained in the production of food products. The production of all food products had sharply increased, particularly in the last two years (see Diagram 7). The production of rice in 2008 had reached 59.9 million ton, which is the highest attained thus far. Such production increase had not only been able to free the nation from food crises but had also reduce the pressure of other nations in accessing the supply of rice in the global market. Indonesia had previously been one of the big rice importers of the world, that had resulted in every time that Indonesia had to import rice in large quantities the price of rice in world markets will increase by USD 20-50/ton.

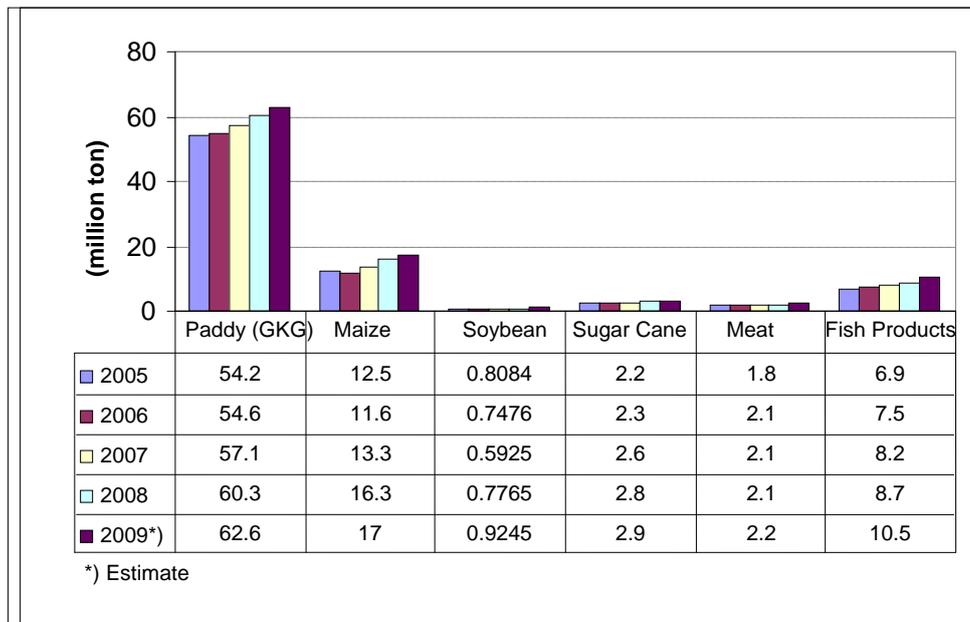
The ability to increase the production of rice and at the same time to control its price level had made Indonesia become capable to overcome the food crisis. Such ability had been recognized and appreciated by other nations. At the Food Summit Conference in June of 2008 in Rome, the Food and Agricultural Organization (FAO) had praised Indonesia for such achievement. The FAO had in fact stated that such achievement should become the model for other nations in the efforts to overcome the global food crisis. Such success in increasing rice production should be continuously maintained.

The increase in food production had also been attained in other commodities, such as sugar, soybean, and maize. The success in attaining the increased food production will benefit both producers and consumers. Producers will experience an increase in their welfare, while consumers will benefit from the attained stability of food prices. As over one-half of poor households rely their income from agricultural activities in rural areas, the increased food production will more benefit such poor households. Such condition will in turn accelerate to reduction of the poverty rate in rural areas, such as had once occurred in the 1970s and 1980s.



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DIAGRAM 7 PRODUCTION OF FOOD

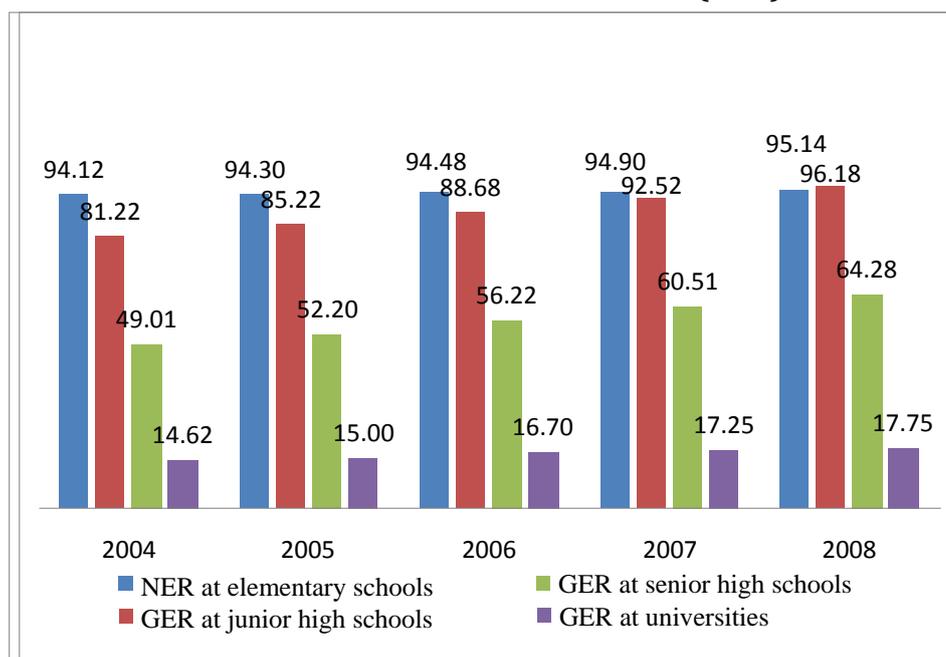


In education, the budget allocation had been dramatically increased. In 2005 the budget allocation for education still reached Rp 78.5 trillion and by 2008, the budget allocation for education, in accordance with the stipulation of the constitutions had been increased two times to Rp 154.2 trillion. By 2009, the stipulation of the constitutions that warranted to budget allocation for education to reach 20 percent of the total budget allocation had been met, reaching Rp 207.4 trillion. The increase in the budget allocation for education can improve access to education and increase the quality of education.

Progress is also evident in the increased gross enrolment rate at the junior high (SMP/MTS/SMPLB/Package B) level and senior high school (SMA/SMK/MA/SMALB/Package C) level, which increased from 85.22 percent and 52.20 percent in 2005 to 99.18 percent and 64.28 percent in 2008. Such increase in the gross enrolment rates is attributed to the implementation of the School Operational Assistance Program (BOS) that was initiated in 2005. This program had been able to effectively reduce the school costs that are borne by Indonesian households. With the additional support from the regional government The budget (APBD) more regions had become able to provide free education. From the demand side, the government had initiated the new incentive scheme for encouraging poor households to send their children to school through the PKH (Family Hope Program) through the provision of conditional cash transfer scheme. Through a combination of the universal BOS program from the supply side and the limited PKH program, it is expected that not only the

inter-generation poverty chain-link could be dissected but also the competitiveness of the people could be enhanced at the global level.

DIAGRAM 8
NET ENROLMENT RATES (NER)
AND GROSS ENROLMENT RATES (GER)



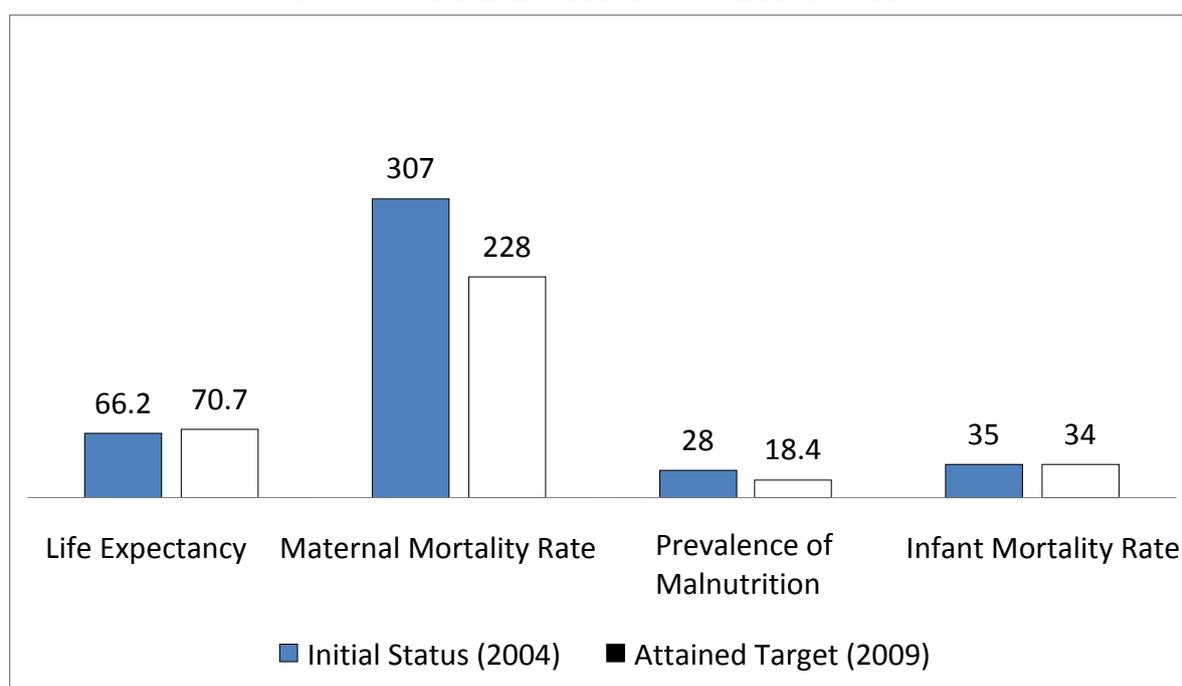
The achievements of the education programs significantly depends on the available quantity and quality of teachers and university lectures. The increase in the budget allocation for education had been used for assisting regional governments in the rehabilitation of school buildings – that were built in the 1970s and 1980s – and for increasing the total number of class rooms and new schools, and for increasing the welfare of teachers and university lectures.

The efforts to increase the quality of education had also been endeavored by providing the widest possible opportunity for the general public to develop schools and universities of international quality. By starting from the senior high school (SMA) level, the government had gradually increased its quality so as to reach the international standing through the implementation of computerization and enhancing the mastery of foreign languages that are accompanied by international access.

Efforts to increase health services had also been continually endeavored. In 2005, the budget allocation for health had reached Rp 7.7 trillion while in 2008 it had reached Rp 17.9 trillion. Most of the additional budget allocation had been used for enhancing health services at the Public Health Centres (*Puskesmas*) and at the Integrated Services

Centres (*Posyandu*) that had been financed by among others the Community Health Security (*Jamkesmas*), as a program aimed to serve disadvantaged communities. In 2008, this program had been able to facilitate health services to 76.4 million persons. In order to broaden the access to of the general public to medicines, steps had been taken to significantly and continually lower the price of generic medicines. A portion of the continuously increasing health budget allocation had been used for recruiting new medical doctors and paramedics and for assisting regional governments in rehabilitating the *Puskesmas* and for building new hospitals in various regions. A portion of the budget funds had also been used for the Program to Revitalize Family Planning that was somewhat neglected in the initial period of the reform and decentralization. To a degree, the expansion of the health sector had yielded various results, such as in the decline of the prevalence of malnutrition among children.

DIAGRAM 9
COMMUNITY HEALTH AND NUTRITION STATUS



In the context of efforts to face and overcome the global financial crisis, Indonesia has now been relatively more prepared if compared to many other nations. The financial sector had been much more healthy if compared to the situation prior to the 1997/1998 economic crisis. Nonperforming loans at the end of September 2009 was only 3.8 percent, much below the 35 percent in the period towards the 1997/1998 crisis. The system for oversight of the banking and financial system had been improved. Macroeconomic risks had tended to decline as evident from among others the declining



ratio of government debt, that include foreign debt. The ability to face the global financial crisis had increased Indonesia's standing in the world. If in the past Indonesia had invariably obtained recommendations for policies to overcome the crisis, now various nations had been asking for recommendations from Indonesia for overcoming the crisis.

The various progress attained had been made possible by the cooperation and hard work of the government, business community and the entire Indonesian people. One of the achievements is the enhanced management of and awareness to pay taxes. The sources of development funding currently depend more on tax revenues and on domestic funding. The fiscal consolidation carried out in the past had already yielded satisfactory results, that had not only strengthened fiscal sustainability but had also created relatively greater amounts of development funding for the domestic economy.

The essence of fiscal consolidation lies in the improvements in the structure of government revenues, increased effectiveness of government spending at the central as well as regional levels, and in the enhanced management of fiscal risks, especially pertaining to the financing of the budget deficit. The structure of government revenues had become more sound with the increase in revenues from non-oil/gas sources, specifically from income tax. The total number of the population having the NPWP (Tax Payer ID Number) had exceeded 10 million in 2008. The increase in the total number of tax payers had not only increased tax revenues but had also reduced revenue risks. The tax to GDP ratio had increased from 12.5 percent in 2005 to 14.1 percent in 2008. The increase in revenues is also the result of the steps taken to comprehensively reform the tax system that had led to the enhancement of the tax compliance of the people.

With regard to the spending side, the need for financing budget expenditures especially for education, health, and infrastructure has continued to increase. The effectiveness of government spending had continued to approach the optimal level with spending increasingly directed to important activities. Even though there were still allotted spending that still could not yet be realized, this was partly due to the efforts to increase efficiency on account of the efforts to improve the procurement system, among others through the application of e-procurement that had been able to save up to 15 percent of spending.

Fiscal consolidation had improved the macroeconomic risk of Indonesia. The ratio of government debt to GDP that in 2004 still stood at 56.4 percent had gradually declined to reach 30 percent in 2009. The fall in this ratio was also accompanied by the fall in the total foreign debt stock. The financing of the budget deficit now relies more on domestic sources. The decrease in Indonesia's debt ratio is also better than the declining trend of the debt ratios of other Asian nations. Thereby, such fiscal consolidation process could become the engine for accelerating further improvements in the investment grade rating of Indonesia



2.3. Challenges to National Development

In the period five years ahead (2010-2014), the challenges faced by national development will not be lighter. In the midst of global competition, there are a number of challenges that will be faced in the efforts to realize an Indonesian society that is prosperous.

First, the realized economic growth rate of around 6 percent in the 2004-2008 period is inadequate for realizing the goal of a prosperous Indonesia. There are still many communities in Indonesia that are still left-behind and that are not yet capable to benefit from the fruits of economic growth if the rate of economic growth is only 6 percent per annum. Increased technological progress had reduced the need for manpower in the production process. In order to create an inclusive development, it is necessary that development involves economic growth of over 6.5 percent per year in the next five years period.

Second, the required economic growth should involve the largest possible number of population of Indonesia (inclusive growth). This is for accelerating the reduction of the population living below the poverty line and for strengthening the capacity of households to be resilient in facing shocks. The reduction of poverty cannot fully rely on economic growth, but also requires various effective intervention measures. Inclusive growth requires the appropriate government intervention measures that affirmatively benefit marginalized groups. This is for ensuring that all community groups have the appropriate capacity and equal access to emerging economic opportunities. Considering that such capacity increase requires time to materialize, it is necessary that such affirmative program be implemented in a consistent and continuous manner with clear and accurate targets.

Third, in order to reduce inter-regional gaps, it is necessary that economic growth be spread-out in all regions of Indonesia, especially in regions that still have relatively high poverty rates. Growth in all regions needs to take into account the inter-linkages among local participants and resources, so that more community members can become involved therein and can also benefit from the yields of economic growth and from the increased value-added in the regions.

Fourth, in order to reduce the gap among business participants, it is necessary that economic growth provides the widest possible job opportunities and that is equitably distributed among the development sectors that create large work opportunities. It is expected that through investment spending, economic growth could create a large number of employment opportunities. It is also expected that micro, small, and medium scale enterprises can viably grow so as to be able to further increase productivity and competitiveness. The expected higher economic growth can be realized if the workers are equipped with the skills, competence, and capability to work and are prepared to face competition in the global work market. Education alone is insufficient, because many workers are still not yet ready to enter the work market.



Fifth, economic growth should not degrade the natural environment. Degradation of the environment will result in economic growth not being sustainable. Ineffective management of natural resources will result in the rapid depletion of resources and could easily lead to the recurrence of the food and energy crisis, such as had occurred in 2007-2008. Degradation of the natural environment will result in the increase in the cost of living, that in turn will reduce the quality of life. Degradation of the natural environment is also suspected to be one of the main causes of epidemics and respiratory diseases. Environmental aspects has become ever more widely associated climate change issues that are strongly linked with degradation of the natural environment and with development activities that are not environment friendly. The climate change threats do not only relate to the potential occurrence of unpredictable calamities, such natural disasters, but also relate threaten the productivity of natural resources. If this should occur, then the food crises could recur at any time.

Sixth, the development of infrastructure becomes increasing important for a number of reasons. Accelerated economic growth obviously needs additional quantity and increased quality of the infrastructure. Revitalization of agriculture cannot possible succeed without adequate infrastructure, because in the cost structure of the final agricultural commodities, the marketing cost is an increasing dominant. Poor households will not be able to participate in the entire economic growth process if they are isolated due to the absence of infrastructure. Environmental problems, such as water, air, and soil pollution, or floods in urban areas, are closely related to the absence of inadequate infrastructure. Even though budget expenditures in infrastructure had been increased, infrastructure gaps still exist, at the national as well as inter-regional levels. Therefore, development of basic infrastructure must become a priority of development.

Seventh, the source of quality and sustainable economic growth must come from increased productivity. Increased productivity is very much determined by the increase in the quality of human resources, especially through their mastery of science and technology. Human resources is not only in terms of its role as a factor of production but also in its ability to coordinate other factors of production. Therefore, enhancing the quality of Indonesia's human resources, specifically in the mastery of science and technology, is the determining element in the efforts to attain an inclusive and sustainable development. In the next five years, the increase of human resources of Indonesia must be focused on enhancing the quality of the Indonesian man as a whole and involves efforts to overcome the gaps in the quality of man, from the standpoint of their status among different income bracket groups, gender and among different regions. Only through government intervention can the gaps in the quality among human resources be overcome.

Eight, the success of the economic development process depends on the quality of the bureaucracy. The currently quality of Indonesia's bureaucracy needs to be enhanced in order to be able to face global competition. The high cost economy that is currently evident is not unrelated to the low quality of the bureaucracy. Therefore, the



success of bureaucracy reform is the key for enabling Indonesia to increase its national competitiveness and face competition in the global market.

Ninth, it has been decided that democracy is the basis of national life. The implementation of democracy has now attained much progress. It must nevertheless also be admitted that some of such progress is still procedural. There are still many substances of democracy that are still inadequate. Therefore, it is necessary that democracy still needs to be further consolidated. Furthermore, related to democracy is decentralization. The decentralization process has already been implemented for almost ten years. Nevertheless, the process of transforming the governmental system has not yet proceeded flawlessly. The consolidation of the decentralization process through the strengthening of synergy between the central and regional governments and among regions is an important agenda for attaining the optimal benefit from integration with the global economy. In this respect, one of the strategic steps that need to be made is enhancing the capacity building of regional governments.

Tenth, in a democratic system, the law is supreme. The consistent enforcement of the law, including the eradication of corruption, can provide a sense of security, justice, and a climate of business certainty. Many steps had been undertaken for reforming the legal system. On other hand, the function of the law, for guiding the daily behavioral pattern of the Indonesian People, still needs to be further improved.



CHAPTER III DIRECTIONS OF RPJPN 2005-2025

3.1. Vision and Mission of RPJPN 2005-2025

On the basis of the Indonesia's current condition, the challenges faced twenty years ahead, by taking into account the basic assets of the Indonesian nation, and the development tasks contained in the Preamble of the 1945 Constitution of the Republic of Indonesia, thus the National Development Vision and Mission for 2005-2025 is as follows :

INDONESIA THAT IS SELF-RELIANT, ADVANCED, JUST, AND PROSPEROUS

That is elaborated as follows :

Self-reliant: A nation is self-reliant if it is capable to realize a life that is equivalent and equal to that of other nations that are already advanced by relying on the nation's own capability and strength.

Advanced: A nation is advanced if its human resources have a national identity, noble morals, and have high quality education.

Just: A just nation means that there is no discrimination in any form, among individuals, gender, nor among regions.

Prosperous: A prosperous nation is a nation for which all its needs for living is met, so it can provide meaning and significance for other nations in the world.

The eight National Development Missions are the following :

1. **Realizing a society that has high morals, ethics, culture, and civilization, on the basis of the Pancasila**, which is strengthening the national identity and character, through education that is aimed at forming individuals that steadfastly belief in Almighty God, that comply with the law, maintain internal harmony and harmony among different religious adherents, that practice inter-culture interaction, that develop the social asset, apply the noble cultural values of the nation, and possesses national pride as Indonesians in the context of consolidating the spiritual, moral, and ethical foundations of national development.
2. **Realizing a nation that is competitive**, which places a high importance to the development of a quality and competitive human resources; increasing the



mastery and utilization of science and technology through research, development, and application towards sustainable innovation; developing an advanced infrastructure and reforming the law and state apparatus; and strengthening the domestic economy based on the competitive advantages of each region by developing the inter-linkages among the systems of production, distribution, and services provision, including the domestic services provision.

3. **Realizing a democratic society based on the rule of law**, which is the consolidation of stronger democratic institutions; strengthening the role of the civil society; strengthening the quality of decentralization and regional autonomy; assuring the growth of the media and freedom of the media in the communication of the public interest; and reforming the structure of the law and enhancing the law culture and enforcing the law in a just, consistent and non discriminative manner, and by being pro-people especially the less to do.
4. **Realizing an Indonesia that is secure, peaceful, and united**, which is developing the strength of the TNI (Armed Forces of Indonesia) so that the TNI can build its strength beyond the minimum core force and that is respected at the regional as well as international spheres; consolidating the capability and increasing the professionalism of Polri (Police Force of Indonesia) so that it is capable to protect the people; prevent crimes, and fully resolve criminal cases; developing the capability of state intelligence and counter-intelligence in the creation of national security; and increasing the preparedness of the reserve components; defense supporting components and contribution of the national defense industry in the overall defense system.
5. **Realizing development that is equitable and just**, which is increasing regional development; reducing overall social gaps, being pro people at large, and pro groups and regions/areas that are still weak; drastically reducing poverty and unemployment; providing equal access for the general public to various public services and economic facilities and infrastructure; and eliminating discrimination in various aspects including in gender.
6. **Realizing an Indonesia that is balanced and sustainable**, which is improving the management of development that can maintain the balance among the utilization, sustainability, availability, and uses of the natural resources and environment, while still preserving the functions, carrying capacity, and comforts of life of today and in the future, through the utilization of space that is harmonious among the use for human settlement, for social economic activities, and for conservation purposes; increasing the economic uses of natural resources and the environment in a sustainable manner; improving the management of natural resources and the environment for supporting the quality of life; providing



beauty and comfort of life, and increasing the preservation and utilization of the bio-diversity as the basic asset of national development.

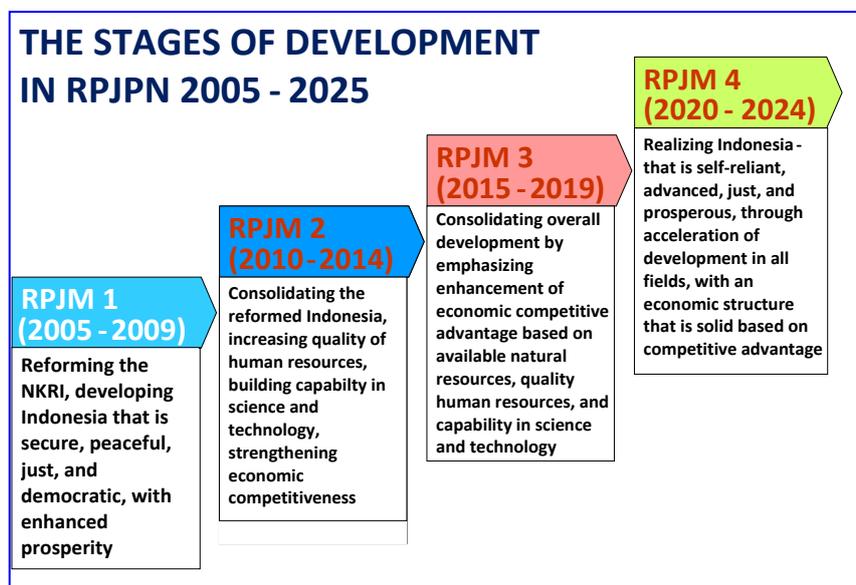
7. **Realizing an Indonesia as an archipelago nation that is self-reliant, advanced, strong, and that is based on the national interest**, which is enhancing a marine oriented perception of society and the government so that the development of Indonesia can become oriented to the development of marine aspects of the nation, through the development of marine science and technology; managing the national sea territory for defending the sovereignty and wealth of the nation; and developing the marine economy in an integrated manner by optimizing the utilization of marine resources in a sustainable manner.
8. **Realizing an Indonesia that has an important role in the international community**, which is consolidating Indonesia's diplomacy in the strive for the national interest of Indonesia; continuing Indonesia's commitment in the establishment of its identity and in consolidating international and regional integration; and encouraging international, regional, and bilateral cooperation among nations, among groups, and among institutions in various fields.

The strategy to implement the Vision and Mission is specified in five years stages, namely into 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 RPJMNs are summarized in the following:

1. **The First RPJM (2005-2009)** is directed at reforming and developing Indonesia in all fields that are aimed at creating Indonesia that is safe and peaceful, just and democratic, and that has an increasingly prosperous population.
2. **The Second RPJM (2010-2014)** is aimed at the greater consolidation of reform of Indonesia in all fields by emphasizing endeavors for increasing the quality of human resources, including the promotion of the capability in science and technology and the strengthening competitiveness of the economy.
3. **The Third RPJM (2015-2019)** is aimed at the greater consolidation of development in a comprehensive manner in all fields by emphasizing attainment of competitiveness of the economy on the basis of competitiveness of natural resources and quality of human resources and in the increasing capability to master science and technology.
4. **The Fourth RPJM (2020-2025)** is aimed at realizing the 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 that is supported by quality and competitive human resources.

DIAGRAM 10
THE STAGES OF DEVELOPMENT IN RPJPN 2005-2025



3.2. Direction of the Second Medium-Term Development Plan (2010-2014)

On the basis of the implementation, achievements, and as the continuation of the First Medium-Term Development Plan, the Second Medium-Term Development Plan is aimed at the greater consolidation of reforming Indonesia in all fields by emphasizing the efforts for enhancing the quality of human resources including the development of the capability in science and technology and strengthening the competitiveness of the economy.

The secure and peaceful condition in various regions has continued to improve with the increased basic capability of state defense and security as indicated by the enhanced posture and structure of state defense and the increased capacity of the state security institutions.

Such a condition is in line with the increased awareness and enforcement of the law, the stained consolidation of upholding the rule of law and the enforcement of basic human rights, and the continued efforts to reform the national law system. In that respect, national life that is increasingly democratic will be increasingly realized as indicated by the improved implementation of decentralization and regional autonomy and the strengthened role of civil society and political parties in national life. The important position of Indonesia as a great democratic nation is increasing with the successful diplomacy in international forums in the efforts of maintaining national security, territorial integrity, and safeguarding the wealth of natural resources of the nation. Furthermore, the continually improved public services that are less costly,



faster, more transparent and accountable is indicated by the meeting of the minimum standard services at all government levels.

The welfare of the people continues to increase as shown by improvements of various indicators on human resources development, such as the increased income per capita; the decline of the poverty rate and unemployment rate in line with the quality economic growth accompanied by the development of social security institutions; the increased education level of the people that is supported by the well established implementation of national education; the enhanced gender equality; the increased; the optimal growth of the welfare and protection of children; the controlled growth rate and total number of population; the declined gap of welfare among individuals, among social groups, and among regions; the accelerated growth of potential growth centers outside Java; and the increasingly consolidated new values that are positive and productive in the context of consolidating the nation's culture and character.

The competitiveness of the nation is increasing through strengthening the manufacturing industry in line with the strengthening of agricultural development and the increasing the development of marine resources and other natural resources in accordance with the regional potentials in an integrated manner and the increased development of science and technology; the accelerated development of infrastructure by further enhancing cooperation between the government and the business community; the increased quality and relevance of education; and reforming economic institutions that induce private initiative in economic activities. Such a condition is supported by development of the transportation network, and post and telematics; development in the utilization of renewable energy, particularly bio-energy, geothermal energy, hydropower, wind energy, and solar energy for electricity; and development of water resources and development of housing and human settlements. In addition, the marine industry, that encompasses sea communications, the maritime industry, fishery, marine tourism, and activities on energy and mineral resources are developed in a synergic, optimal, and sustainable manner.

In the context of attaining the sustainable development, the management of natural resources and the conservation of the functions of the natural environment are continually enhanced by institutional strengthening and increasing public awareness as indicated by the growth of the process for the rehabilitation and conservation of natural resources and the natural environment that are accompanied by the strengthened active participation of the people; the maintained biodiversity and uniqueness of other tropical natural resources that are utilized for realizing value-added, and competitiveness of the nation, and for increasing the national development assets in coming periods; the consolidated institutions and capacity at all government levels for anticipating and overcoming disasters; and the implemented marine development as the movement that is supported by all sectors. Such a condition is supported by the increased quality of spatial planning, increased consistency in spatial utilization by its integration into the related development plan document, and the enhanced enforcement of regulations in the context of controlling spatial utilization.



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PRESIDEN
REPUBLIK INDONESIA

CHAPTER IV NATIONAL DEVELOPMENT POLICY IN 2010-2014

4.1. National Development Strategy and Policy

4.1.1. Vision of Indonesia

Indonesia has an abundance of assets, in the form of its natural resources, its strategic geographical situation, its ideal demographic structure, its diverse and strong cultural resources, and in the form of its human resources that have an infinite potential and creativity. Indonesia has succeeded in transforming crisis and challenges into opportunities. With regard to energy, Indonesia has various sources of energy, encompassing crude oil, natural gas, coal, and an abundance of renewable energy sources, such as geothermal and hydro power. In addition, extensive and fertile lands are available that can be planted with various food and agricultural crops. The population of Indonesia has a high potential in various fields, such as in science and technology, the arts and culture, sports, and in creativity.

With the estimated world economy gradually recovering, and the belief that new global shocks will not recur, thus the performance of the national economy is also expected to gradually recover. Efforts are continually being made to ensure that the performance of the Indonesian economy will continue to be able to overcome the impacts of crises through development of the domestic economy. In the such recovery steps it is imperative that economic stability be maintained and even enhanced. Under such conditions, the average economic growth rate in the next five years can be maintained in the range of 6.3-6.8 percent. If the global economic recovery occurs faster and no new economic crises will occur, then through the strategy of strengthening of the domestic economy and of exports, then such average economic growth rate can be even further increased in towards the final years of the five years period to 7 percent or higher. With such economic growth rate, the poverty rate will decline to 8-10 percent and open unemployment will fall to 5-6 percent.

The experience of the last five years has shown that a high economic growth rate can benefit all of the people, only if it is accompanied by equitable prosperity that is endeavored by economic policies that explicitly favor the weakest community segments. Economic policies must apply a comprehensive, balanced, consistent, and just approach. Poverty is not only the result of not yet being able to meet basic needs but is also due the lack of rights and access to such basic needs. Access not only relates to the available supply of quality basic needs in accordance with the location of the need, but also in terms of the affordability of the price, and also in terms of the reliability of supply at all period. Therefore, the welfare of the Indonesian people will be improved if their rights and access to meet such needs are assured.



The market mechanism and globalization cannot be relied upon for automatically enhancing the welfare of the people. In fact the unfettered market mechanism had given rise to a widespread global financial crisis and could bring misery to the world community. The role of a strong, smart, clean, and efficient government is paramount for protecting vulnerable communities and for safeguarding the interests of the state and the state from the unlimited exploitation of the market. Reform of the bureaucracy and the effective role of the government that is free from conflicts is imperative for safeguarding the national and people's interests.

Economic growth in the last five years had reached almost 6 percent, which is the highest growth rate attained since the economic crisis of 1998. The unemployment rate and poverty rates had also declined. On the other hand, it is necessary that the unemployment and poverty rates be continually be further reduced. There are currently still many communities that are still living near and just below the poverty line. They are vulnerable to shocks, especially to shocks in the prices of food commodities. The poverty problem is a problem that needs to be more fundamentally handled.

Attaining growth with equity requires stability and a solid governance of the nation. A process of economic growth that includes all layers of society can be realized only if the government budget allocation is truly designed for assisting the people in their efforts to get out from the poverty trap. Social security must be provided not only because it is a constitutional obligation but also for strategic considerations for enhancing the quality of Indonesia's human resources so as to become more productive, educated, skilled, and healthy. Such Indonesian man will become invaluable assets for a strong and competitive nation in encountering national, regional, as well as global challenges.

Endeavors in the last five years to increase the quality of human resources had already yielded results. Such endeavors, however, need to be continued. Indonesia must traverse its development trajectory in a continuous and consistent process. In order to ensure the continuity of such improvement process, it is necessary to have a democratic governmental system, which can provide ensured access for its people to met their needs. Improvements in the welfare of the people is possible only if the effective checks and balances system is in place. Policies to increase the welfare of the people need to be continually verified by such system. The objective is to ensure that the policies pursued have indeed been effective for enhancing the widest possible portion of the people. Therefore, efforts to consolidate democracy must be continued. Freedom of expression must be guaranteed, and the pillars of democracy must be continually fortified and accompanied by efforts for increasing compliance with the law.

One of the important elements of a democracy is the aspect of equality. The preamble of the 1945 Constitution contains the tasks to protect all of the Indonesian people and the whole of the Indonesian nation and to increase welfare of the general public, to enhance the education of the people, and to participate in the efforts to attain world order, that is based on freedom, eternal peace, and social justice. The task contained in the Constitution requires the state to protect all citizens, without



distinguishing their beliefs, origins, groups, and gender. The history of Indonesia shows that democracy in Indonesia cannot be founded on a monolithic framework. Indonesia's democracy is a history on diversity. Therefore, democracy guarantees such diversity. Such diversity that is stated in the symbol of *Bhineka Tunggal Ika* (Unity in Diversity) must be preserved and must become a cultural basic asset that makes Indonesia unique among other nations in the world.

Indonesia has succeeded to go through a political transformation process from an authoritarian nation into a nation with a more democratic political system. The efforts to consolidate democracy have proceeded satisfactorily, through implementation of the general elections, at the national as well as local levels. Onward, various endeavors need to be made to advance the procedural democracy into a substantive democracy. The endeavors to strengthen the pillars of democracy, that can fully ensure the implementation of the checks and balances process, are important for ensuring that the rights of the people are upheld.

Indonesia's constitution explicitly contains the principles of checks and balances among the state institutions. The constitution also explicitly contains a number of articles that state a recognition of basic human rights. As a nation that is democratic, the rule of law, governance that is accountable, participatory and open, and the recognition of basic human rights must be upheld.

Indonesia has now become a nation that has made much process in applying the principles of good governance, that is credible and free from personal and group interests. Such efforts need to be continually strengthened in order to realize an Indonesia that is clean, credible, and free from corruption, collusion, and nepotism, and that provides public services, that are excellent, efficient, and at low cost for the general public, so that it is respected by the international community.

In view of the above description and considering the challenges ahead, thus the Vision of Indonesia in 2004 is :

“The Realized Indonesia That is Prosperous, Democratic, and Just”

that is elaborated as follows :

Prosperous People. The realized increase in the welfare of the people through economic development that is based on competitive advantage, assets of natural resources, human resources, and national culture.

Democracy. The realized society, nation and state that is democratic, cultured, that has self-respect and upholds responsible freedom and basic human rights.

Justice. The realized development that is just and equitable, that is actively carried out by all of the people, the fruits of which can benefit the entire people of Indonesia.



4.1.2. Mission of Development

The success of development efforts that have already yielded a large number of achievements in the 2004-2009 period, naturally needs to be maintained and further developed. The development achievements in the 2004-2009 period are basically basic assets that need to be continually enhanced and improved in the following period of 2010-2014. In the 2010-2014 period, the Indonesian people must continue to work hard for attaining enhancements in the welfare of the people, in the enhancement of justice, in the application of good governance, in enhancing the quality of democracy, and in maintaining the national unity and security.

The Development Mission of Indonesia for the 2010-2014 period is the initial part of the process towards attaining the goals. In the implementation of its mission, Indonesia is not unaffected by the regional and global condition. The food and energy crisis and price fluctuations that occurred in 2008 and currently not yet fully overcome, had influenced the world condition. The world economy had contracted in 2009, due to the collapse of the world's financial institutions, that had ultimately adversely affected the real economy and international trade. This will ultimately lower the income level of the world community, and the efforts for attaining the target for reducing global poverty in 2015 as contained in the Millennium Development Goals (MDGs), will also be hampered.

Even though, at the global leadership level, there were already initiatives for overcoming the global crisis, such as the initiative of the G-20 forum, the full global economic recovery still requires a very long process. This because the rehabilitation of the financial sector, revision of regulations and supervision of the financial sector, the implementation of counter-cyclical programs through the fiscal stimulus policies, and efforts for preventing protection in international trade, require a complicated coordination among nations, in addition to the constraints faced within each nation in going through their respective domestic political processes.

Meanwhile, the emergence of a global collective awareness on the climate change problem has also affected the development strategy of all nations. Each nation, the developed as well as developing, have a common responsibility even though with differentiated roles in the efforts for overcoming the problems of global climate change. The manifestation of the increasing global collective awareness on the impact of climate change is the greater importance of the economic development strategy that places high awareness on the carrying capacity of the natural environment. Negligence of such awareness will result in more frequent occurrences of natural disasters attributed to man's actions and to the impacts of industrialization, and can endanger humanity itself.

Indonesia's efforts to enhance the welfare of the people in the 2010-2014 period will still be affected by the global economic crisis and by the agenda on climate change. Indonesia has the potential to attain an average economic growth rate of 6.3-6.8 percent in the 2010-2014 period, under the assumption that the global economy will not decline



in 2010, the global financial sector has stabilized, and food and energy prices will have gradually been adjusted and will not undergo sharp volatility.

Indonesia has a strategic geographical position that is supported by adequate natural resources, a strong cultural heritage, and a large number of human resources with an education that through time is continually being enhanced. In the next fifteen years, the share of population in the productive age will still increase, implying that it will present a challenge and also an opportunity for Indonesia for making investments in human resources in order to create a nation that has a continually increasing competitiveness.

Indonesia has now become a model of a transition democracy, that previously had been in doubt for its ability to improve its democratic process in view of its complexity and heterogeneity. The decentralization process in the governmental system has already proceeded with encouraging developments. Democracy and decentralization is a compatible combination and could become a tremendous force in the global economic and political system. For its realization, it is necessary to continuously develop governmental institutions that are competent, clean, and credible, through a consistent reform process.

The development mission of 2010-2014 is a formulation of the endeavors needed for attaining the vision of Indonesia in 2014, namely the realized Indonesia that is Prosperous, Democratic, and Just, but that is not independent from the global and domestic condition and challenges in 2010-2014. The government mission in the 2010-2014 period is directed at realizing Indonesia that is more prosperous, secure, and democratic. Efforts for realizing the vision of Indonesia in 2014 will be elaborated into the following mission of the government in 2010-2014.

Mission 1 : Continuing Development Towards a Prosperous Indonesia

The Preamble of the 1945 Constitution explicitly states that a prosperous Indonesia is the final goal of the purpose of establishing the Indonesian nation. Prosperity of the people is measured not only in materials terms but also in spiritual terms, that will make it possible for the Indonesian people to become an integral person in his pursuit of the ideal aim, and for participating in the development process in a creative, innovative, and constructive manner.

Development towards an Indonesia that is prosperous contains a deep and broad meaning, encompassing a condition that is fulfilling and having the capability to be resilient in overcoming shocks that originate from within as well as outside the nation. The threat of the energy and food crises that occurred in the period of 2005-2008, with the prices of food and energy commodities sharply gyrating within a short period, had threatened the economic security of the general public, even though the government had endeavored to protect the people through large sums of food and energy subsidies. Thereby, developing and maintaining food security and energy security in a sustainable



manner is one of the essential elements in the mission to attain prosperity of the people of Indonesia.

In accordance with the ever more evident challenges of climate change, it is necessary that Indonesian economic development mainstreams environmental problems in its strategy through adaptation and mitigation policies. The natural environment that has already been degraded are to be continually rehabilitated, through such policies as ; the rehabilitation of forests and lands, enhancing the management of river basic areas, developing energy and transportation that is environment friendly, controlling the emission of green house gases, and by controlling the pollution and degradation of the environment.

The global financial crisis, that has left the global economic foundations in shambles, the occurrence of the world food and energy crises, and the recently increasing importance of the global climate change issue, will raise demands and reactions for initiating basic changes to the world economic system. The new world economic system must place importance the common world community prosperity, equitable, justice and sustainable. In that respect, an economic development model that does not take into account the important and proportional role of developing nations cannot be continually preserved. It is necessary to correct the free market that is unconstrained, that is not sufficiently regulated and supervised, in order to maintain the aspects of justice and interests of the public at large. The market needs to be protected from the irresponsible and greedy actions and decisions of market actors, who had only considered their personal short-term business profits, by disregarding the principles of being prudent and proper, and by disregarding the need for having continuously viable business activities.

Such a situation has required Indonesia to have the ability to anticipate and that must be reflected in the determination of Indonesia's development mission and direction of development policies, and in the strategic role of Indonesia in the international community. This is for ensuring that Indonesia can continue its endeavors to attain the aims of self-reliance and advancement in the prosperity of the people. Indonesia's ability to face and overcome the economic crisis, in going through the intricate democracy transition in the last decade, and in its continually enhanced preparedness in managing the impact of the global financial crisis, will ensure the maintained momentum in its efforts to increase the welfare of the people. Such ability had also marked Indonesia's resurfaced role in international relations and in obtaining world respect because of such Indonesia's rise had been built on the basis of the universal and noble principles, namely the principles of good governance and clean government, respect for basic human rights, pluralism, democracy, transparency and openness, accountability, and in Indonesia's participation in the responsibility of maintaining a balance in the natural environment and in preserving world security.



With regard to domestic issues, demands for having an improved welfare had entered a new phase. The created employment opportunities must also be able to yield high value added, in economic terms as well as in terms of having decent jobs. The people has the right to having proper jobs and to decent living. This can be created only if there is a relatively high, sound economic growth on the basis of the principles of good governance that is efficient and just.

Economic progress has also induced structural changes in many elements of the nation. Economic development that had been concentrated in urban areas, and resulted in the high rate of urbanization from rural to urban areas and that had led to the gap in the welfare level between rural and urban areas, requires attention to be given not only to urban areas but also to rural areas, by creating an attraction of rural areas and by creating a greater rural-urban economic development linkages. The development of urban areas that had been focused in urban public services infrastructure, must take into account development of the heterogeneous social-cultural potential, particularly in metropolitan and large cities. In order to reduce the rural-urban welfare gap, it is necessary that the development of urban areas takes into account the development of medium cities and their surrounding small cities.

Mission 2 : Strengthening the Pillars of Democracy

Indonesia has grown as one of the largest democracies in the world. The democracy process that had proceeded in the last five years had exhibited an ever more mature development. Nevertheless, still many more improvements are needed in the political structure that are to emphasize the process of the democracy institutions by reforming the relation between political institutions and the security and defense institutions of the nation. The reform of the political structure must also place the emphasis on enhancing the performance of government institutions in the implementation of their tasks and functions that have been entrusted by the constitution and by the laws and regulations.

In line with the implementation of decentralization (devolution) and regional autonomy, the process of democracy in the regions had been marked by the direct election by the people of regional heads, encompassing governors, district heads, and mayors. Democracy has already been on the right track. In the current era of reform and democratization, the reform of the political process that is emphasized on the allocation/representation of authority must be continued by continually enhancing the quality of the process and mechanism of selecting public heads so that these become more open and realizing an unwavering political commitment to the importance of freedom of the mass media and to the freedom of association, gatherings, and of opinion of each citizen on the basis of their respective political aspirations.



Development of the political culture that places the emphasis on cultivating democratic values is continually endeavored through the creation of democratic political values, especially values on respect for basic human rights, values on equality, anti-violence, and values on tolerance, through various discussion forums and the media and through endeavors for realizing dialogues for enhancing awareness on the importance of maintaining national unity.

Efforts for strengthening the pillars of a healthy democracy must be continued, towards a democracy that is more mature. Differences of opinion and a critical stand by various parties to the government are the realities of democratic life and are political rights that must be respected. All these must, however, remain in the framework of the constitution and on the basis of the rules of the game and ethics that must be jointly upheld, so that a dynamic stability and that accommodate various differences in aspirations can still be jointly maintained. Thereby, realizing a society that is democratic while still being based on the rule of law, must continually be developed, through further consolidation of democratic institutions, strengthening of civil society, enhancing the quality of decentralization and regional autonomy, ensuring the development of the media and freedom of the media in communicating the interests of society, and by reforming the law structure and enhancing the law culture, and by enforcing the law in a just, consistent, non-discriminatory manner, and that protects marginalized segments in society.

Mission 3 : Strengthening the Dimension of Justice in All Fields

Development that is just and equitably spread, and can benefit all components of the nation throughout Indonesia will increase the active participation of the people in development activities, reduce threats to security, and can eliminate potentials of social conflicts, towards attaining an Indonesia that is advanced, self-reliant, and just.

It is important to stimulate the accelerated development and growth of strategic and fast-growing regions so that a sense of justice can be built up in various regions by developing marginalized regions in their vicinity, in a synergic systems of economic development areas, that cross administrative boundaries, and places greater emphasis on linkages in the chain-links of the industrial production and distribution processes. Such efforts can be done through the development of selected products of the regions, and by inducing the realization of coordination, synchronization, integration and cooperation among sectors, among government institutions, and the business community and society, in supporting the enhanced business and investment opportunities in the regions.

The development approach will have to place the emphasis on the sense of justice and equity, in addition to the direct community empowerment, through the scheme of allocating special allocation funds, including the provision of public services, including the provision of pioneer public services.



Border regions and most outer small islands need to be developed by changing the development orientation from the tendency to be inward looking to that of being more outward looking, so that it can be utilized as the gates of economic activities and trade with neighboring nations. The development approach must not only apply the security approach but must also apply the approach that takes into account prosperity, justice, and equity. Special attention needs to be given to the development of small islands in border areas, that thus far had been relatively neglected.

Justice in development must also be shown by development that is equally spread out in all fields, in development among metropolitan, big, medium scale, and small cities, that are to have more convergent growth rates, by referring to the development system of national cities as well as to development in various fields that are related to efforts for increasing the welfare of the people. Justice through more equitable development is important for preventing the uncontrolled growth of cities and for controlling direct migration from rural areas to big and metropolitan cities, by creating employment and business opportunities in medium scale and small cities, especially outside Java. Thereby, it is important to enhance the inter-linkages among economic activities from the beginning.

In that regard, the thus far already implemented accelerated development of small and medium scale cities need to be further enhanced, especially outside Java, so that their role as the engine of development of their surrounding areas and in serving the needs of their citizens can be implemented. The development approaches that need to be carried out are among others the provision of urban basic services, in accordance with the respective urban typologies.

At the same time, it is necessary to continually stimulate the development of rural areas, through the development of labor-intensive agro-industries, especially for agricultural and marine based regions; to increase the capacity of human resources in rural areas, particularly in the management and utilization of natural resources through the mastery of appropriate science and technology; development of the infrastructure network that support production activities in rural areas and in adjacent small cities in the efforts for creating a mutually complementary and mutually beneficial physical, social, and economic linkages; the increase of access to information and markets, to financial institutions, job opportunities, and to technology; the development of social capital and human capital for which the potentials have not yet been utilized, so that rural areas will not be solely dependent on natural resources; and through conducting price interventions and trade policies that promote agricultural products, especially with regard to prices and wages.

In the context of a just development, social welfare is also developed by providing greater attention to less fortunate groups in society, including the poor and those living in isolated, left-behind, and natural disaster stricken areas. Development of social welfare, in the context of providing protection to less fortunate groups, is to be enhanced through the strengthening of social security institutions that is supported by steps to improve the regulatory framework, funding mechanism, and the application of



the single NIK (Population ID Number). Social security provision is implemented by taking into account the cultural and institutions that have already been rooted in the local communities.

In order to realize gender justice and equality, efforts are to be continued for increasing access and participation of women. Also to be continued are steps for increasing the quality of protection to women and children. Various facilities that had already been built in the 2004-2009 period, such as the Integrated Services Centers for the Empowerment of Women and Children, the Integrated Crisis Centers, and the Special Services Rooms in a number of provinces and districts/cities, must continually be expanded throughout the country. In order to realize the increased role of women in development, it is important to continually enhance the role of women in the public sector. In that regard, it is necessary to continually expand the room for enhancing the role, active involvement and even the leadership of women outside the government, in the business community, and in social organizations.

4.1.3. Agendas of Development

For realizing the vision and mission of national development in 2010-2014, five national development agendas have been determined for 2009-2014, namely :

- Agenda I : Economic Development and Increase of Welfare of the People
- Agenda II : Enhancement of Good Governance
- Agenda III : Strengthening of the Pillars of Democracy
- Agenda IV : Enforcement of the Law and Eradication of Corruption
- Agenda V : Development that is Inclusive and Just

Agenda I : Economic Development and Increase of Welfare of the People

The agenda for increasing the welfare of the people remains to be the priority of the government in the next five years. The final form of the enhanced welfare will be reflected in the increase of income level, decrease of unemployment, and in the enhancement of the quality of life of the people.

Implementation of development in the 2004-2009 period have laid down the foundation in enhancing the welfare of the people, including the welfare of the poor. Some of such policy foundations are : (i) compilation of basic data (with names and addresses) of households that are very poor, poor, and near-poor, that is essential for directing social protection and assistance programs ; (ii) the classification of programs for reducing poverty for facilitating and clarifying coordination; (iii) harmonization and integration of programs for community empowerment in the PNPM Mandiri; (iv) regulations for coordinating steps for reducing poverty from the central to regional levels, including the joint responsibility for its implementation. Such foundation is reflected in the implementation of the programs on the Jamkesmas (Social Health



Security), scholarships for poor children, provision of rice for poor households, the PNPM Mandiri (Community Empowerment Program) and the KUR (Credit for Smallholders). The achievements are reflected in among others the reduction of poverty and in the reduction of unemployment, and the attainments of various targets of the MDGs (Millennium Development Goals).

The 2010-2014 development programs remain consistent to the endeavor for continuing various programs for enhancing the welfare of the people that have already been implemented, by giving further emphasis in the need to have more effective policies in the form of the mainstreaming of budget allocations and policies. Such mainstreaming is not only confined among sectors but also between the central and regional governments. Mainstreaming must also encompass policies so that objectives can be attained with minimal resources.

The program for increasing the welfare of the people will be implemented in line with the efforts to increasing the mastery of science and technology. The increased mastery of science and technology will buttress the implementation of increased quality economic development programs, namely economic development that is based on the increase in productivity and competitiveness, and on the increasingly induced creativity and innovation. The mastery of science and technology will also accelerate the attainment of economic development that is increasingly more self-reliant.

The efforts to increase mastery of science and technology are directed at attaining the increased capacity and capability of the nation in combining natural resources (resource based development), knowledge (knowledge based development) and the legacy of culture of the nation (culture based development). This will result in a more broad based productive economic development, among others the creative economy, that can yield a constructive role in supporting the efforts to increase economic growth.

The program for increasing welfare of the people is carried out by stimulating the real sector and by encouraging growth of small, medium enterprises and cooperatives, and by still maintaining macroeconomic stability. The endeavors to stimulate the real sector will be continued through various constructive and measurable government interventions. While the implementation of fiscal and monetary macroeconomic policies will be carried out in line with the aim of maintaining a healthy and sustainable economy.

Agenda II : Enhancing Good Governance

Enhancing good governance is an important issue at the national as well as international context. The recent economic crisis is not unrelated to the poor state of governance, in the public as well as private spheres. The global financial crisis is also not independent of this problem. Thereby, nations of the G-20, had agreed to place the



need for improving good governance as one of the agenda for making improvements for averting the recurrence of the crisis. The results of such efforts to improve practices of good governance will be shown from among others the reduction of corruption, improvement of public services, and in the decline of the 'high cost economy' elements.

Meanwhile, the corruption perception index had continued to significantly improve. This is an indication that the hard work of the government to improve enhance good governance in the last five years is already on the right track. Nevertheless, the achievements in the preceding period is not yet adequate. Greater and more systematic endeavors are needed for further improving the practices of good governance.

Development of a strong bureaucracy is an important element for ensuring the continuity of sustainable national development. In this regard, reform of the bureaucracy will be implemented by all ministries/government agencies that will be followed by regional governments. Furthermore, in implementing the planning and budgeting process, the performance based budgeting system will be applied in a comprehensive manner. Such reform is expected to yield positive results, particularly in the improved quality of public services and in the enhanced effectiveness and accountability of activities of ministries/government agencies and of efforts to eradicate corruption.

The above measures will be accelerated by consolidating and expanding the program for speeding up bureaucracy reform in combination with a number of other program, such as reform of the law.

The endeavors to enhance the practice of good governance are not only confined to the public sector but will also encompass the private sector, including management of the BUMNs (State-Owned Enterprises). For inducing enhancement of good governance of private companies, the government will encourage many more enterprises to change their status into public companies. Such change will encourage further public openness and accountability of corporations in Indonesia. This is also important for averting collusion, nepotism, and conflicts of interests, that could disturb the expedient proceedings of economic activities.

Agenda III : Upholding of the Pillars of Democracy

The transition from the past democratic life, with all of its successes as well as its failures, towards the future Indonesia that is more prosperous, democratic, and just, demands the more consistent upholding of the pillars of democracy. Therefore, the agenda of upholding the pillars of democracy is an agenda that remains important in the 2010-2014 period.

The democratic Indonesia is characterized by respect for basic human rights, the guaranteed freedom of expression, the existence of checks and balances, respect for diversity, that is reflected in the protection to all citizens without regard to their respective beliefs, origins, groups, and gender.



Thus far, the consolidation of democracy had been endeavored by guaranteeing the freedom of expression, respecting basic human rights, and by continuously maintaining the process of checks and balances. Democratic institutions are continuously strengthened by providing examples and by upholding the values of democracy, such as by maintaining freedom of expression, freedom of the press, and by placing importance to supremacy of the law. Efforts must be made to ensure that democracy remains on the right track, namely maintaining democracy that is egalitarian.

In addition, in the context of consolidating democracy, general elections had been held, at the national as well as local levels. Development of democracy is directed at attaining a level of democracy that is substantive. Nevertheless, prior to being able to become a substantive democracy it is necessary to first resolve all procedural matters. For example, in the general election process, the mistake related to the Fixed Electors List, that occurred at the legislative general election as well as at the election of the President and heads of regions, must be averted. Onwards, various improvements must be made prior to stepping into the realm of substantive democracy.

Agenda IV : Law Enforcement

A democratic system must also ensure the upholding of the 'rule of law'. Thereby, the agenda of law enforcement is still an important agenda in the 2010-2014 period. Enforcement of the law is characterized by the prevalence of legal certainty for all of the people of Indonesia. Legal certainty will provide a sense of security, justice, and certainty for undertaking business activities. On the latter, one of the problems that have frequently discouraged the inflow of investment to Indonesia is the weak legal certainty in the sense of inconsistent enforcement of the laws. Thereby enhancing legal certainty will have a positive effect to the investment climate that in turn will have a positive effect to the economy of Indonesia.

The agenda on the law also covers the process of making laws, process of their elaboration, the process of their oversight, and of the enforcement of the enacted laws. The law agenda is also characterized by the ensured free judiciary process. All these will facilitate the efforts to consolidate democracy. Law enforcement is an essential element in the endeavors to eradicate corruption.

Thus far, endeavors have been continued to reform the law substance, law structure, and law culture. Overlaps and inconsistencies of laws and regulations must be reduced. Likewise barriers to the implementation of laws and regulations must be removed. Efforts will need to be continued to conclude extradition treaties with nations that have the potential of becoming flight destinations of corruptors and of other crime actors. In the efforts to eradicate corruption, legal actions had indiscriminately been taken on various cases. Law enforcement in corruption cases had been implemented without regard to the standing of the actors. All citizens are equal before the law.



The problem related to the law structure will be resolved by increasing the independence and accountability of the law institutions, by enhancing the human resources in law, and by encouraging the transparent and open practice of the judiciary system. Thereby, all parties, be they from the government, business community, as well as from the law enforcement apparatus, starting from the police, state prosecutors, to judges and legal attorneys, must consistently enforce the rules of the game and the legal system.

Agenda V. Development that is Inclusive and Just

Enhancement of the quality of inclusive and just development will continue to become the priority agenda in the 2010-2014 period, considering that implementation of the agenda on justice has up to now not yet been able to fully realize the aim. The causes are among others the process of development that has not yet been sufficiently participatory resulting in justice and widespread participation not yet being applied.

Justice in participation has various dimensions. In the economic field, justice is manifested in the reforms or affirmation process to left-behind groups, the disabled, and to marginalized groups. In the social-political field, justice in participation (inclusiveness) is manifested in the increased access of all groups to political activities, in gender equality in political activities and in the removal of all forms of discrimination.

Efforts to reduce income gaps had been implemented through various policies by the government in the 2004-2009 period. One of such policies is the reallocation of subsidies received by higher income groups to poor communities, through directly targeted programs. The reallocation of oil fuel subsidies to education and health programs in the 2005-2008 period also is evidence of such endeavors. Another form of such policies is the implementation of the three cluster program for reducing poverty in an intensive and coordinated manner.

The process of bottom-up and inclusive planning has been practices in various programs, such as the PNPM (National Community Empowerment Program). The communities are involved since the planning phase, project selection, to the evaluation phase. In this case, the involvement of the community in the development process becomes an essential component. Through this approach, the community will have a sense of ownership and will voluntarily carry out the program and will at the same time benefit from the program.

In the period five years ahead, strengthening of justice and inclusiveness will be carried out for each development activity and program. For example through the Family Hope Program (PKH), conditional cash transfer for the financing of education and health will be provided for very poor communities. This policy is expected to be able to provide extra income for such families (improve the distribution of income) in the short-term, and in the long-term will generate a new generation with better education



and health. In addition, the government will enhance the quality of social protection and assistance programs in cluster 1 to become a family based social assistance program.

Another program that will be continued for improving the distribution of income is the action program for strengthening micro, small and medium size enterprises. Expansion of the coverage of the PNPM program encompass all sub-districts (*kecamatan*) per 2009 that is expected to increase the involvement of the people in development activities at the village (*desa*) and sub-district (*kecamatan*) levels. It is expected that such social asset will increase the quality of the bottom-up planning process that will reach the district (*kabupaten*) and province levels in the following period.

4.1.4 The Development Targets

The development issues and dimensions faced by Indonesia have continued to change and have become ever more complex. The development problems and demands will increase, while the available development capacity and resources tend to be limited. The government must optimize the utilization of available resources for meeting the unlimited demand, by making choices in the form of a priority scale. In determining such choices, the government must be realistic by not setting targets that from the beginning cannot possibly be realized.

Indonesia's experience in the 2004-2009 period is its main asset in formulating this development agenda and strategy. A number of indicators are used to gauge the achievements of development. Many exogenous factors have affected such achievements. Such exogenous factors can facilitate the attainment of the achievements or can also obstruct attainment of targets or can result in the partial attainment of the targets. For example, the increase in the price of the energy commodity can have a positive impact on the efforts for attaining the target of economic growth in view of Indonesia being a producer and net exporter of energy. On the other hand, natural disasters such as the El Nino heat wave, such as the one that occurred prior to the 1997 economic crisis could hamper efforts for increasing the production of food and had contributed to the increase in the poverty rate at that time. Even though the probability of such exogenous factor to occur cannot be projected with full certainty, some of the occurrences, through appropriate policies, can be mitigated towards a favorable development.

Targets of Development in the Economic Field and in Increasing Welfare

In accordance with the main problem faced by the Indonesian nation, the government is determined to continue the process of accelerated economic development in the period five years ahead. With the recovered global economy within the 1-2 years ahead, the highest economic growth rate ever attained by Indonesia



before the crisis of around 7 percent can be met before the end of the 2010-2014 period.

Such acceleration of economic growth is expected to be able to reduce the open unemployment rate to around 5-6 percent by the end of 2014, and the employment opportunities created totals from 9.6 million to 10.7 million units in the 2010-2014 period. The combination of accelerated economic growth and various government intervention policies is expected to be able to accelerate the reduction of the poverty rate to around 8-10 percent by the end of 2014.

In order to attain such accelerated economic growth target, the government will continue the measurable and prudential macroeconomic policy, so that the inflation rate can be stabilized at a low level that is proportional to that in nations that are equivalent to Indonesia, namely of around 4-6 percent a year. A stabilized inflation rate will enable the attainment of the exchange rate and interest rate that are competitive, thereby able to induce the healthy growth of the real sector.

On education, the development target is the increased access of the people to education and the increased quality of education, that is indicated by among others the decline in the illiteracy rate of the population, the significant increase in the percentage of the population that can complete the mandatory nine-years primary education program, and in continued education and in the growth of vocational education, that is indicated by the increase in the total number of skilled manpower.

Development of health will aim at the increase access of the people to health services, indicated among others in the increase in the life expectancy rate, in the decline in the infant mortality rate, and in the reduction of the maternal mortality rate.

With regard to food, efforts will be made to attain self-reliance in food by the end of 2014, that is indicated by the increase in the food security of the people, in the form of improvements in the nutrition status of mother and child among communities that are vulnerable to food shortages, in the enhanced access of poor households to food, the maintained and continued increase in the ability to attain self-sufficiency in rice and in other main food commodities, the maintained food prices that are affordable for communities of the lower middle income communities, the maintained farmers terms-of-trade so that farmers can live in reasonable prosperity, and in the increased bargaining position of Indonesia's commodities and the increased comparative advantage of Indonesia's agricultural sector in the Asian region and in the world.

With regard to energy, efforts are to be made to develop energy security through energy diversification that can ensure the continuity of energy supply throughout Indonesia and for all of the Indonesian people with different income levels, by increasing the use of renewable energy and through active participation in the use and development of global carbon trade, increasing efficiency in consumption and through energy savings measures at the household level as well as in industries and in the transportation sector, and by producing clean and economical energy.



On the environment, the target to be attained is the improved quality of the environment and in the management of natural resources in urban and rural areas, the stopping of the degradation rate of the environment through the increase of the carrying capacity and accommodation capability of the environment, and by increasing the adaptation and mitigation capacity to the effects of climate change. Efforts will also be continued in reforestation efforts and in implementing programs for reducing carbon emission.

In the context of overcoming the impact of global warming for attaining sustainable development, in 2009, at the G-20 Summit in Pittsburgh and at the International Convention on Climate Change in Copenhagen, Indonesia had made the initiative to offer a commitment to mitigate the impact of climate change in the form of reducing its green house gas emissions of 26 percent by 2020 from the business as usual condition and by Indonesia's own resources, and a reduction of 41 percent with international support. Efforts to reduce greenhouse gas emissions are mainly focused on activities pertaining to forests, peat lands, waste and energy, that are supported by policy steps in various sectors and by fiscal policy.

The efforts to increase infrastructure development will be continued that will be indicated by the increased quantity and quality of various forms of infrastructure, such as roads, railroads, sea ports, airports, electricity, irrigation, clean water and sanitation, and postal and telecommunications services.

On development of Small and Medium Scale Enterprises, the measures taken are aimed at increasing and advancing small and medium scale enterprises by expanding their access to capital, including the expansion of the Smallholder Business Credit (KUR), increasing technical assistance with regard to the development products and marketing, implementing policies for expanding business opportunities for small and medium scale business enterprises, and by preserving the functions, existence, and efficiency of traditional markets.

Targets of Strengthening Democracy Development

The target of the upholding of the pillars of democracy is the developed and more consolidated democracy system in Indonesia, that can yield governments and legislative institutions that are credible, effective, and capable of implementing their tasks and responsibilities in a satisfactory and balanced manner by enhancing compliance with the laws. Thereby, the checks and balances system can be carried out in a proper, ethical, and effective manner, so that the implementation of government is not hampered by the democratic mechanism and system, but can instead increase its quality and accountability. The targets in this regard is ensuring the five years process of general elections that meet the sound democratic principles, namely general elections that are honest, just, and ensure that all eligible citizens can exercise their right to election rights in a free and responsible manner.

Targets of Law Enforcement

Law enforcement is an element that is intertwined to the efforts for maintaining a sound democratic system and for supporting a sound business climate so that economic activities can proceed steadfastly, securely and efficiently, in the context of attaining an increased welfare of the people.

The targets of reform of law enforcement are the attained sense justice through enforcement of the rule of law and the maintenance of public security. Such targets are reflected in the perception of justice seekers for having a sense of tranquility, certainty, justice and security in the interaction with and obtaining the services from the law enforcing apparatus (police and state prosecutors). Thereby, reform of the police, state attorney/prosecutor office, and of the judicial institutions must be carried out for attaining the targets in the form of the emergence and growth of the trust and respect of the general public to the law enforcing apparatus and institutions, because they are believed to be ready to protect the general public on the basis of the principles of justice and compliance with the laws and regulations without discrimination.

In addition to the above fields of development, the government will continue to develop other development sectors in a consistent, coordinated, and integrated manner. Thereby, by the end of the RPJMN of 2010-2014, Indonesia will have succeeded in attaining the national development targets for realizing a prosperous, democratic, and just Indonesia.

TABLE 1
THE MAIN NATIONAL DEVELOPMENT TARGETS
OF THE
NATIONAL MEDIUM-TERM DEVELOPEMT PLAN (RPJMN) OF 2010-2014

No.	DEVELOPMENT	TARGETS
TARGETS ON DEVELOPMENT OF WELFARE OF THE PEOPLE		
1.	Economic	
	a)	Economic growth rate
		Average of 6.3 - 6.8 percent per year
		Growth of 7 percent before 2014
	b)	Inflation rate
	Average of 4 - 6 percent per year	
c)	Open unemployment rate	5 - 6 percent at end of 2014
d)	Poverty rate	8 - 10 percent at end of 2014



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No.	DEVELOPMENT	TARGETS		
2.	Education			
		Initial Status (2008)	Target in 2014	
	a)	Increased average school stay of population of 15 years and older (years)	7.50	8.25
	b)	Decline in illiteracy rate of population aged 15 and over (percent)	5.97	4.18
	c)	Increased Net Enrolment Rate of elementary schools (percent)	95.14	96.0
	d)	Increased Net Enrolment Rate of junior high school (percent)	72.28	76.0
	e)	Increased Gross Enrolment Rate of senior high schools (percent)	64.28	85.0
	f)	Increased Gross Enrolment Rate at universities of those in 19-23 years age bracket (percent)	21.26	30.0
g)	Reduced disparity in participation and quality of education services among regions, gender, social-economic groups, and between education units that are implemented by the government and private institutions			
3.	Health			
		Initial Status (2008)	Target in 2014	
	a)	Increased life expectancy (years)	70.7	72.0
	b)	Decreased maternal mortality rate per 100,000 live births	228	118
	c)	Decreased infant mortality rate per 1,000 live births	34	24
	d)	Decreased prevalence of nutrition deficiency (deficient nutrition and malnutrition) in infants (percent)	18.4	Less than 15.0
4.	Food			
	a)	Production of paddy	Growth rate of 3.22 percent per year	
	b)	Production of maize	Growth rate of 10.02 percent per year	
	c)	Production of soybean	Growth rate of 20.05 percent per year	
	d)	Production of sugar	Growth rate of 12.55 percent per year	



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No.	DEVELOPMENT		TARGETS
	e)	Production of cow meat	Growth rate of 7.3 percent per year
5.	Energy		
	a)	Increased capacity of electricity generating stations	3,000 MW per year
	b)	Increased electrification ratio	Reaching 80 percent in 2014
	c)	Increased production of crude oil	Reaching 1.01 million barrel per day in 2014
	d)	Increased utilization of geothermal power stations	Reaching 5,000 MW in 2014
6.	Infrastructure		
	a)	Construction of the Trans Sumatra, Java, Kalimantan, Sulawesi, West Nusa Tenggara, East Nusa Tenggara, dan Papua Roads	Reaching a length of 19,370 km by 2014
	b)	Construction of an integrated inter-mode and inter-island transportation network, in accordance with the National Transportation System and Multi-mode Transportation Blueprint	Completed in 2014
	c)	Completing the construction of the Optic Fiber Network in Eastern Part of Indonesia	Completed before 2013
	d)	Repairing the transportation system and network in 4 big cities (Jakarta, Bandung, Surabaya, and Medan)	Completed in 2014



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No.	DEVELOPMENT	TARGETS
TARGETS OF DEVELOPMENT OF DEMOCRACY		
1.	The increased quality of democracy in Indonesia.	1) The increased conduciveness of the political climate for the growth of the quality of civil liberties and political rights of the people that balanced by the increasing compliance with the law; 2) The increased performance of democratic institutions, with an average index of 70 by the end of 2014; 3) Implementing the general election in 2014 in a just and democratic manner, with a participation rate of the people of 75 percent and with the reduced discrimination in the right to be elected and to vote. 4) Increased services in information and communication In 2014 the: ► Index of Indonesia's Democracy : 73
DEVELOPMENT TARGET ON LAW ENFORCEMENT		
1	The attained atmosphere of justice through enforcement of the rule of law and maintenance of public law and order.	1) Perception of justice seekers for having a sense of comfort, certainty, and security in their interaction and being satisfactorily served by law enforcers. 2) Increased trust and respect of the general public to the law enforcing apparatus and institutions 3) Supporting a conducive business climate so that economic activities can proceed securely and efficiently Corruption Perception Index (CPI) in 2014 of 5.0, and increase from 2.8 in 2009.



4.2. General Policy Direction of National Development

4.2.1. General Policy Direction

Considering the problems and challenges faced by the Indonesian people and nation at the present time as well as in the period five years ahead, thus the general policy directions of national development in 2010-2014 are the following :

1. The general policy direction for continuing development in attaining a prosperous Indonesia. The prosperous Indonesia is reflected in the increase of the welfare of the Indonesian people as a whole in the form of the accelerated economic growth that is supported by the mastery of science and technology, reduction of poverty, reduction of the unemployment rate that is based on the program for enhancing the quality of human resources, improvement of the basic infrastructure, and in the maintained and preserved natural environment in a sustainable manner.
2. The general policy direction for strengthening the pillars of democracy through institutional capacity building and directed at the upholding of law and order, elimination of all forms of discrimination, recognition and application of basic human rights and at freedom with responsibility.
3. The general policy direction for strengthening the dimension of justice in all fields, including the reduction of the income gap, reduction in the development gaps among regions (including between rural and urban areas), and reduction in the gender gap. Moreover, justice can be realized only if the law system is functioning in a credible, clean, just, and indiscriminate manner. Also needed is the policy for consistently eradicating corruption so that a sense of justice and clean government can be attained.

On the basis of the achievements of development programs in the preceding years (2004-2009), the government will continue the approach of institutional development in the efforts to realize the development vision and mission. Such institutional approach is aimed at creating a balance between the importance of the process based on good, clean and just governance, and good and efficient results. Government implementation should not be oriented only to short-term results, by disregarding the principles of compliance, justice. And continuity. Such an approach is deemed able to yield results in a continuous manner because it is built on a more solid foundation, through a process that has been jointly approved in a democratic and accountable manner, and with a high sense of ownership.

Such institutional development is not only for developing new institutional mechanisms but will also revive old regulations that are deemed more sustainable into the system. To illustrate, the BOS (School Operational Assistance Program) has thus far been implemented more by the central government, even though the Law on Regional



Autonomy had stipulated that education is the task of district/city governments, so that onwards this program will place greater importance to the activation of the role of regional governments.

4.2.2. National Priorities

The government's vision and mission for 2009-2014 need to be formulated and elaborated in a more operational manner into a number of priority programs so that they can be more easily implemented and their output can be measured. The following eleven national priorities are aimed at addressing the challenges faced by the nation in the coming period.

Most of the resources and policies will be prioritized to ensuring the implementation of the following eleven (11) national priorities, namely : (1) reform of the bureaucracy and administration; (2) education; (3) health; (4) reducing poverty; (5) food security; (6) infrastructure; (7) investment and business climate; (8) energy; (9) environment and natural disasters; (10) left-behind, frontline, most outer, and post-conflict regions; and (11) culture, creativity, and technological innovation.

Priority 1 : Reform of the Bureaucracy and Governance

Improving good governance is to be attained through efforts to enhance work performance in an integrated manner, that ensures integrity, accountability, compliance with the law, credibility, and transparency. Increasing the quality of public services is supported by the government structure that is efficient at the central and regional levels, by adequate capacity of government personnel, and by reliable population data.

Thereby, the core substance of reform of the bureaucracy and governance is the following :

1. Structure : Consolidation of the structure and enhancement of the capacity of ministries/government agencies that handle the state apparatus, namely the Ministry for Utilization of the State Apparatus (PAN), the State Personnel Agency (BKN), and the State Administration Institution (LAN) in 2010; restructuring of other government institutions, such as those handling the empowerment of micro, small, and medium enterprises, energy management, utilization of marine resources, restructuring of State Owned Enterprises, and that handles the utilization of land and spatial planning for the general public, by not later than 2014;
2. Regional autonomy: Reforming regional autonomy through the : (1) halting/moratorium of regional multiplication; (2) increasing efficiency and

- effectiveness in the use of regional balancing fund; and (3) improving the implementation of elections of regional heads;
3. Human resources: improving the management of civil servants (PNS), covering the system of recruitment, education, placement, promotion, and transfer of civil servants in a centralized manner, not later than 2011;
 4. Regulations: accelerating the harmonization and synchronization of laws and regulations at the central and regional levels, so as to attain a common direction in implementing development activities, such as completing the assessment of 12,000 regional regulations not later than 2011;
 5. Synergy between the central and regional governments : determining and applying the system of Main Indicators on Public Services that are in line between the central government and regional governments;
 6. Law enforcement: increasing the integration and integrity of applying and enforcing the laws by all institutions and the law apparatus;
 7. Population Data: Determination of Population ID Number (NIK) and development of the Population Information and Administration System (SIAK) with the first application on the population ID card not later than 2011.

Priority 2 : Education

Increasing access to education that is of sound quality, that is affordable, relevant, and efficient, towards the enhancement of welfare of the people, self-reliance, upholding of noble ethics, and attaining a strong national character. Development of education is directed at attaining economic growth that is supported by harmony between the availability of skilled manpower and competence; (1) creating employment opportunities or entrepreneurship, and (2) responding to challenges of the need for manpower.

Thereby, the core substance of the action program in education comprise the following :

1. Access to elementary-high school education : increasing the Net Enrolment Rate of primary education from 95 percent in 2009 to 96 percent in 2014 and increasing the Net Enrolment Rate of junior high education from 73 percent to 76 percent and increasing the Gross Enrolment Rate of senior high education from 69 percent to 85 percent; consolidating/rationalizing the implementation of the BOS program, reducing the standard price of school books of elementary and high schools by 30-50 percent by not later than 2012 and providing internet connection with education content to high schools by not later than 2012 and continued to be expanded to elementary schools;
2. Access to university education : increasing the Gross Enrolment Rate of university education from 18 percent in 2009 to 25 percent in 2014;
3. Methodology: applying the education methodology that no longer is in the form of education for the sake of passing ('teaching to the test'), but is oriented to a

- comprehensive education that take into account social capability, character, morals, and appreciation for Indonesia's culture and language, through the adjustment of the National Final Exam system in 2011 and through improving the curriculum of elementary and high schools before 2011 that is set at 25 percent of schools by 2012 and at 100 percent by 2014;
4. Management: empowering the role of school masters as managers of the selected education system, revitalizing the role of school supervisors as a quality assurance entity, encouraging the active role of the School Committee for ensuring the involvement of stakeholders in the teaching process, and increasing the role of the Education Council at the District level;
 5. Curriculum : Reforming the school curriculum that is classified into the national, regional, and school curricula, so that it can induce the creation of students who are capable of responding to the need for human resources for supporting national and regional economic growths by including entrepreneurial education (among others by developing the 'link and match' model);
 6. Quality : increasing the quality of teachers, and school management and services, through : (1) program for remediation of capability to teach of teachers; (2) applying the professional performance evaluation of teachers; (3) certification of ISO 9001:2008 at 100 percent of State Universities, 50 percent at Private Universities; 100 percent at Vocational High Schools before 2014; (4) widely opening up cooperation of State Universities and international education institutions ; (5) encouraging 11 universities to enter the Top 500 THES in 2014; (6) ascertaining that the teacher-student ratio at each elementary school is 1:32 and at each junior high school is 1:40, and (7) ascertaining the attainment of the National Standard Education for Religious and Religion Education by not later than 2013.

Priority 3 : Health

Placing the emphasis of health development on preventive health. not only on curative health, through increasing community and environmental health, among others by expanding the making available of clean water, reducing slum areas, so that as a whole it can increase the life expectancy rate from 70.7 years in 2009 to 72.0 in 2014, and attaining all of the targets of the Millennium Development Goals (MDGs) in 2015.

Thereby, the core substance of the action program on health comprises the following:

1. Program on public health : the implementation of the Integrated Preventive Health Program, that encompasses the provision of basic immunization to 90 percent of infants in 2014; providing access to clean water sources that can reach 75 percent of the population in 2014; reducing the maternal mortality rate from 307 per 100,000 births in 2008 to 118 by 2014, and the decline of the infant mortality rate from 34 per 1,000 births in 2008 to 24 in 2014;

2. Program on Family Planning: increasing the quality and service scope of Family Planning through 23,500 government and private clinics in 2010-2014;
3. Health facilities: the availability and enhancement of the quality of internationally accredited hospitals in at least 5 big cities in Indonesia with the target of 3 cities in 2012 and 5 cities in 2014;
4. Medicines: the application of the National List of Essential Medicines as the basis for procurement of medicines throughout Indonesia and the limitation of prices of branded generic medicines in 2010;
5. National Health Insurance : the National Health Insurance for all poor communities with a coverage of 100 percent in 2011 and gradually expanded for other Indonesian families in the 2012-2014 period.

Priority 4 : Reducing Poverty

This priority aims at reducing absolute poverty from 14.1 percent in 2009 to 8-10 percent in 2014 and improving income distribution through social protection that is based on the family, community empowerment and expansion of economic opportunities of the low income population.

Thereby, the core substance of this action program on poverty reduction comprises the following :

1. Integrated Social Assistance: The family based integrated social protection program covers the program on Direct Cash Transfers (BLT), that is of an incidental nature as well as for marginal groups, food assistance, social security on health, scholarships for low income families, early age children education (PAUD), and Parenting Education starting from 2010 and the expansion of the family hope program (PKH) into a national program starting from 2011-2012;
2. PNPM Mandiri (Mandiri National Community Empowerment Program): increasing the budget allocation for PNPM Mandiri from Rp 10.3 trillion in 2009 to Rp 12.1 trillion in 2010, meeting the Community Direct Assistance (BLM) of Rp 3 billion per sub-district (kecamatan) for at least 30 percent of the poorest kecamatans in rural areas, and the selective integration of the Supporting PNPM;
3. KUR (Smallholders Business Credit): improving the mechanism for allocating the KUR starting from 2010 and expanding the coverage of KUR starting from 2011;
4. Team for Reducing Poverty : revitalization of the National Committee for Reducing Poverty under the coordination of the Vice President, use of the unified database for determining the program target starting from 2009-2010, and applying the accurate monitoring and evaluation system as the basis for decision making and for budget allocation.

Priority 5 : Food Security

This priority pertains to efforts to increase food security and continuation of the revitalization of agriculture for realizing self-reliance in food, increasing the competitiveness of agricultural products, increasing the income level of farmers, and conserving the environment and natural resources. Increasing the growth rate of the agricultural sector in the GDP to 3.7 percent and increasing the Farmers Terms of Trade to 115-120 in 2014.

Thereby, the core substance of the action program on food security comprises the following :

1. Land, Development of Agricultural Zones and Agricultural Spatial Planning : reforming regulations for ensuring legal certainty of agricultural lands, developing new agricultural areas of 2 million hectares, optimizing the use of neglected lands;
2. Infrastructure: construction and maintenance of infrastructure in transportation, irrigation, electricity networks, communication technology, and the national information system that serve regions that are agricultural products centres, so as to increase the quantity and quality of production and increase the ability to market the products;
3. Research and Development: increasing research and development activities in agriculture that can create superior seeds and other research outputs towards the enhanced quality and productivity of the national agricultural products;
4. Investment, Financing, and Subsidies: encouraging investment in food, agriculture, and rural industries that are local products based by business entities and the government, providing financing that can be reached, and subsidies that can ensure the availability of tested superior seeds, fertilizers, appropriate technology and post-harvest facilities on a timely basis and in the right quantity, and that are affordable;
5. Food and Nutrition: increasing the quality of nutrition and food diversity through the enhancement of the hope food approach;
6. Adaptation to Climate Change : taking concrete steps that are related to adaptation and anticipation of the food and agricultural system to climate change.

Priority 6 : Infrastructure

A developed national infrastructure has a facilitating capacity and can greater induce economic growth and a just social development that emphasizes the interest of the general public throughout the territory of the Republic of Indonesia, by encouraging the participation of the people.

Thereby, the core substance of the action program on infrastructure development comprises the following :



1. Land and spatial planning : consolidation of policies for the handling and utilization of lands for the general public in a comprehensive manner under one roof and management of spatial planning in an integrated manner;
2. Roads : completion of the construction of the Trans Sumatra, Java, Bali, Kalimantan, Sulawesi, West Nusa Tenggara, East Nusa Tenggara, and Papua, with a total length of 19,370 km in 2014;
3. Communications: construction of integrated inter-mode and inter-islands transportation infrastructure networks in accordance with the Multimode Transportation Blueprint of the national Transportation System and the reduction of transportation accidents of less than 50 percent of the current situation by 2014;
4. Housing for the general public: construction of 685,000 Subsidized Simple and Healthy House units, 180 units of Owned Apartment units and 650 twin blocks including the housing premises supporting facilities that can accommodate 836,000 low income families in 2012;
5. Flood control : completion of construction of flood control infrastructure, among others the Jakarta East Flood Canal before 2012 and the integrated handling of the River Basin Area of the Bengawan Solo before 2013;
6. Telecommunications: completion of the construction of the optic fiber network in the eastern part of Indonesia before 2013 and maximizing the availability of data and audio communication access for all of the Indonesian general public;
7. Urban transportation: enhancement of transportation system and network in 4 large cities (Jakarta, Bandung, Surabaya, and Medan) in accordance with the Blueprint on Urban Transportation, including the completion of construction of electric railway transportation (MRT and Monorail) by not later than 2014.

Priority 7 : Investment Climate and Business Climate

Increasing investment through improvements in legal certainty, simplification of procedures, improving the information system, and development of Special Economic Zones (KEK).

Thereby, the core substance of the action program on the development of the investment climate and business climate comprises the following :

1. Legal certainty : the gradual reform of regulations at the national and regional levels so as to yield the harmonization of laws and regulations that will avert ambiguities and inconsistencies in their implementation;
2. Procedure simplification : application of the electronic information and licensing investment services (SPSIE) at the One Roof Integrated Service Centre (PTSP) in several cities starting in Batam, cancellation of problematical regional government regulations and the reduction of costs for starting a business, such as the TDP (Company Registration Proof) and the SIUP (Trade Permit Document);

3. National logistics: development and application of the National Logistics System that ensures the speedy flow of goods and that can reduce transaction costs/high cost economy;
4. Information system: the full operation of the National Single Window (NSW) for imports (before January 2010) and for exports. Speeding up the realization of the process for settling import duties outside the port through the first phase implementation of the Customs Advanced Trade System (CATS) at the Cikarang dry port;
5. Special Economic Zones: development of five (5) Special Economic Zones through the Public Private Partnership (PPP) scheme before 2012;
6. Manpower policies: synchronization of policies on manpower and business climate in the context of expanding the creation of employment opportunities.

Priority 8 : Energy

Attaining national energy security that ensures the continuity of national growth through institutional restructuring and optimizing the widest possible utilization of alternative energy.

Thereby the core substance of the action program on energy comprises the following:

1. Policies: placing the authority on energy policies to the Presidential Office for ascertaining that the national energy handling is integrated in accordance with the National Energy Master Plan;
2. Restructuring of State-Owned Enterprises (BUMNs): transformation and consolidation of BUMNs in energy, starting from the PLN (State Electricity Company) and Pertamina (Oil State Company) that will be completed no later than 2010 and followed by other BUMNs
3. Supply capacity of energy: increasing the capacity of electricity generation by an average of 3,000 MW per year starting from 2010 with an electrification ratio of 62 percent in 2010 and 80 percent in 2014; and increased crude oil production to over 1.01 million barrels per day starting from 2014;
4. Alternative energy: increasing the utilization of renewable energy, including alternative energy of geothermal to reach 2,000 MW in 2012 and 5,000 MW in 2014 and the start of the production of coal bed methane for generating electricity in 2011 accompanied by the utilization of the potential of solar power, micro-hydro, and nuclear power, in a phased manner;
5. By-products and derivatives of crude oil/gas: revitalization of the industry for processing by-products/derivatives of crude oil and natural gas as raw material for the textile, fertilizer, and other downstream industries;
6. Conversion towards the use of gas : expansion of the program for converting crude oil to gas so that it can reach 42 Households in 2010; use of natural gas as fuel material for urban public transportation in Palembang, Surabaya, and Denpasar.

Priority 9 : Environment and Management of Natural Disasters

Conservation and utilization of the natural environment that supports sustainable economic growth and increased welfare of the people, accompanied by the control and management of disaster risks for anticipating the impacts of climate change.

Thereby, the core substance of the action program on the environment and management of natural disasters comprise the following:

1. Climate change : increasing the management capacity in managing peat lands, increasing rehabilitation results to 500,000 ha per year, and increasing the intensity of efforts for reducing the deforestation rate, by among others enhancing cooperation among the related ministries and by optimizing funding sources, such as the IHPH (Forest Utilization Right Fee), the PSDH (Forest Resources Fee), and the Reforestation Fund;
2. Controlling Degradation of the Environment: reducing pollution of the environment through the supervision of controlling pollution from waste water and emissions in 680 industrial and service activities in 2010 and continued henceforth; reducing the total number of forest fire hotspots by 20 percent per year and reducing the overall pollution rate by 50 percent in 2014; halting environmental degradation in eleven (11) River Basin Areas that are vulnerable to causing natural disasters starting from 2010 and continued henceforth;
3. Early Warning System : ensuring the operation of the Tsunami Early Warning System (TEWS) and the Weather Early Warning System (MEWS) starting from 2010 and continued henceforth; and the Climate Early Warning System (CEWS) in 2013;
4. Overcoming disasters: increasing the capacity to overcome natural disasters, through : (1) capacity building of the government apparatus and of the community in the efforts to mitigate risks and to handle forest fire disasters and hazards in 33 provinces, and (2) forming the rapid action team for handling natural disasters by providing adequate equipment and transportation means, based in two strategic locations (Jakarta and Malang) that can reach all areas throughout Indonesia.

Priority 10: Left-Behind, Frontier, Outermost, and Post-Conflict Areas

The action program for left-behind, frontier, outermost, and post-conflict areas is aimed at ensuring growth in the left-behind, frontier, outermost areas and the maintenance of peaceful life in post-conflict areas, with the core substance comprising the following:

1. Policies: implementing special policies in the field of infrastructure and in other fields that support the efforts to increase the welfare of the people, that can stimulate growth in left-behind, frontier, outermost, and post-conflict areas, started not later than 2011;



2. International cooperation: establishment of cooperation with neighboring nations in the context of maintaining security of the region and of security of marine resources;
3. Territorial integrity: completing the mapping of border areas of the Republic of Indonesia with Malaysia, Papua New Guinea, Timor Leste, and the Philippines in 2010;
4. Left-behind areas: fully resolving the left-behind regions, covering at least 50 districts by not later than 2014.

Priority 11 : Culture, Creativity, and Technological Innovation

The development and protection of cultural diversity, art works, and science and its appreciation, for enriching artistic and intellectual capability for the consolidation of identity and adaptive and competitive capability of the nation, that is accompanied by the development of innovation, science and technology, that is based on Indonesia's competitive advantage as a maritime and archipelago nation.

Thereby, the core substance of this action program on culture, creativity, and technological innovation comprise the following:

1. Preservation: determination and formation of the integrated management for managing cultural preservation objects, revitalization of museums and libraries throughout Indonesia, targeted before October, 2011;
2. Facilities/infrastructure: providing adequate facilities/means for the development, assessing in depth, and exhibition of cultural arts in big cities and capital cities of districts by not later than October, 2012;
3. Creation: development of the national capacity for conducting research, creation and innovation and facilitating access and its utilization by the public at large;
4. Policies: increasing the attention and participation of the government in culture and arts programs that had been initiated by the community and appreciation to cultural diversity is induced;
5. Technological innovation: increasing comparative advantage into competitive advantage, encompassing management of maritime resources towards security in energy, food, and anticipation of climate change impacts; and enhancing mastery of technology and creativity of the youth.

Basically, the above eleven National Priorities comprise endeavors for the :

First, Accelerating the Physical infrastructure Development (covering Priority 5 on Food Security, Priority 6 on Infrastructure, Priority 8 on Energy, and Priority 10 on Left-Behind, Frontier, Outermost, and Post-Conflict Areas).

Second, Improving the Soft Infrastructure (Priority 1 on Reform of the Bureaucracy and Governance, and Priority 7 on Investment Climate and Business Climate).



Third, Strengthening of Social Infrastructure (Priority 2 on Education, Priority 3 on Health, Priority 4 on Reducing Poverty, and Priority 9 on the Environment and Managing Natural Disasters).

Fourth, Development of Creativity (Priority 11 on Culture, Creativity, and Technological Innovation).

Other Priorities

In addition to the above eleven national priorities, the realization of the Vision and Mission of National Development are also to be endeavored through other national priorities in the political field, law, and security, in the economic field, and in the field of enhancement of welfare of the people.

In the political, law, and security field, the priorities cover: (a) implementation of coordination in the mechanism for handling terrorism; (b) implementing the program for the de-radicalism for countering terrorism; (c) increasing the role of the Republic of Indonesia in the efforts to realize world peace; (d) increasing services to and protection of Indonesian migrant workers abroad; (e) strengthening and consolidating relations among institutions in the prevention and eradication of corruption; (f) implementing the protection of witnesses and informants; (g) recovery of state assets; (h) increasing law certainty; (i) strengthening protection of basic human rights; and (j) empowering of strategic defense industries.

In the economic field, the priorities cover: (a) implementation of the development of industries in accordance with Presidential Regulation Number 28 of 2008 on National Industrial Policy; (b) increasing the role and capability of the Republic of Indonesia in international trade diplomacy; (c) increasing services to and protection of Indonesian migrant workers abroad during the process of their preparation, departure, and return to Indonesia; and (d) increasing the efforts to serve and protect Indonesian migrant workers abroad.

In the field of welfare of the people, the priorities cover : (a) implementation of the hajj pilgrimage in a orderly and uninterrupted manner by not later than 2010; (b) increasing harmony among religious adherents through the formation and effective enhancement of the Forum for Harmony Among Religious Followers (FKUB); (c) increasing the total number of international and domestic tourists gradually by 20 percent over the five year period; (d) promotion of ten (10) Indonesia's tourist destinations through the creative and effective marketing and advertisements; (e) improving and enhancing the quality of tourism supporting network facilities; (f) increasing the capacity of the government and stakeholders of local tourism for attaining the quality of services and hospitality management that are competitive in the Asian region; (g) formulating policies and guidelines for applying the mainstreaming of gender and the child by ministries and government agencies; (h) attaining the upper position at the South East Asian Games in 2011, increasing the attainment of medals at



the Asian Games of 2010 and in the 2012 Olympics; (i) enhancing character building through enhanced youth movements, revitalization, and consolidation, and (j) revitalization of the scout movement.

4.3 Policy Directions in Development Fields

National development is carried out in a comprehensive manner in various fields of life of the people. In this regard, the national development plan is categorized into nine (9) fields of development, as contained in the National Long-Term Development Plan of 2005-2025, namely as follows:

1. The Field Social-Culture and religion
2. The Economic Field
3. The Field of Science and technology
4. The Field of Infrastructure
5. The Political Field
6. The Field of Defense and Security
7. The Field of the Law and State Apparatus
8. The Regional and Spatial Planning Field
9. The Field of Natural Resources and the Environment

The directions and policies of the respective fields of development are described in Book II.

Synergy among the development fields is essential for the smooth implementation and attainment of various targets of RPJMN 2010-2014. Basically, the successful realization of development targets in each of the development fields is not independent of one another. Given the limited funding resources, the effectiveness, efficiency, and maximal results of the development efforts must be based on the synchronization of development activities in all fields, so that all development activities become intertwined, mutually supporting and mutually enforcing.

Furthermore, the implementation of development as contained in the RPJMN, there is the principle of mainstreaming, that is the operational basis for the implementation of all development activities. This mainstreaming principle is reflected in the output of development policies, covering : (1) the mainstreaming of sustainable development; (2) the mainstreaming of good governance, and (3) the mainstreaming of gender. These principles of mainstreaming will become the spirit of development policies in each of the development fields. Under such mainstreaming principles, this medium-term development will strengthen endeavors to overcome the various problems faced.



This RPJMN 2010-2014 is also directed at becoming a medium-term work plan that is comprehensive. Problems that have a cross-fields scope must be handled in a holistic and non-fragmented manner, so that the basic problems can be effectively resolved. Achievement of such development performance becomes the commitment of all parties, specifically government agencies in the interest of serving the interests of all of the people of Indonesia. Thereby, work plans that are cross-fields in scope are also formulated, covering: (1) the reduction of poverty; (2) handling of the impact of global climate change; (3) maritime development with an archipelago dimension; and (4) protection of children. Such cross-fields policies are to comprise a set of inter-field policies that are integrated, encompassing priorities, focus of priorities and priority activities that are cross fields in scope and nature for resolving development problems that are becoming ever more complex.

4.4. Regional Development Directions and Policies

On of the missions in the 2005-2025 National Long-Term Development Plan (RPJPN 2005-2025) is the realization of development that is more equitable and just that is indicated by the increase in development that is more equitable throughout Indonesia and the realized increase in the quality of life and in the welfare of the people, including in the reduced disparities among regions, in the context of the Unitary State of the Republic of Indonesia. In this regard, the regional development directions and policies comprise the following :

Inducing the growth of regions that are potential outside Java-Bali and Sumatra, while still maintaining the momentum of growth in the Java-Bali and Sumatra regions.

1. Increasing the interregional linkages by increasing inter-island trade, for supporting the domestic economy.
2. Increasing the competitiveness of regions, through the development of the selected sectors of each region.
3. Encouraging the accelerated development of left-behind regions, strategic and fast-growing areas, border areas, frontier areas, outermost areas, and natural disaster prone areas.
4. Inducing the development of marine regions and marine sectors.

The regional development strategy is implemented in the context of ensuring synergy between the central and regional governments, among regions, in the entire process starting from the planning, implementation, controlling, and evaluation, that cover policies, regulations, budgeting, institutions, and regional development. One of the important element in the synergy between the central and regional governments is the realization of synergy of central and regional policies so that each policy is formulated by taking into account and accommodating aspirations of the regions, and by emphasizing the settlement of problems in the regions. In addition, synergy in policies is



meant for ensuring that regional governments is capable of understanding and implementing central government policies in an efficient and effective manner and can support the implementation of such policies with the available resources.

Synergy in development policy plans of the central and regional governments, covering five-years as well as annual plans, will be endeavored by optimizing the implementation of the *Musrenbang* (Development Planning Consultation at all government levels (village, sub-district, district/city, province, and national), so as to realize the synchronization among policies, programs, and activities among sectors, inter-periods, inter-regions, and between the central and regional governments. In addition, the *Musrenbang* is expected to be able to greater induce the creation of the participatory process by all actors of development and to promote transparency and accountability in the implementation of government functions and in carrying out development activities.

Synergy of regulations is aimed at inducing the harmonization of laws and regulations, in the form of Laws (UU), Government Regulations (PP), Presidential Regulations, Ministerial Regulations, and regional regulations, so as to be able to support the implementation of development programs and activities that are contained in RPJMN 2010-2014. In addition, synergy is also directed at increasing mutual understanding, agreement and compliance in implementing laws and regulations. Such synergy is implemented in line with efforts for reforming and strengthening the financial balance between the Central Government and Regional Governments through the restructuring of funding instruments through the transfer to regions, including the DAU (General Allocation Fund), and the DAK (Special Allocation Fund) and the DBH (Resource Sharing Fund), that together is referred to as the DP (Balancing Fund), and the Special Autonomy Fund, for maintaining the harmonization of the national interest and the needs of the regions.

In addition, in the context of ensuring the effectiveness of the management and utilization of the de-concentration fund for attaining the priorities of national development, strengthening the capacity of regional governments, and enhancing the implementation of governmental tasks and of the development activities, the steps that will be pursued in the period five years ahead are : (1) affirming the organizational structure and personnel that implement the utilization of the de-concentration fund; (2) synchronizing program planning among ministries/government agencies and work units of regional governments; and (3) jointly determining the program functional targets.

The Central-Regions synergy in carrying out government tasks is directed at improving the governance of the regional government institutions and increasing the capacity of the regional government apparatus. For improving regional governance, efforts will be made to accelerate reform of regional government institutions so that they can become capable to carry out government tasks in a more efficient and effective manner, increase the quality and reach of their public services in accordance with the SPM (Minimal Services Standards) that have been determined by the Central



government, implement the principles of good governance, and increase the competitiveness of the regions. Meanwhile, the efforts for increasing the capacity of the regional apparatus are directed for making the regional apparatus become more reliable, competent, and professional in the implementation of government tasks and in carrying out development activities.

For accelerating regional development endeavors will be made to induce reform, utilization, and control of spatial planning under the principle of the harmonization of the national interest and needs of regions and of harmonization among regions. Such regional development strategy will then become the guideline for Ministries/Government Agencies in formulating their *Renstra* (Strategic Plans) of the Ministries/Government Agencies, by taking into account the potentials and problems of the regions and will become the basis for regional governments in formulating the Regional Medium-Term Development Plans (RPJMD).

In line with implementation of the eleven (11) national priorities, the regional development directions and policies are aimed at realizing the targets of the eleven (11) national priorities in line with the strategic issues of each region.

4.4.1. Regional Development of Large Islands

Regional development policies are directed at inducing the acceleration of development in the regions of Kalimantan, Sulawesi, Nusa Tenggara, Maluku, and Papua, while still maintaining the momentum of development in the Java-Bali and Sumatra regions. Acceleration of regional development is aimed at increasing welfare of the people, increasing the quality of human resources, and at reducing development gaps.

I. Development of the Sumatra Region

The Sumatra island is one of the largest islands in Indonesia, that has a big role in supporting the efforts to increase the performance of national development. The Sumatra region has a relatively strategic position in the western part of Indonesia and it directly faces the East Asia regions, becoming one of the world's economic centres, and has the closest interaction relation with the island of Java, as the centre of Indonesia's economy.

Development of the Sumatra region is directed at making it become the centre of production and processing industry of agricultural food crops, and estates and fishery products, as the national energy supply centre, centre of trade and tourism, so that Sumatra becomes one of the main regions of the ASEAN Economic Community. In accordance with the RTRWN (National and Regional Spatial Plan), development of the Sumatra regions is directed at (1) consolidating the interaction among areas in the



eastern coasts, central areas, and land and sea areas, and becoming the main Sumatra air route; (2) encouraging the functioning of urban population settlement centres, as the collection and distribution centres of Sumatra island; (3) developing access for isolated areas and for small islands in the western and eastern coastline of Sumatra, as centres of production of fisheries, tourism, and oil and natural gas to manufacturing centres and as cross-island and cross nation marketing centres; (4) preserving the conservation areas of at least 40 percent of the area extent of Sumatra in the context mitigating the impact of natural disasters that can threaten the safety of communities and of the social and economic assets in the form of the infrastructure at population centres as well as cultivation areas; (5) developing the selected commodities of the region that have a high competitiveness, through cross-sector and cross-province cooperation in their management and marketing, in the context of encouraging self-reliance of access to global markets, by reducing dependence on neighboring nations; (6) averting conflicts in the utilization of lands in cross region border areas, covering cross provinces, cross districts and cross cities; (7) maintaining and preserving local cultures from the negative influences of globalization and world trade liberalization; (8) consolidating the linkages among selected regions, other culture areas, including cities as centres of activities therein with growth areas and centres among islands in the national area, and with growth centres in the sub-regions of ASEAN, Asia Pacific region, and in other international areas.

The development centres in the Sumatra region that form the PKN (National Activities Centre) are directed to : (1) induce the development of the urban areas of Lhokseumawe, Dumai, and Batam ,in the eastern area, and the urban area of Padang as the primary servicing centre in the western area; (2) controlling the development of the urban areas of Medan-Banjar-Deli Serdang, Bandar Lampung and vicinity, and Palembang and vicinity, as primary service centres, in accordance with the carrying capacity of the areas; and (3) encouraging the development of the cities of Pekanbaru and Jambi as secondary service centres.

II. Development of Java-Bali Region

Development of the Java and Bali region, as the centre of national economic activities faces complex challenges. The Java-Bali regions is relatively advanced and developed compared to other regions. On the other hand, in the period twenty years ahead the Java-Bali region will encounter strategic issues. First, the increase of urban population. Second, the change in economic structure with greater share of the services sector. Third, the decline in the carrying capacity of natural resources and of the environment. Fourth, the increased middle class that is accompanied by the increased awareness of basic rights. Fifth, shift in views, values and lifestyle, that tend to become more global. These strategic issues will have implications on the changing social system, economic system, resources, spatial allotment, culture. and an the political life.



In the period five years ahead, the development of the Java-Bali region is directed at maintaining its functions as the national food basis, in developing the manufacturing industry in a well managed manner, in strengthening trade interaction, and in increasing international standard services and tourism, as the main region in the ASEAN Economic Community, while still taking into account the ecological balance and the principles of sustainable development.

In accordance with the directions of the RTRWN (National and Regional Spatial Plan), the development of the Java-Bali region is directed at: (1) maintaining the Java-Bali region as the food production area; (2) maintaining and rehabilitating conservation areas that have become increasingly pushed back by cultivation activities, so that it can reach 30 percent of the total area of the Java-Bali region, particularly in the southern part of Java and central part of Bali; (3) maintaining water sources and rehabilitating water catchment areas for ensuring the availability of water for the whole year; (4) controlling the growth of urban and rural population settlement centres that have the potential to hamper disaster prone areas and that can threaten conservation areas and food production areas, through the control of population matters and their social-economic activities; (5) tight control of industrial development so as not to trespass the environment threshold for maintaining sustainable development; (6) integrating industrial activities in the already determined industrial zones; (7) encouraging the growth of urban population settlement centres as collection and distribution centres of Java-Bali; (8) developing oil and gas utilization zones for sea and offshore areas; (9) maintaining and rehabilitating cultural conservation areas.

The centres of development in the Java-Bali region, that comprise the PKN (National Activities Centre) are directed for : (1) controlling the physical development of the urban areas of Jabodetabek (Jakarta-Bogor-Depok-Tangerang-Bekasi), Bandung, Gerbangkertasusila, and Denpasar, as primary service centres by taking into account the carrying capacity of the environment; (2) encouraging the development of the Yogyakarta urban area and its vicinity and the urban area of Semarang, as primary services centres; (3) encouraging the development of the urban areas of Serang and its vicinity, Cilacap and its vicinity, Cirebon and its vicinity, and Surakarta and its vicinity, as secondary service centres.

III. Development of Kalimantan Region

Development of the Kalimantan region is very important for supporting the increased national development. The Kalimantan region has a relatively strategic geographical position in the central part of Indonesia, directly facing the large islands of Indonesia. To the north Kalimantan directly borders Malaysia. Such a position is very important in the context of inter-regional linkage strength.

Development of the Kalimantan area is directed at increasing the productivity and value-added of products from estates, livestock, fisheries, and processed forest yields; and increasing the value-added of mining products and functions as the national energy



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storehouse, by still taking into account ecological balance and the principles for sustainable development. In accordance with the RTRWN (National and Regional Spatial Plan), the development of the Kalimantan region is directed at : (1) maintaining areas that have a conservation function and rehabilitating environmentally degraded areas, in the context of supporting the sustainability of the utilization of forest, mining, and agricultural resources, and marine, coastal, and small islands resources, and reducing the risks of natural disasters; (2) utilizing the geographically strategic position as being adjacent to Malaysia in Serawak and Sabah in the context of enhancing the sub-regional economic cooperation of BIM-EAGA (Brunei Darussalam-Indonesia-Malaysia-Philippines- EAST ASEAN Growth Area); (3) accelerating the handling of inter-nation border issues with Malaysia in Serawak and Sabah, as the frontier regions of the Unitary State of the Republic of Indonesia in Kalimantan; (4) increasing internal access of Kalimantan island for realizing synergy in the development of the potential of the region and for inducing greater equity among regions, through acceleration of the improved functions of the trans Kalimantan road network in an integrated manner through the development of the networks of river transportation, sea transportation, railway networks and air transportation; (5) promoting the greater role of selected zones as the engines of economic growth of the Kalimantan region; (^) developing sustainable marine, agriculture, estate, mining, and forestry based processing industries, and developing the tourism industry that is based on the strengthening and development of the local economy and local culture and on the conservation of the environment; (7) inducing the development of urban population settlement centres as the collection and distribution servicing centres in Kalimantan island.

The development centres in Kalimantan Island as the National Activities Centre (PKN) is directed at : (1) inducing the development of the cities of Balikpapan, Banjarmasin, and Pontianak, as primary service centres; (2) inducing development of the cities of Palangka Raya, Samarinda, Bontang, and Tarakan, as secondary service centres. Furthermore, development of the PKSN (National Strategic Activities Centre) in Kalimantan Island, especially in border areas, is directed at inducing the development of the cities of Kota Aruk, Jagoibang, Nangabadau, Entikang, Jasa, Nunukan, Simanggaris, Long Midang, and the city of Pahangai.

IV. Development of the Sulawesi Region

Development of Sulawesi region, as one of the big islands in Indonesia, is very important in supporting the efforts to enhance development of the national economy. The region of Sulawesi has a big potential as the growth centre of the eastern part of Indonesia and of the ASEAN sub-region. Under such condition, the Sulawesi region has strategic trading hub position.



Development of the Sulawesi Region is directed at making it become one of the national food barn by increasing the productivity and value added of products of agricultural food crops, of estates and fisheries; developing bio-energy; and increasing and expanding trade, and international standard services and tourism. In accordance with the RTRWN (National and Regional Spatial Plan) the development of Sulawesi Region is directed at : (1) encouraging development of the role of Sulawesi Island as one of the regions that have quite significant externalities; (2) developing selected commodities of Sulawesi Island that have high competitiveness through cross-sector and cross-province cooperation in their management and marketing; (3) prioritizing left-behind and border areas in the context of attaining greater equity in inter-regional development, including development small islands; (4) utilizing the potential of land and marine resources in an optimal manner and for overcoming cross-province conflicts that occur in several water and land areas; (5) maintaining the existence of national food production centres, specifically for technically irrigated rice fields that are threatened by land conversions; (6) consolidating the linkage between lands for selected crops, other cultivated lands, including cities that are centres of their activities, and growth centres in the sub-regions of ASEAN, Asia Pacific, and other international areas, in the context of enhancing regional competitiveness; (7) maintaining and rehabilitating conservation areas so as to reach at least 40 percent of the total area of Sulawesi Island, in the context of reducing risks from natural disasters that can threaten the safety of communities and socio-economic assets, in the form of infrastructure, population settlement centres, and cultural areas; (8) maintaining and rehabilitating culture conservation areas as the social cultural assets of the people that possess traditional cultural and local wisdom values; (9) developing processing industries based on the marine, agricultural, estate, mining, and forestry sectors, in a sustainable manner; and (10) developing the utilization of spatial layout for accommodating the dynamics of economic, social, and cultural life.

Centres of development, in Sulawesi Island, that form the PKN (National Centres of Activities) are directed at : (1) inducing the optimizing of the zone development of the cities of Maminasata (Makassar- Maros- Sungguminasa-Takalar) and Manado-Bitung as the primary service centres, that are in accordance with the carrying capacity of the environment; and (2) inducing the development of the cities of Gorontalo, Palu, and Mamuju, as the secondary service centres.

V. Development of the Nusa Tenggara Region

Development of the Nusa Tenggara region, as one of the island groups that is adjacent to Timor Leste as Indonesia's neighbor, must be carried out through accurate and integrated policies and programs, in accordance with its potentials and the constraints faced. The Nusa Tenggara group of islands that is situated to the east of the Java-Bali region, has not yet fully benefited from the economic interaction with the national centres of economic activities.



Development of the Nusa Tenggara Islands is directed at enhancing the productivity and value added of products from estates, cattle breeding, and fishery activities, by taking into account the linkages among the islands. In accordance with the RTRWN (National and Regional Spatial Plan), development of the Nusa Tenggara region is directed for : (1) developing cities in coastal areas as the integrated centres of activities of maritime industrial activities, as the basis sector, that is supported by adequate infrastructure, particularly transportation, energy, and water resources; (2) developing land, sea, coastal, and small island areas, as an integrated unit of the Nusa Tenggara Islands, through the utilization and control of the utilization of an integrated spatial layout, and that is supported by adequate infrastructure; (3) increasing communication among coastal cities that link the Banda Aceh-Atambua axis, so as to form a strong social-economic relation; (4) increasing the inter-linkages of inter-region development (Selected Zones and Marine Selected Zones) for optimizing the potentials of cultural tourist sites and natural tourist sites, including the marine tourist sites, by developing the integrated tourist belt of Bali-Lombok-Komodo-Tana Toraja); (5) determining the focus of specialization in the handling of selected commodities including their marketing that is oriented to exports, by emphasizing the management of renewable natural resources on the basis of the principle of joint benefit, in terms of inter-region as well as inter-zones; (6) utilizing the Regional Cooperation Forum and the International Economic Cooperation Forum, on bilateral basis with Australia and Timor Leste as well as on multilateral basis in the context of sub-regional economic cooperation; (7) increasing protection of the national conservation areas in the Nusa Tenggara Islands, particularly the marine conservation areas; (8) managing the land area that borders Timor Leste and the sea area that borders Timor Leste and Australia, as the 'frontier zone' of the Unitary State of the Republic of Indonesia.

The development centre in the Nusa Tenggara region, as the National Centre of Activities, is directed at inducing development of the cities of Mataram and Kupang as the primary service centres, that is in accordance with the carrying capacity of its environment.

VI. Development of the Maluku Region

Development of the Maluku region, as one of the island groups that is situated dispersed and adjacent to the neighbor nation, needs to be made through accurate and integrated policies and programs, in accordance with its potentials as well as its constraints. Development of the Maluku region is directed at increasing productivity and value-added of products of estates, cattle breeding, and fishery activities, by taking into account the inter-linkages among the islands.

In accordance with the RTRWN (National and Regional Spatial Plan), development of the Maluku region is directed for : (1) developing coastal cities, as the integrated centres of maritime industrial activities, as the sector basis that is supported by adequate infrastructure, particularly transportation, energy, and water resources; (2)



developing the land, sea, coastal areas and small islands, as an integrated unit of the Maluku Islands, through the utilization and control of the utilization of spatial layout that is integrated with and supported by adequate infrastructure; (3) preserving the conservation areas for ensuring the optimal carrying capacity of the environment for regional development; (4) accelerating economic growth of the Maluku Islands through the development of selected sectors that are based on the local natural resources and by enhancing the inter-linkages among the growth centres on land areas, coastal areas, and small islands; (5) utilizing natural resources in a productive and efficient manner based on the principles of sustainable development; (6) increasing the availability, quality, and scope of basic infrastructure services, particularly sea and air transportation, that are supported by the integrated and optimal inter-mode transportation, by inducing the participation of the private sector.

Development of the PKN in the Maluku Islands is directed at controlling development of the cities of Ambon and Ternate-Sofifi, as the primary service centres that are in accordance with the carrying capacity of the environment.

VII. Development of the Papua Region

Development of the Papua region, as one of the largest islands of Indonesia, with the most easterly position, and directly bordering Papua New Guinea, faces greater challenges than those of other regions. The biggest challenge is to provide equal attention to all coastal areas, mountainous areas, and low land areas, and simultaneously to build up inter-linkages among the areas within an integrated spatial plan.

Development of the Papua region is directed at increasing the quality of human resources, increasing the productivity and value-added of products from estates, live stock breeding, and fishery undertakings, by taking into account the inter-linkages among the areas of the islands. In accordance with the RTRWN (National and Regional Spatial Plan), the development of the Papua region is directed at : (1) supporting endeavors to strengthen unity and cohesion and defense of the nation; (2) placing the traditional land rights in the spatial plan, as one of the efforts for maintaining the local social and cultural values; (3) utilizing natural resources and the natural environment in a productive and efficient manner in order to avert wastes and the reduction of carrying capacity of the environment, thereby able to yield the greatest benefit, on the basis of the principles of conservation and sustainability; (4) maintaining a conservation area of at least 50 percent of the total area of Papua; (5) accelerating economic growth of Papua Island as a region, through the development of selected sectors, based on the local resources and by increasing the inter-linkages among the growth centres; (6) accommodating economic activities, expanding employment opportunities, and carrying out the functions as the centre of business services through the development of business zones and growth centres; (7) increasing the mutually beneficial inter-linkages



between leading and left-behind areas, in the context of increasing the economic welfare of the region in the vicinity of the leading areas; (8) increasing the availability, quality, and scope of services of basic infrastructure, specifically sea transportation that is supported by the integrated and optimal inter-mode transportation by encouraging the participation of the private sector; (9) increasing development of interior and border areas that are left-behind and isolated, by harmonizing inter-regional growth rates.

Centres of development in Papua Island, that form the PKN (National Activity Centres) are directed at : (1) encouraging development of the cities of Sorong and Jayapura, as the primary services centres, in accordance with the principles of sustainable development; (2) encouraging the development of the cities of Manokwari and Timika as the secondary services centres, in accordance with the principles of sustainable development.

4.4.2 Sea Region Development Strategy

Development of sea regions is implemented through an integrated regional approach by taking into account aspects of geology, oceanography, biology or biodiversity, habitats, mineral and energy potential, the potential for fisheries, marine tourism potential, the potential for maritime industry, transport potential, and technology. This approach is the synergy of the development of large islands in the context of regional development and equitable distribution of development. This approach views the sea areas of Indonesia as having two functions: (i) as the integrating element of economic activities among regions, and (ii) as the supporting element in the development the potentials of each region.

Development of sea areas is based on the dominant sector and the potential for forward and backward linkages with other sectors. Through this approach, the development of sea areas is grouped as follows: (1) development sea areas of Sumatra; (2) development of sea areas of Maluku; (3) development of the Sunda sea areas; (4) the development of marine areas of Java; (5) development areas of the sea of Natuna ; (6) development of the Makassar-Buton seas; (7) development of the Maluku Banda seas; (8) development of the Sawu seas, and (9) development of the Papua-Sulawesi seas. Of the nine sea development areas, by taking into account their strategic functions in strengthening the linkages between the regions, five priority areas have been selected for the period of 2010-2014, namely the sea development areas of Sumatra, Malaka, Java, Makassar, Buton, and Banda-Maluku.

I. Sumatra Seas Development Area

The Sumatra seas development area is located west of Sumatra island that stretches from Sabang, in the north, to Lampung, in the south. The fishery potentials cover ornamental fish in Breuh Island and Sibolga, snapper, grouper, shellfish, sea



cucumbers, and oysters found throughout the western part of Sumatra. In addition there is the potential for seaweed in coastal areas of Painan and Lampung. Various types of coral reefs can be found in the Mentawai and Simeulue Islands. Potential oil and gas is found in the Busur Muka Basin off the coast of Bengkulu, while potential for iron sands are found along the coast of Padang. Potential marine and cultural tourism can be developed in Nias and the Mentawai Islands. This area is passed by only one national shipping line and inter-island shipping, even though the international border area to the west is a quite busy international shipping route.

The policy for the sea area of Sumatra is directed at the development of marine based industries, particularly for the processing of sea products, by strengthening the linkage with the Java area. The strategy pursued comprise the following : (1) the education and training of human resources in marine matters; (2) development of marine and coastal transportation; (3) increasing the capacity of electricity generation; (4) developing banking financing schemes that can be easily accessed by fishermen and small scale businesses in coastal areas; and (5) facilitating development of insurance systems for risk protection.

The policy direction and strategy of this sea area is integrated with the policy and strategy of the Sumatra and Java-Bali sea areas.

II. Malaka Strait Seas Development Area

Geographically, the sea development area of the Malaka Strait is stretched out from the waters of the Strait of Malaka to the Riau Island, and is bordered to the north by the waters of Aceh, to the east by the waters of Malaysia and Singapore, to the south by the seas of Natuna, and to the west by the Sumatra mainland. This area is a dense international shipping route and is an area with high risks for the occurrence of conflicts with neighboring countries. Old granite and sand deposits are found in the Riau Islands. Tin is found in Singkep Islands, while large quartz sand is found on the offshore of Riau near Rupert Island. This area has potential for aquaculture (white snapper, grouper, shellfish, sea cucumber, oyster, and seaweed). Potential of cultivated fish (aquarium/ornamental fish) is also found around Sabang Island and Bintan Island. Biodiversity in these waters is featured by the Molusca species, sea cucumbers, and sea turtle species. The habitat of coral reefs is dominated by fringing reefs. However, the density of shipping and oil and gas exploration activities in this area presents the threat from oil spills and other wastes.

Development of marine areas of the Malaka Strait is aimed at improving the security and order and at ensuring the sustainability of marine ecosystems so that the utilization of natural resources can be done optimally. In that regard, the strategy comprises the: (1) affirmation of Indonesia's territorial and jurisdictional boundaries with neighboring countries, (2) increasing surveillance of border areas to prevent smuggling, piracy, illegal fishing and illegal trade in coastal sand; (3) enforcement of regulations related to maintenance and conservation of the marine environment; (4)



use of frontier islands as leading tourist areas and as marine wildlife conservation centers.

The policy direction and strategy of this sea area are integrated with the policy and strategy of Sumatra and Java-Bali.

III. Java Seas Development Area

The Java seas development area is located between the islands of Kalimantan and Java. To the east this sea area is bordered by the Makassar sea development area and to the west it is bordered by Sumatra Island. Because it is situated in deep-sea areas between the large islands, these waters is a dense national and inter-island shipping route. International shipping lines also pass to the east of these waters. The threat of environmental quality decline comes from oil pollution and from wastes that are disposed from the rivers in Java Island.

The development of these waters is aimed at strengthening the sea area function as the integrating element of economic activities among regions, specifically among islands, while maintaining the sustainability of marine ecosystems. In that regard, the strategy is to : (1) increase the sea transport system to facilitate inter-island flow of goods, particularly the eastern part of Indonesia; (2) enforce regulations that are related to the maintenance and conservation of the marine environment; (3) control industrial and household wastes through rivers that have their estuaries in the sea waters of Java; (4) erosion control in river basin areas (DAS) to avert the sedimentation of fish-ports and seaports; (5) development of fishery cultivation activities; and (6) minimization of the risk of pollution and marine habitat degradation by oil and gas offshore exploration and exploitation activities.

The policy direction and strategy of this sea area are integrated with the policy direction and strategy of the Java-Bali and Kalimantan sea areas.

IV. Makassar-Buton Seas Development Area

Geographically, the Makassar sea development area lies between Sulawesi Island to the east, and Kalimantan Island to the west. Except for the Makassar Strait, utilization of fisheries is still possible to be improved. Of the transportation system, this area passed by very active national and inter-island shipping lines. In addition, the Makassar Strait is quite heavily passed by international shipping lines.

The development policies for this area is aimed at optimizing the strategic role of maritime affairs in enhancing intra-island trade interactions (among provinces in Sulawesi) and in supporting the role of the Sulawesi region as the engine of the Eastern Part of Indonesia. In that respect, the strategy comprise the following : (1) to increase the marine transport system linking provinces in Sulawesi; (2) to consolidate the marine transportation system for strengthening the intermediary function of Sulawesi between the western part and eastern part of Indonesia; (3) to develop fish ports in the



clusters of seafood processing industries, (4) to develop hub ports for the selected export commodities; (5) to increase supervision of international shipping lines to prevent smuggling activities; (6) to develop marine based education institutions and curriculum (fisheries, tourism, shipping); (7) to develop the marine transportation industry (shipping); and (8) to develop marine tourism.

The policy direction and strategy of this sea area are integrated with the policy direction and strategy of the Kalimantan, Sulawesi, and Nusa Tenggara sea areas.

V. Banda-Maluku Seas Development Areas

The development region of the Banda-Maluku seas is situated in the eastern part of Indonesia, that to the north borders the development region of the Papua seas, to the south borders the development region of the Sawu sea, and to the west borders the development region of the Makassar seas. This development region has the potential oil and gas resources in the *kepala burung* area, in Seram, and in Halmahera. Cement materials are also found on the Misool Island. This region can, however, only be accessed by several national and inter-island shipping lines. Thereby, the threat of sea pollution is still low as evident from the relatively well conserved bio-diversity. This area is the location for the laying of eggs of various species, such as turtles. The potential for fisheries and sea weed cultivation is also very high while the current level of utilization is still relatively low. The unique characteristics of the island groups, such as in the Raja Ampat waters, are also provide potential attraction for natural tourism.

The policy direction for the development region of the Banda-Maluku seas is pioneering the development of marine resources and marine tourism based industries. In line with this direction, the strategy covers : (1) development (education and training) of human resources so as to become highly skilled in marine activities; (2) pearls and collection fishes; (3) development of sea transportation industry (shipping); (4) empowerment and organizing coastal communities for strengthening their social capital; (5) increasing access to capital for fishermen; developing marine tourism.

The policy direction and strategy for this sea region are integrated with the policy direction and strategy for development of the Sulawesi, Nusa Tenggara, and Papua regions.

4.4.3. Area Development

In the context of efforts for supporting accelerated development of the regions, the area development policies are directed at the : (1) development of strategic and fast growing areas, (2) development of left-behind, border, and vulnerable to natural disaster areas, (3) development of urban and rural areas, and (4) reforming and managing lands. The strategies pursued are the following:



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1. Encouraging the acceleration of development and growth of strategic and fast growing areas so that they can induce the development of adjacent left-behind areas within a system of synergic economic development areas, that do not take into account administrative borders but places greater emphasis on the importance of inter-linkages among industrial and distribution activities in the area;
2. Increasing the concern of the government for developing areas that are left-behind and isolated so that these areas can grow and develop faster and can increased the process of them catching up with the development progress attained by other regions;
3. Developing border areas by changing the thus far followed development policy that is more inward looking to a policy that is more outward looking so that these border areas can become the gateway of economic and trade activities with neighboring nations;
4. Ensuring greater balance in the growth rates among metropolitan, large, medium, and small cities based on the national urban development system, that is needed for averting the uncontrollable physical growth of cities (urban sprawl and conurbation), that can be witnessed now in the northern coasts of Java Island, and for controlling migration from rural too big and metropolitan areas, through the creation of employment opportunities and business opportunities in the medium and small cities, especially outside Java Island;
5. Accelerating the development of small and medium cities, especially outside Java Island, so that these can become the engines of growth and development in their adjacent areas and also can serve the needs of their population;
6. Inducing the greater inter-linkages between economic activities in urban areas and economic activities in rural areas (produce of rural areas are backward linkages of economic activities in urban areas), in one 'economic development area' system;
7. Applying the land management system that is efficient and effective, and ensuring law enforcement on the rights to land by applying the principles of justice, transparency, and democracy.
8. Encouraging regional planning that is aware of potential natural disasters, in view of Indonesia's geographic situation as being at the junction of three tectonic plates that is vulnerable to natural disasters.



CHAPTER V MACRO ECONOMIC FRAMEWORK

The macro economic framework provides a description on the economic progresses that will be attained in the 2010-2014 period, on the basis of the various policy measures that are contained in the five years development agenda and its financing.

5.1. The Economic Condition in 2009

Generally, the macroeconomic condition in 2009 is as follows. First, economic growth declined slightly, even though still growing at a relatively high rate, upon the impact of the global financial crisis in 2008. In the middle of 2009, the economy started to show signs of recovery, in line with the improving world economic condition and with the increasing commodity prices in world markets. Second, since the beginning of 2009, domestic consumption has become the main contributor to economic growth. This is mainly related to the maintained purchasing power, campaign activities of the General Election, and the measures taken to accelerate absorptive capacity of the budget. Third, most of the domestic economic indicators, such as consumers confidence, sales of retail goods and automobiles sales, and industrial activities, have shown signs of increasing again since the start of 2009, after their declines at the end of 2008.

The global crisis had started to affect the national economy since quarter IV of 2008. Economic growth in quarter IV of 2008 fell by minus 3.6 percent if compared to quarter III of 2008 (q-t-q) and increased by 5.2 percent (y-o-y), while in the preceding quarter economic growth had been positive, namely 6.2 percent in quarter I, 6.4 percent in quarter II, and 6.4 percent in quarter III (y-o-y). The global crisis, which had led to the decline in world demand, the fall in the prices of oil and commodities, had resulted in the growth of exports of goods and services to fall by 5.5 percent in quarter IV of 2008 compared to the preceding quarter. The state of the global economy had also led to capital outflow from Indonesia, so that investment/Gross Fixed Capital Formation (GFCF) had a growth rate of only 0.8 percent in quarter IV from the preceding quarter.

The declining economic growth had continued up to quarter II of 2009. In quarter I of 2009, economic growth had reached 4.4 percent and in quarter II it fell to 4.0 percent. In quarter III of 2009, economic growth again rose to 4.2 percent, showing beginning signs of economic recovery, in line with the improving world economy.

Up to quarter III of 2009, economic growth had reached 4.2 percent. From the demand side, economic growth was induced by the growth of government and private spending of respectively 15.1 percent and 5.2 percent. Meanwhile, exports growth was still negative, namely by 14.1 percent. From the production side, economic growth had



been attributed to the growth of the agricultural sector by 3.4 percent, growth of the tertiary sector, namely electricity, gas and water by 13.9 percent, and transportation and communications by 17.6 percent.

The economic growth performance of Indonesia is still deemed as satisfactory considering that many nations had experienced negative growths, while Indonesia had a positive growth of 4 percent that was shared by China of .9 percent and India of 6.1 percent in quarter II of 2009.

In order to accelerate the process of economic recovery, endeavors to reduce the decline in exports and the slow growth of investment have been intensified. In addition, measures have been continued to maintain the growth of private consumption by maintaining the purchasing power of the people by controlling the inflation rate and through various programs for reducing poverty. The effectiveness of government spending had also been increased through the stimulus program for maintaining the purchasing power of the people and for increasing investment. By taking into account the effects of the external environment and the various policies pursued, it is estimated that economic growth in 2009 will reach around 4.3 percent.

On the monetary side, after experiencing pressured from the shocks of the global economy in 2008, the monetary indicators are estimated to continue to improve up to the end of 2009. The inflation rate, that in 2008 had reached 11.1 percent had dropped to 2.8 percent by the end of 2009, in line with the decline in world commodity prices, the decline in domestic oil fuel prices, the improved inflationary expectations, and with the maintained supply of domestic food commodities. Even though the rupiah exchange rate had weakened to Rp 10,950.00/USD at the end of 2009, it gradually strengthened to Rp 9,400.00/USD at the end of 2009. The strengthened rupiah exchange rate has been buttressed by the surplus of the balance of payments, the attractive rupiah counter yield, the decline in the risk premium, the weakening of the US dollar to various major world currencies, and by the increased global investors confidence in the performance of the Indonesian economy.

In 2009, fiscal policy had still been aimed at providing an economic stimulus, while still maintaining fiscal sustainability. This is for countering the adverse impacts of the global economic crisis in 2009. Thereby, fiscal policy had been aimed at safeguarding the national economy by expanding the economic stimulus program through the APBN 2009, changing the basic assumption for giving the right signal to the public, and making various adjustments to the magnitudes on government revenues, government spendings, budget deficit, and financing of the budget deficit.

The fiscal stimulus policy had been aimed at : (i) maintaining as well as increasing the purchasing power of the people through the provision of various fiscal incentives and subsidies, and through the provision of direct transfers; (ii) preventing widespread worker discharges and increasing the resiliency of the business community in facing the crisis by among others reducing tariffs on taxes and import duties, reduction in electricity rates, provision of interest subsidies, and the provision of smallholders



credits; (iii) handling the impact of workers dischargers and reducing the unemployment rate by increasing budget spending on labor intensive infrastructure projects; (iv) accelerating sustainable economic growth by continued reform measures at all ministries/government agencies.

With the above measures, government revenues and grants had reached around Rp 866.8 trillion, namely 16.3 percent of GDP, a decline of Rp 118.9 trillion if compared to the original budget target of Rp 985.7 trillion, namely 18.5 percent of GDP. Such decline is mainly due to the fall in domestic revenues, from tax as well as non-tax revenues, on account of the impact of the global economic crisis.

Government spending had meanwhile reached around Rp 954.0 trillion, namely 17.9 percent of GDP, which is a fall of Rp 83.1 trillion if compared to the initial budget for 2009 of Rp 1,037 trillion, namely 19.5 percent of the GDP. The decline in budget spending is due to among others the fall in subsidies to Rp 159.5 trillion, namely 3.0 percent of GDP, from Rp 166.7 trillion, namely 3.1 percent of GDP that was initially set in the APBN 2009. This subsidy decline is attributed to the significant change in the assumption on oil price, from USD 80 per barrel to USD 61.6 per barrel.

The above revenue and spending developments had increased the budget deficit in 2009 to 1.6 percent of GDP, an increase of 0.6 percent of GDP if compared to the deficit stated in APBN 2009 of 1.0 percent of GDP. Meanwhile, the government debt stock could be lowered to 30.0 percent of GDP.

Towards the end of 2009, the process of world economic recovery had continued, having a positive impact on the external environment for the whole of 2009. Up to quarter III of 2009, the balance of payments had remained under control. Up to quarter III of 2009, total value of exports had reached USD 84.1 billion, a fall of 23.4 percent if compared to quarter III of 2008. Total value of imports, up to quarter III of 2009, had reached USD 91.1 billion, a decline of 33.3 percent from quarter III of 2008. As a whole, the current account transaction, up to quarter III of 2009, had a surplus of USD 7.4 billion. In quarter II of 2009, the capital and financial account had a deficit, even though up to quarter III of 2009 the capital and financial account as a whole had a surplus of USD 4.7 billion, with the surplus attributed to the inflow of foreign direct investment of USD 3.8 billion and the inflow of portfolio investment of USD 6.6 billion, while other investment (net) had a deficit of USD 5.6 billion. The balance of payments as a whole, up to quarter III of 2009 had reached USD 8.6 billion, with foreign exchange reserves reaching USD 62.3 billion, namely equivalent to 6.1 of imports and foreign debt repayment.

With the above economic growth development and with the policies on manpower and policies for reducing poverty, the open unemployment rate fell from 8.39 percent in August of 2008 to 7.87 percent in August of 2009, and the poverty rate fell from 15.4 percent in 2008 (March) to 14.1 percent in 2009 (March).



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5.2. Prospect of the Economy in 2010-2014

5.2.1. Increasing the Welfare of the People Through Sustainable Economic Growth

The condition of the Indonesian economy in 2010-2014 is not unrelated to effects of the state of the world economy. After experiencing a global recession since the middle of 2008, the world economy had started to show signs of recovery since the end of 2009. The IMF (October 2009) had revised its global economic prospect of 2009 from a negative growth of - 1.4 percent to -1.1 percent; world economic growth in 2010 is estimated to improve from the initial estimate of 2.5 percent to 3.1 percent. Such recovery is mainly due to the effectiveness of government intervention measures in various nations that have (i) induced increased demand, and (ii) reduced uncertainties and potential systemic risk in financial markets. Even though the recovery is already in progress, the global economy still is facing various challenges in the period five years ahead, namely (i) the debt of developed nations have increased in line with the efforts on fiscal stimulus; (ii) the unemployment rates in developed nations are still high; (iii) uncertainties on oil price in world markets.

TABLE 2
ESTIMATED ECONOMIC GROWTH
2010-2014
(in percent)

	2010	2011	2012	2013	2014	Average 2010- 2014
Economic Growth	5,5-5,6	6,0-6,3	6,4-6,9	6,7-7,4	7,0-7,7	6,3-6,8
Expenditure Side						
Private Consumption	5,2-5,2	5,2-5,3	5,3-5,4	5,3-5,4	5,3-5,4	5,3-5,4
Government Consumption	10,8- 10,9	10,9-11,2	12,9-13,2	10,2-13,5	8,1-9,8	10,6-11,7
Investment	7,2-7,3	7,9-10,9	8,4-11,5	10,2-12,0	11,7-12,1	9,1-10,8
Exports of Goods and Services	6,4-6,5	9,7-10,6	11,4-12,0	12,3-13,4	13,5-15,6	10,7-11,6
Imports of Goods and Services	9,2-9,3	12,7-15,2	14,3-15,9	15,0-16,5	16,0-17,4	13,4-14,9
Production Side						
Agriculture, Plantation, Livestock, Forestry, and Fisheries	3,3-3,4	3,4-3,5	3,5-3,7	3,6-3,8	3,7-3,9	3,6-3,7
Mining and Quarrying	2,0-2,1	2,1-2,3	2,3-2,4	2,4-2,5	2,5-2,6	2,2-2,4

	2010	2011	2012	2013	2014	Average 2010- 2014
Manufacturing Industry	4,2-4,3	5,0-5,4	5,7-6,5	6,2-6,8	6,5-7,3	5,5-6,0
Non-Oil and Gas Industry	4,8-4,9	5,6-6,1	6,3-7,0	6,8-7,5	7,1-7,8	6,1-6,7
Electricity, Gas and Water	13,4- 13,5	13,7-13,8	13,8-13,9	13,9-14,0	14,1-14,2	13,8-13,9
Construction	7,1-7,2	8,4-8,5	8,8-9,3	8,9-10,1	9,1-11,1	8,4-9,2
Trade, Hotels, and Restaurants	4,0-4,1	4,2-4,8	4,4-5,2	4,5-6,4	4,6-6,6	4,3-5,4
Transportation and Telecommunications	14,3- 14,8	14,5-15,2	14,7-15,4	14,9-15,6	15,1-16,1	14,7-15,4
Finance, Real Estate, and Corporate Services	6,5-6,6	6,6-6,7	6,8-7,0	6,9-7,0	7,2-7,3	6,8-6,9
Services	6,7-6,9	6,9-7,0	7,0-7,1	7,1-7,2	7,2-7,4	6,9-7,1

Even though there has been estimates that the global economic weight will shift from the west to the east, it is believed that the economies of the United States and of other advanced industrialized nations will remain as the engine of the world economy and remain as the export markets of commodities produced by developing nations. The economies of Asia is estimated to remain as a dynamic area, with the economies of China, India, and other Asian industrial nations as the main movers, and will remain as a region that is attractive for investments.

On the basis of the various policy measures pursued in various fields, as described in the preceding chapters, economic recovery in Asia that had started to recover in the last quarter of 2009, and the world economy improving in 2010, the still maintained economic resiliency in facing the global financial crisis and global economic decline, the good expectations on the continuity of the government five years ahead, and estimate on the external conditions in the 2010-2014 period, thus the sustainable macroeconomic condition will be maintained with the following prospect for the 2010-2014 period.

In the 2010-2014 period, the Indonesian economy is expected to gradually grow from 5.5-5.6 percent in 2010 to 7.0-7.7 percent in 2014, namely at the average growth rate of 6.3-6.8 percent per year in the five years period.

On the expenditure side, economic growth originates from private consumption, as the main component of domestic demand, and from investment and exports of goods and services. Private consumption is projected to grow at 5.3-5.4 percent per year, while investment and exports are expected to gradually grow starting from 2010 after having a negative growth. Investment is estimated to grow at an average of 9.1-10.8 percent and exports of goods and services will grow at an average rate of 10.7-11.6 percent per year.



Private consumption will continue to be stimulated by the increase in the people's purchasing power through the efforts to maintain stability of the inflation rate and ensuring the continuing supply of basic goods. Efforts to induce investment are made by increasing harmonization of policies and by simplification of investment licensing procedures, and increasing investment facilities. The growth of exports will continue to be induced through various policies, such as increasing access to international markets, especially to non-traditional markets, increasing the quality and diversification of export products, and through endeavors to increase export facilities.

On the production side, after experiencing low growth rates in the 2004-2009 period, growth of the non-oil/gas processing industry will be revamped to reach an average growth rate of 6.1-6.7 percent. The measures to stimulate growth of the industrial sector will be through policies to expand the total number of the industrial business units, strengthening the industrial sector, and by increasing productivity of industrial activities. Meanwhile, the sector of agriculture, fisheries, and forestry is estimated to grow at an average growth rate of 3.5-3.6 percent per year, through such policies as realizing food security, increasing competitiveness of agricultural products, and by increasing the income level of farmers.

With such sustainable economic growth path, it is expected that the welfare of the people can continually be enhanced.

5.2.2. Solid Economic Stability

In the medium-term, especially through the inflation targeting framework policy and coordination of macro policies of the central government, Bank Indonesia (Central Bank), and regional governments, the inflation rate is directed to gradually fall to the range of 4-6 percent. This estimate is based on the inflation rate target that is relatively low and stable while still taking into account the need for attaining economic growth. Attaining such inflation rate target is supported by the relatively stable exchange rate, that is made possible by the estimated inflow of investment funds (capital inflow), in the form of portfolio investments as well as for investment in the real sector, that are induced by the improving business climate and the maintained security and law and order.

The maintained low inflation rate will induce reductions in interest rates of the banking system, that is also affected by the risk level of the business community. Even though the domestic banking interest rate will also be affected by the increase in the main international interest rates in coming periods, it is expected that in the medium-term it will gradually continue to fall, thereby able to induce economic activities in the real sector, covering investment as well as production activities.



With regard to the management of public finances, the improving fiscal sustainability will be maintained. Fiscal sustainability will continually be strengthened for supporting the attained economic stability. On the revenue side, with the continued efforts to increase tax revenues, it is expected that tax revenues will increase at an average growth rate of 16.8 percent per year in the 2010-2014 period. On the expenditure side, the budget allocation for transfers to the regions will increase at the average growth rate of 14.0 percent. In addition, in the 2010-2014 period, the personnel budget allocation is estimated to increase, in line with the continuing efforts of the government on bureaucracy reform.

In relation to the measures to overcome the threat of economic crisis, the State Budget (APBN) deficit of 2009 was still relatively high, namely reaching 1.6 percent of GDP, in line with the implemented fiscal stimulus policy. Nevertheless, with the continuing policy stances, such as the efforts to increase revenues and optimizing budget spending, and the improving economic condition, it is expected that the APBN deficit in the period five years ahead can be reduced to around 1.2 percent of GDP.

On the budget deficit financing, the strategy is directed at attaining three (3) main targets, namely : (a) the reduced debt stock ratio to GDP; (b) the selective use of debts; (c) the optimizing of use of grants and debts. Efforts to enhance the management of government debt are directed at reducing the stock of foreign loans, not only relatively to the GDP but also in absolute terms. Meanwhile, domestic loans, especially through the issuance of government securities, measures will be taken to ensure adequate room for maneuver for the private sector. Thereby, the debt stock to GDP ratio is estimated to decline to around 24 percent by 2014.

Estimates on the balance of payments are based on two basic assumptions, namely developments of the world economy and developments of the domestic macroeconomic condition. Assumptions on the world economy cover economic growth, especially of developed economies, the world's inflation rate, rate of interest level, and the exchange rates of the main industrial nations. Assumption on the domestic economy cover estimates on the balance of payments that are closely related to the target on economic growth and the pattern of economic growth, estimates on growth of investment, and estimates on sources of investment funding, from domestic as well as from foreign sources.

Even though competition in the international market is getting tighter, the estimate on the improving world economy in 2010, after experiencing the global financial crisis since the middle of 2008, and induced by the utilization of the increased competitiveness and efforts to create a conducive business climate for export activities, thus the value of non-oil/gas exports in the 2010-2014 period is estimated to gradually increase. After having a negative growth in 2009, non-oil/gas exports in 2010 is estimated to grow at 7-8 percent and reaching 14.5-16.5 percent in 2014.



On the import side, the increase in domestic demand will induce the growth of non-oil/gas imports from 8-9 percent in 2010 to 18-19 percent in 2014. With the deficit in services remaining high in 2010 to 2014, it is estimated that the surplus in the current account will decline up to 2014.

Foreign direct investment (net) is estimated to continue to increase in the 2010-2014 period while foreign portfolio capital flow is estimated to remain stable. With such developments, it is estimated that foreign exchange reserves will increase to around USD 100 billion in 2014.

5.2.3. An Inclusive and Just Economic Development

Such economic growth will be accompanied by various development policies that are inclusive and just, in the form of among others policies on manpower, empowerment of small and medium scale enterprises, and endeavors for reducing poverty. With the average growth of new work force of 2 million per year, it is expected that open unemployment can be reduced to 5-6 percent in 2014. Accordingly, the total of poor population is estimated to decline from 14.1 percent (March 2009) to 8-9 percent in 2014.

National development activities that are carried out in various fields through various priorities as described above, will still leave out various gaps that become challenges that need to be resolved. This is reflected in the following problems. First, the inter-provinces poverty rate still have wide discrepancies. To illustrate, DKI Jakarta has a poverty rate of 3.6 percent, while the province of Papua has a poverty rate of 37.5 percent in 2009. Second, the meeting of basic needs and basic services among social groups also still shows relatively high discrepancies. Those in the lowest 40 percent income group still consume calorie of below 2,100 kcal/capita/day, which is the minimum calorie requirement. Health services through the *Puskesmas* (Public Health Centers) and medical doctors is also still low. Likewise, access to clean water is still limited. Third, the absorption of new workers mostly comprise informal workers, who normally depend on small and micro business enterprises that have limited access to productive resources for developing their businesses. Fourth, gender equality is still limited in various fields of development. While the role of women for increasing the quality of their families, in economic activities in various fields is very significant.

On the basis of the above problems, in order to realize an inclusive development, including the inclusion of all social groups and communities that are located in remote and isolated areas, the following policies and measures are taken.

First, increasing the effectiveness of policies and programs for reducing poverty as described in the Priority for Reducing Poverty, in order that poor communities, that thus far have a low income level and limited access to basic needs, can be served and reached. The direction of policies that is reflected in the various focuses of this priority is the measure for empowering communities that still have income levels of below the



poverty line. The family based social assistance programs are carried out for assisting these communities, so that they can still meet their basic needs, and their still low meeting of basic needs and services can be increased and the discrepancies of access among different income levels can be reduced. Furthermore, such social assistance programs will also place greater attention to disabled peoples, the elderly, especially those from poor families, neglected children, and marginalized communities, so that they can have greater access to basic needs and services and to productive resources for increasing their welfare. In that relation, the PNPM Mandiri program is specifically aimed at assisting the people together with poor communities to become empowered and ultimately become capable to actively participate in the efforts to bring them out of poverty and in turn will enable them to participate in the wider scope of development of their region. In addition, the programs in clusters for Empowerment of Small and Micro Enterprises are also directed for facilitating informal workers, so that they can have equal access to business opportunities and for increasing their income levels and improve their welfare. As a whole the effectiveness of programs in the three clusters for reducing poverty is increased for expanding the scope and meeting of basic needs and services for poor communities, the disabled, the elderly and marginalized, so that the development process can include all components of the nation and for ensuring that the yields of development can benefit all layers of society and who ultimately can actively participate in development.

Second, the role of women in increasing the welfare of the family, through economic activities as well as in meeting basic needs, is very important, especially among poor communities. Nevertheless, their role in the decision making process in the family is still limited. The limitation is due to their minimal horizon and capability. Another limitation is that women have still not yet obtained the place and opportunity that is equivalent with men. In fact, many women have become victims of violent acts in the household. Likewise, children, who should become the quality new generation in order that they can become the point that can stop the inter-generation poverty chain, and should become the foundation for building their future life, have not yet been protected and have not yet obtained opportunities in their young age. In that regard, special attention is continually given through policies and programs that are oriented to women and children, especially for assisting neglected children who do not have families and parents that can help them for building up of their future for increasing the quality of their welfare. The policies and programs for giving attention to women and children are carried out through other National Priorities in the Field of Welfare of the People.

Third, the majority of poor communities are situated in rural areas that have limited infrastructure, and a portion of them are living in remote and isolated areas, including in border regions, most of which are remotely located from capital cities of the districts and of other cities. In that regard, the development of rural infrastructure is an important program for providing the same opportunities to rural communities and to remote and isolated regions. In that respect, development of border regions requires



special attention, so that communities in border regions have the same opportunities as communities in other regions for benefiting from the yields of development and to participate in and contribute to national development. Policies and programs that are directed for all these are carried out through the Development Priority of Left-behind, Frontier, Outermost, and Post-Conflict Regions.

Various policies and programs for including all layers of society and various social groups that are spread out in various regions, will be supported by measures for improving various financial mechanisms between the central government and regional governments. Currently, the financial mechanism to the regions is conducted through the DAU (General Allocation Fund), DAK (Special Allocation Fund), and through the DBH (Revenue Sharing Fund). Such financial mechanism is continuously being improved and supplemented by various instruments that will support the development process that has already been decentralized, and by increasing the quality of the national development funding.

The inclusive and just development is also reflected in the process of formulating policies and in their implementation, that must involve all stakeholders to actively participate and cooperate by building up the consensus for having a concern for communities that are still left behind. Affirmative policies must be implemented for overcoming discrepancies, the state of being left behind, poverty, that still characterize the majority of the population. Such affirmative policies can succeed if supported by effective coordination and process of consultation among all stakeholders.

5.2.4. Investment Requirements and Policies on National Development Funding and its Utilization

In the context of attaining the development targets, the investment funding policies are directed at ensuring the availability and optimizing of development funds towards self-reliance of development funding. In that relation, the main strategy of development funding is (i) optimizing of the sources and schemes of existing as well as future development funds, and (ii) increasing the quality of the utilization of development funding sources and schemes.

For attaining the average economic growth target of 6.3-6.8 percent per year, the total investment of Rp 11,913.2 – Rp 12,462.6 trillion cumulative for five years is needed. Out of the total investment requirement, around 18 percent in 2014 is expected to be met by the government. Government funding is obtained from tax revenues and non-tax revenues, originating from grants, foreign financing, and from domestic financing. The remaining investment requirement can be met by the business community and from the public that originate from banks, non-bank financial institutions, capital market (stocks and bonds), foreign funds, retained earnings, and other. The increase in the proportion of investment funds from the business community mainly comes from the PMA (Foreign Direct Investment) and PMDN (Domestic Direct



Investment) in line with the more conducive business climate, from the increased capital market in line with the improved regulatory framework and strengthened management of the capital market, and from the increased governance and performance of companies.

In the context of increasing government revenues, the government will continue to develop and improve policies on tax revenues and non-tax revenues, while still maintaining a conducive investment climate. Meanwhile, for increasing the effectiveness of government expenditures, the following measures are taken :

1. Increasing the quality of expenditures by consolidating the implementation of the MTEF (Medium-Term Expenditure Framework) and consolidating the implementation of the performance based budgeting, among others through the restructuring of programs and activities, and by formulating the accurate and measurable performance indicators.
2. Increasing and strengthening the planning and budgeting linkage of the Central Government through improvements in the formulation of the RPJMN (National Medium-Term Development Plan), Renstra (Strategic Plans of Ministries), RKP (Government Annual Work Plan), RKA-KL (Budget Allocation Plan of Ministries and Government Agencies), and other instruments. Likewise the Regional Governments will improve the formulation of the RPJMD (Regional Medium-Term Development Plan), Budget Work Plan of Regional Governments, and other policy instruments.
3. Formulating budget allocations that are more effective in attaining targets and that place funding priorities to activities that can multiply domestic economic activities and that can create a large number of employment opportunities and that can support efforts for enhancing the quality of public services.
4. Strengthening monitoring and evaluation in the planning, implementation, and budgeting process.
5. Improving the mechanism for budget administration and budget disbursement so as to become faster and accountable.

The procurement of funding from foreign sources, in the form of foreign grants as well as loans (PHLN), must always place importance on Indonesia's sovereignty and the national interest and should increase effectiveness of their utilization in accordance with the national development priorities. Utilization of the PHLN must be viewed not only from the funding standpoint but also as the means for exchanging information and experience in the context of strengthening and improving the national system of planning, budgeting, procurement, monitoring and evaluation and for strengthening the institutional capacity and human resources.



Funding sources through foreign grants can originate from international development partners, countries as well as international institutions/bodies. Even though as a proportion of total government revenues grants is small, it does not entail the risk of having to be repaid. In the context of optimizing the use of grants, the government will continue to enhance the capacity of grant receiving institutions and improve the implementing regulations on the management of government grants that is more conducive and flexible while still accountable that is adjusted to the characteristics of the grant.

Funding sources from foreign loans can be in the form of program loans as well as project loans that originate from multilateral, bilateral, and commercial financial institutions. In view of the increased status of Indonesia as a Lower Middle Income Country (LMIC), Indonesia will no longer be eligible for obtaining very low cost loans from multilateral financial institutions. Therefore, it is necessary that the management of foreign loans be further strengthened and their utilization be increasingly optimized.

For reducing the government debt burden, thus the ratio of government debt, including foreign debt, to the Gross Domestic Product (GDP) will consistently be reduced so as to reach 24 percent in 2014, while still maintaining the negative net transfer target. Management of government debt will continue to be enhanced, among others by increasing the effectiveness of portfolio management, diversification of debt sources, development of safer debt funding schemes, and by the risk management of government debt.

In order to increase the quality of the utilization of foreign loans and grants, steps are taken for : (i) revising the regulations on the planning and management of the government PHLN (Government Regulation Number 2 of 2006 on the Procedure for the Procurement of Loans and/or Receiving of Grants and the Forwarding of Foreign Loans and/or Grants, and Regulation of the Minister of National Development Planning Number 05 of 2006 on Procedure of Planning and Submitting of Proposal and Evaluation of Activities that are Financed from Foreign Loans and/or Grants, (ii) increasing the quality of planning and capacity for implementation of projects among others through enforcement of regulations on project preparedness, sharpening of focus in the utilization of the PHLN so as to become more selective for the financing or supporting national priority programs/activities, (iii) increasing the use of the national system (alignment) and harmonization of activities of development partners, (iv) strengthening the quality of monitoring and evaluation. The government will continue to increase the effectiveness of the utilization of foreign loans and grants (PHLN) together with development partners by consistently implementing the agenda of the Paris Declaration, that has been further elaborated in the Jakarta Commitment.

Government domestic financing is obtained from banking and non-banking financing. The important role is that of the non-banking financing, particularly the SBN (Government Securities), the SBSN (State Syariah Securities), and domestic borrowings. The SBN/SBSN are widely sold to financial institutions as well as to the public. For increasing efficiency and effectiveness in the management of the SBN/SBSN portfolio,



endeavors are continued for developing new instruments, strengthening the infrastructure, and coordinating its management.

Domestic loans are obtained through financing from State-Owned banks, domestic private banks, and from regional governments. Government financing from domestic debt is not to hamper credit absorption by the private sector and is mainly aimed for reducing dependence on foreign commercial loans. In that endeavor, government policies are prioritized at improving the laws and regulations and at strengthening the capacity of institutions that are related to the procurement of domestic loans. This is directed at strengthening the mechanism for coordinating institutions in the utilization of loans, with regard to their planning, implementation, as well as to their monitoring and evaluation.

As a fund intermediation institutions, banks have a very important role in supplying investment funds from public savings. The funding from banks can be through the conventional as well as the Syariah scheme. In addition to being channeled through banks public funds can also be channeled through non-bank institutions, in such forms as financing institutions that include infrastructure financing institutions and export financing institutions, insurance institutions, pension fund institutions, mortgage institutions, and in the form of capital markets. The potential of these financial institutions need to be directed to the financing of the real sector for stimulating investments. For this purpose, efforts are continued for improving the regulations and policies for supporting the roles of banks, non-banks, and the capital market as sources of medium-term and long-term funding.

In addition to being the provider of national development funds, the PMDN/PMA (Domestic/Foreign Direct Investment) have an important role as business entities in national development. For increasing the PMDN/PMA, the strategy is by improving policies for attaining a more conducive investment climate and by providing reliable and adequate infrastructure.

The potential for increasing the national development funding sources can also be made by encouraging and developing development schemes that involve the roles and contributions of the government, business community, and the public. Some of the funding schemes that can be utilized are the : (i) Public Private Partnership (PPP) scheme; (ii) Corporate Social Responsibility (CSR); and (iii) Donations/Zakat.

The ability of private companies to reduce costs, shorten the procurement period, and to more efficiently manage the construction and facilities, has made the PPP capable of offering value for money compared to the construction of the same facilities that is managed by the government. In the efforts to increase the utilization of the PPP scheme, two main steps are carried out, namely optimizing the PPP scheme and increasing the quality of utilizing the PPP scheme.



The steps for optimizing the PPP scheme are made through the following :

1. Developing, revising, and harmonizing various sectoral as well as regional policies and regulations, for facilitating formation of the PPP, particularly revision of Presidential Regulation Number 67 of 2005 and regulations on the procurement of lands for the construction of public infrastructure.
2. Developing laws and regulations for expanding the PPP priority fields other than infrastructure.

Steps for increasing effectiveness of the utilization of the PPP scheme, through the following:

1. Compiling the PPP book, that contains the list of government projects that can be implemented through cooperation with private companies at the beginning of each year, in accordance with the cycle of the government work plan. In accordance with Presidential Instruction Number 5 of 2008, the PPP book is compiled and issued as an effort to create a mechanism for preparing projects that is more integrated with the government budget cycle, and that is transparent and accountable. For optimizing private participation in development, it is necessary that the plan for preparing government projects that will be implemented in cooperation with private companies be integrated with the government work plan so that subsequently it can be implemented by ministries/government agencies and by regional government agencies.
2. Strengthening the role of the PPP institution for enhancing efficiency in the management of the PPP implementation in compiling the planning strategy and sector priority that will be implemented in cooperation with private companies.

Implementation of the CSR by business units that operate in Indonesia has been stipulated in Law Number 40 of 2007 on Limited Corporations. The CSR is then more directed at increasing the consistency of its activities with government programs in supporting national development, including attaining the Millennium Development Goals (MDGs), and efforts for overcoming impacts of climate change. Considering the high potential of the CSR for supporting national development, efforts need to be made to harmonize policies of institutions/companies and the government in the process of planning, implementation, and reporting of activities.

Other development funding schemes that have continued to develop are instruments that are related to religious activities, such as the zakat. Several zakat managing entities have already started to develop the zakat management system in a more professional manner and that also has the potential for supporting government programs. In this regard, such funding source will continued to be encouraged so that it can continue to increase, among others through the strengthening of institutions and

management of funds based on religious activities and enhancement of its utilization in line with national development.

In addition to the above funding schemes, there are global schemes that have the potential of becoming national development funding sources, such as Carbon Trade, the Clean Development Mechanism (CDM), the Copenhagen Green Climate Fund, and other. In the context of utilizing such funding sources, endeavors are made for developing and strengthening policies and institutional capacity that can support the utilization of such funds.

TABLE 3
MACRO ECONOMIC FRAMEWORK
2010-2014

	Medium-Term Projection				
	2010	2011	2012	2013	2014
Economic Growth	5,5 - 5,6	6,0 - 6,3	6,4 - 6,9	6,7 - 7,4	7,0 - 7,7
Expenditure side (%)					
Consumption					
Private	5,2 - 5,3	5,2 - 5,3	5,3 - 5,4	5,3 - 5,4	5,3 - 5,4
Government	10,8 - 10,9	10,9 - 11,2	12,9 - 13,2	10,2 - 13,5	8,1 - 9,8
Investment	7,2 - 7,3	7,9 - 10,9	8,4 - 11,5	10,2 - 12,0	11,7 - 12,1
Exports	6,4 - 6,5	9,7 - 10,9	11,4 - 12,0	12,3 - 13,4	13,5 - 15,6
Imports	9,2 - 9,3	12,7 - 15,2	14,3 - 15,9	15,0 - 16,5	16,0 - 17,4
Production side (%)					
Agriculture	3,3 - 3,4	3,4 - 3,5	3,5 - 3,7	3,6 - 3,8	3,7 - 3,9
Manufacturing Industry	4,2 - 4,3	5,0 - 5,4	5,7 - 6,5	6,2 - 6,8	6,5 - 7,3
Non-oil/gas	4,8 - 4,9	5,6 - 6,1	6,3 - 7,0	6,8 - 7,5	7,1 - 7,8
Others	6,5 - 6,7	7,0 - 7,3	7,3 - 7,7	7,5 - 8,4	7,8 - 8,6
GDP per Capita					
(US\$)	2.555	2.883	3.170	3.445	3.811
At 2000 Constant Prices (Thousand Rp)	9.785	10.255	10.790	11.389	12.058
Economic Stability					
Inflation Rate, Consumer Price Index (%)	4,0 - 6,0	4,0 - 6,0	4,0 - 6,0	3,5 - 5,5	3,5 - 5,5
Nominal Exchange Rate (Rp / US \$)	9.750 - 10.250	9.250 - 9.750	9.250 - 9.750	9.250 - 9.850	9.250 - 9.850
Interest Rate, 3 months (%)	6,0 - 7,5	6,0 - 7,5	6,0 - 7,5	5,5 - 6,5	5,5 - 6,5
Balance of Payments					
Non-oil Export growth (%)	7,0 - 8,0	11,0 - 12,0	12,5 - 13,5	13,5 - 14,5	14,5 - 16,5
Non-oil Import growth (%)	8,0 - 9,0	14,0 - 15,6	16,0 - 17,5	17,0 - 18,3	18,0 - 19,0
Foreign exchange reserves (USD)	74,7 - 75,6	82,4 - 84,1	89,6 - 92,0	96,1 - 99,2	101,4 - 105,5



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	Medium-Term Projection				
	2010	2011	2012	2013	2014
billion)					
State Finance *)					
Budget Surplus / Deficit to GDP (%)	-1,6	-1,9	-1,6	-1,4	-1,2
Tax Revenue / GDP (%)	12,4	12,6	13,0	13,6	14,2
Government Debt Stock / GDP (%)	29	28	27	25	24
Unemployment and Poverty					
Unemployment Rate (%)	7,6	7,3 - 7,4	6,7 - 7,0	6,0 - 6,6	5,0 - 6,0
Poverty Rate (%)	12,0 - 13,5	11,5 - 12,5	10,5 - 11,5	9,5 - 10,5	8,0 - 10,0

5.2.5. Funding through Transfers to the Regions

Funding through transfers to the regions is one of the main instruments for implementing fiscal decentralization. The transfer of funds to the regions consist of the Balancing Fund (*Dana Perimbangan*), the Special Autonomy Fund (*Dana Otonomi Khusus/Otsus*), and the Adjustment Fund (*Dana Penyesuaian*). In line with the implementation of decentralization, namely the delegation of authority over part of governmental affairs to the regions that was started in 2001, the allocation of transfers to the regions has continued to increase. In 2001, the transfer allocation to the regions covered only the Balancing Fund, but since 2002 it also has covered the Special Autonomy Fund and the Adjustment Fund.

In the 2010-2014 period, restructuring and reforms will be made to the funding instruments of transfers to the regions and the status of the Balancing Fund in the context of the balancing of finances between the central and regional governments will be made more explicit so as to become more in line with the balance of authority between the Central and Regional governments. In that respect, the allocation of transfers to the region in RPJMN 2010-2014 will be directed at :

1. increasing the fiscal capacity of regions and reducing the fiscal gaps between the central and regions and among regions;
2. adjusting the magnitude of funding needs in the regions in accordance with the distribution of governmental affairs among the central government, provincial governments, and district/city governments, as stipulated in the effective laws and regulations;
3. increasing the quality of public services in the regions and reducing the discrepancies of public services among regions;
4. increasing competitiveness of the regions;



5. supporting the national fiscal sustainability in the context of macroeconomic policy;
6. increasing the capacity of regions in mobilizing the economic potentials of the regions;
7. increasing the synchronization between the national development plan and regional development plans.

The management of transfers to the regions has invariably been based on the need to fulfill the implementation of good financial management, namely that is effective, timely, efficient, just, transparent, accountable, and has measurable performance indicators.

Balancing Fund (*Dana Perimbangan*)

Law Number 33 of 2004 on Financial Balance between the Central Government and Regional Government, and Government Regulation Number 55 of 2005 on Balancing Fund, stipulate that the Balancing Fund is the fund from the revenues of the APBN (National Budget) that is allocated to the regions for the financing of regional needs in the context of implementing decentralization. The Balancing Fund, which consists of the Revenue Sharing Fund (*Dana Bagi Hasil/DBH*), the General Allocation Fund (*Dana Alokasi Umum/DAU*), and the Special Allocation Fund (*Dana Alokasi Khusus/DAK*), is funding for implementing decentralization, the allocation of which cannot be separated from one to the other because each type of the balancing fund are mutually complementary.

Policy Direction for Allocation of the Revenue Sharing Fund (DBH)

The Revenue Sharing Fund (DBH), which consists of the Tax DBH and the Natural Resources DBH, is the right of the regions for the management of sources of government revenues that are yielded by the respective regions, the amount for which takes into account the potential of the producing region (by origin). The DBH is part of the Balancing Fund that is allocated for overcoming the vertical discrepancy between the Central Government and the Region with regard to their fiscal capacity. The sources of revenues that are shares are revenues from taxes (income tax, land and construction tax, fee on right to land and buildings, and excises on tobacco products), and revenue sharing from natural resources (crude oil, natural gas, general mining, forestry, and fisheries). The use of the DBH is the authority of the regional government, in accordance with the needs of the region in implementing development in the receiving region, except for revenue sharing from tobacco excises, for which the use has been determined by the central government.



The policy directions for the allocation of the DBH in RPJMN 2010-2014 are as follows :

1. Increasing data accuracy through coordination with institutions that manage Non-tax Government Revenues (PNPB);
2. Improving the calculation and determination of the DBH allocation in a more transparent and accountable manner;
3. Improving the system for disbursing the DBH so that the DBH allocation to producing regions become more timely and more accurate in the amount allocated;
4. Encouraging regions that produce natural resources, especially non-renewable natural resources, to increase efforts for the conservation of such resources and to handle the impact to the natural environment after exploration activities.

Policy Directions for Allocation of the General Allocation Fund

The General Allocation Fund (DAU) is a fund from the APBN that is allocated for the better equity in the fiscal capacity among regions for financing the needs of the regions in the context of implementing decentralization. The total amount of the DAU is determined in accordance with the laws that are in force and is at least 26 percent of the total of domestic revenues (net) that is stated in the APBN.

The DAU is a transfer from the central government to the regions and is a block grant, meaning that the regions reserve the right to use it in accordance with the priorities and needs of the regions in the implementation of the tasks of governmental affairs. The DAU consists of the DAU for provinces and the DAU for districts/cities. The allocation of the DAU to the respective regions is based on the formula and mechanism as contained in Law Number 33 of 2004 and in Government Regulation Number 55 of 2005. The DAU allocation for new autonomous regions (DOB) is implemented through the mechanism that is in accordance with the effective laws and regulations.

The targets to be attained in the 2010-2014 period is the increased effectiveness and accountability of the DAU as the instrument for increasing the fiscal capacity of the regions and for reducing fiscal discrepancies among regions, in the context of ensuring the effective implementation of governmental and development tasks and for ensuring the more equitable provision of public services in the regions in accordance with the SPM (Minimum Services Standard).

For attaining such target, the policy directions for allocating the DAU in the RPJMN 2010-2014 are as follows:

1. increasing in phases the proportion of the DAU to the net Domestic Government Revenues;
2. improving the formula for DAU allocation, among others by eliminating the use of variables on personnel spending, adding the variable for providing incentives to

- regions that are performing well in the economic and social welfare fields, and/or compensation to regions that most of their areas comprise conservation areas;
3. improving the evaluation of fiscal needs in the formula for DAU allocation on the basis of estimates on spending for meeting the SPM (Minimal Services Standard) in accordance with the Spending Standards Analysis (ASB).

Policy Directions on Allocation of the Special Allocation Fund

The Special Allocation Fund (DAK) is the fund that originates from the APBN that is allocated to certain regions with the aim of assisting the funding of special activities that are the regional governmental tasks and in accordance with the national priorities.

As one of the Balancing Fund instruments, the DAK has through the years been significantly changed, in terms of the magnitude of the allocation, scope of the DAK, as well as in terms of the total of regions receiving the DAK allocation. Some of the constraints and problems in the DAK allocation are: 1) there are still inaccuracies in the understanding on the DAK concept at the central as well as regional levels; 2) the national ceiling for the DAK is still relatively small in relation to the needs; 3) the allowed use of the DAK in accordance with the effective laws and regulations still place the emphasis on physical activities, thereby not adequately accommodating the actual planned needs; 4) the still limited capacity for DAK planning based on performance and in line and integrated with the national sectoral plan; 5) the accuracy of technical data that is needed for planning the allocation of the DAK is still low; 6) the current formula for allocating the DAK does not yet fully ensure congruence with the national interest and with the needs of the regions; 7) the DAK is not yet adequately integrated in the national and regional development planning cycle and mechanism; 8) the clear guideline on coordination of the DAK management as a whole and integrated at the central, provincial, and district/city levels, is not yet available; 9) synchronization of DAK activities with other activities that are funded by the APBD (Regional Government Budget) is still inadequate; 10) coordination and integration in the monitoring and evaluation of the DAK is still low and regional discipline in submitting progress reports to the central government is also low; and 11) the still relatively weak regional supervision on the implementation of DAK activities.

On the basis of the above constraints and problems, the target to be attained in the 2010-2014 period is the increased effectiveness of the DAK as the funding instrument in the context of stimulating regional development for supporting attainment of the national development priorities contained in RPJMN 2010-2014.

In order to attain the target, the policy directions for the DAK in RPJMN 2010-2014 are the following :

1. Improving the design of the DAK concept in the context of making more explicit the status, role, and mission of the DAK, as one of the effective funding instruments of decentralization for facilitating the reduction of discrepancies



- among regions in the provision of basic public services and for providing incentives to certain regions for increasing the efforts for attaining the targets of the national development priorities;
2. Increasing in phases the national ceiling of the DAK so that it is more optimal for supporting attainment of national priorities. In addition, a transformation will be made from funds of ministries/government agencies that are used for the financing of regional government tasks, such as the funds for the BOS (School Operational Assistance) and funds for rural infrastructure development, to the DAK;
 3. Supporting programs that become national priorities in the RPJMN 2010-2014, in accordance with the medium-term expenditure framework and the performance based budgeting, including programs that are cut across sectors and regional programs that become national priorities;
 4. Prioritizing assistance to regions that have a relatively low financial capacity in the financing of public services in accordance with the SPM (Minimal Services Standard).
 5. Increased quality of planning through the sharpening of performance indicators, and by providing accurate technical data;
 6. Increasing coordination in the whole and integrated management of the DAK at the central and regional levels, increasing the synchronization of DAK activities and other activities that are funded by the APBN and APBD, and increasing supervision of the implementation of DAK activities in the regions;

DAK allocation to the regions is determined on the basis of the allocation criteria that are stipulated by law. Law Number 33 of 2004 states that that criteria comprise the general criteria, specific criteria, and technical criteria. These criteria are revised in line with revisions made to Law Number 33 of 2004.

The DAK scope of activities is determined on the basis of the identification of DAK needs for supporting attainment of national priorities. In that respect, in RPJMN 2010-2014 the scope of activities that can be considered for being funded by the DAK covers: basic public services that are mandatory, such as basic education, family planning, food security, basic infrastructure, national logistics, environment, and regional aspects (left-behind, frontier, outermost, and post-conflict areas).

In the RPJMN 2010-2014 the areas that are funded by the DAK are the following:

1. Specifically in 2010 the DAK areas cover: a) education; b) health, c) road infrastructure, d) irrigation infrastructure, e) drinking water infrastructure, f) sanitation infrastructure, g) infrastructure of regional governments, h) marine and fisheries, i) agriculture, j) environment, k) family planning, l) forestry, m) rural infrastructure, and n) trade facilities.
2. In the following years, the area of activities that will be funded by the DAK will be determined in the RKP (Government Annual Work Plan) of the relevant fiscal year.



Policy Directions for Allocation of the Special Autonomy Fund

Law Number 35 of 2008 on the Determination of Government Regulation as Substitute to Law (Perpu) Number 1 of 2008 on Amendment to Law Number 21 of 2001 on Special Autonomy for the Province of Papua to become law, the Special Autonomy Fund is allocated for the Province of Papua as well as for the Province of West Papua and all of the districts/cities that are on the Papua land areas, with the stipulation : (i) special autonomy fund that is 2 percent of the total National DAU will be distributed between the Province of Papua and the Province of West Papua; (ii) supplementary special autonomy fund for infrastructure will be separately given to the Province of Papua and Province of West Papua in accordance with the agreement reached between the government and the DPR (Parliament). If in the implementation there are new autonomous regions, then the policy and allocation will be coordinated beforehand between the central government and the relevant provincial and district/city governments.

On the basis of Law Number 11 of 2006 on the Government of Aceh, the Special Autonomy Fund is also allocated to the Province of NAD, in the amount that is equivalent to 2 percent of the national DAU ceiling for a period of 15 years, and for the 16th to the 20th years becoming 1 percent of the national DAU ceiling. In the context of optimizing the utilization of the Special Autonomy Fund, the policies pursued up to now are among others the requirement for having the recommendation from the Ministry of Home Affairs at each stage of disbursement, so that the utilization of the Special Fund is well planned and can yield output for increasing public services.

In RPJMN 2010-2014, the policies for the allocation of the Special Autonomy Fund based on Law Number 35 of 2008 and Law Number 11 of 2006 will be continued, and the policy directions are the following:

1. Implementing a comprehensive evaluation on the utilization of the Special Autonomy Fund up to now;
2. Transforming in phases the Special Autonomy Fund to the Balancing Fund;
3. Increasing the efficiency and effectiveness of the Special Autonomy Fund to Papua and West Papua for education and health;
4. The Supplementary Infrastructure Fund is given to the Province of Papua and the Province of West Papua in the context of the implementation of special autonomy, that is prioritized for the funding of infrastructure, in accordance with Article 34 paragraph (3) section f of Law Number 21 of 2001 on Special Autonomy for the Province of Papua and Law Number 35 of 2008;
5. Increasing efficiency and effectiveness of the Special Autonomy Fund to NAD for the construction and maintenance of infrastructure, empowerment of the smallholders economy, reducing poverty, and for enhancing education, social and health services, in accordance with Law Number 11 of 2006 on Government of Aceh.



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For implementing the policy directions on the balancing fund and special autonomy fund, it is necessary to revise various regulations, especially those related to Law Number 33 of 2004 on the Financial Balance between the Central Government and Regional Governments, and its implementing regulations.



CHAPTER VI CLOSING REMARKS

The National Medium-Term Development Plan of 2010-2014 (RPJMN 2010-2014) is the elaboration of the vision, mission, and national development action program of President/Vice President Susilo Bambang Yudhoyono – Boediono. This RPJMN consists of three (3) books: book one contains the national development priorities, book two contains the direction and policies of the development fields, and book three contains the policy direction of regional development. This document henceforth becomes the guideline for the government and the general public in implementing national development in the period five years ahead.

This document also becomes the basis for formulating the Regional Medium-Term Development Plan and also becomes the basis for the national leadership in formulating the Government Annual Work Plan (RKP). The achievement of national development in materializing the vision of the **REALIZED INDONESIA THAT IS PROSPEROUS, DEMOCRATIC, AND JUST**, must be supported by (1) commitment of the national leadership that is strong and democratic; (2) consistency of government policies; (3) orientation to the people; and (4) the active role of the general public and the business community; (5) the government bureaucracy system that is strong, transparent, accountable, and efficient. In addition, the development of other sectors and the implementation of governmental functions that are not specifically mentioned in this document will be continued in the context of realizing the above vision.

Onwards, through hard work, solidarity, and sincerity of all components of the nation, Indonesia will become a nation that is grand, advanced, and respected. A nation that becomes the most important power in Asia and that has an equal standing with the advanced nations of the world.