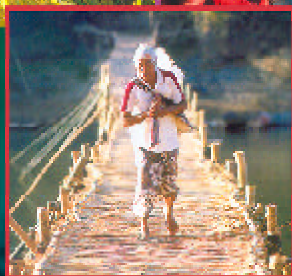
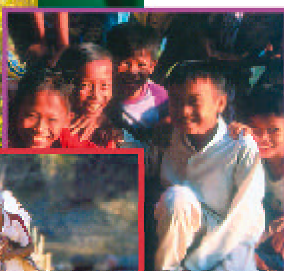




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Indonesia: Working out of Poverty



**Decentralization and
decent work: making
the connection to the MDGs**

2

In Preparation for the ILO's submission to the Poverty Alleviation Committee in Indonesia, a series of 12 (twelve) Technical Briefing Notes (TBNs) have been prepared which serve two purposes; first, as background documents, on issues and policy choices critical to poverty reduction and secondly, as building blocks towards a comprehensive report: "*Working Out of Poverty: an ILO submission for the Indonesia PRSP*".

This briefing note address ***Decentralization and decent work: making the connection to the MDGs***. Other themes in series include the following:

- Employment dimensions of macro and sectoral policies;
- Job creation and enterprise development (SMEs and local economic development);
- Youth employment: pathways from school to work
- Rural development: access, employment and income opportunities;
- Skills development for economic growth and sustainable livelihoods;
- Promoting the declaration on fundamental principles and rights at work;
- Eliminating the worst forms of child labour;
- Social protection for all;
- Promoting good governance in the labour market by strengthening tripartism and social dialogue;
- Migration: opportunities and challenges for poverty reduction;
- Gender and poverty.

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DECENTRALISATION AND DECENTWORK: MAKING THE CONNECTION TO MDGs¹

The ILO's decent work strategy seeks to "promote opportunities for all women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity"². In pursuing this vision, the decent work agenda (henceforth Decent Work Agenda) aims to integrate the four strategic objectives of the ILO: fundamental principles and rights at work, employment, social protection and social dialogue.

Introduction

How can one juxtapose the Decent Work Agenda with the currently overarching agenda of poverty reduction embraced by the global community under the rubric of the Millennium Development Goals (MDGs)? More importantly, how can such juxtaposition play a central role in the context of a decentralised, democratic Indonesia and enable the policymakers of this polity to credibly pursue the cause of poverty reduction? These are the issues explored in this technical briefing note (TBN).

As is well-known, the MDGs emphasise key development goals and targets that the international community should strive to achieve by 2015 (using 1990 as the base year).³ The key goals that are pertinent to poverty reduction entail declarations on the eradication of extreme poverty and hunger, elimination of gender discrimination in

*The Decent Work
Agenda and its
relevance to the
MDGs: going
beyond a national
focus*

1 Prepared by Iyanatul Islam

2 ILO. Decent Work: Report of the Director-General. Geneva. International Labour Conference, 87th Session. 1999

3 An influential publication by the OECD (1996) was the precursor to the MDGs.

basic education, improvements in child and maternal health, dealing with HIV/AIDS, tuberculosis and malaria and other infectious diseases as well as ensuring environmental sustainability. Indonesia, in common with more than 180 countries, has endorsed these goals and targets.

The international donor community has embraced the MDGs (Table I provides a list of the 8 MDGs) because it offers a unifying vision for development cooperation. The Bretton Woods Institutions are playing a leading role in propagating 'poverty reduction strategy papers' (PRSP) within which the MDGs are likely to play an important role in setting key policy goals and targets.⁴ Indonesia has formally subscribed to these developments by embarking on the process of crafting a PRSP – a process that commenced in 2002.⁵

Table 1: Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger
Goal 2: Achieve universal primary education
Goal 3: Promote gender equality and empower women
Goal 4: Reduce child mortality
Goal 5: Improve maternal health
Goal 6: Combat HIV/AIDS, malaria, and other diseases
Goal 7: Ensure environmental sustainability
Goal 8: Develop a global partnership for development

The MDGs offer a pragmatic way of conceptualising the multiple attributes of poverty, especially in terms of income poverty (inadequate purchasing power to acquire basic necessities in life) and deficient capabilities (poor health and nutrition, lack of

education etc). At the same time, clearly articulated goals and targets are yet to be developed to depict other important dimensions of poverty, namely, vulnerability and lack of voice and representation. In the case of the Decent Work Agenda, the focus on income poverty is captured through the emphasis on durable employment creation as a means of alleviating the problem of inadequate purchasing power. The problem of deficient capabilities is

⁴ The Bretton Woods institutions have aligned their lending programme with this new approach. The IMF has launched its Poverty Reduction Growth Facility (PRGF) that supersedes the Enhanced Structural Adjustment Facility (ESF). In the case of the World Bank, all its activities in low income countries is expected to be based on the PRSP which in turn builds on its Comprehensive Development Framework (CDF).

⁵ See, for example, BAPPENAS (2002).

embedded in the notion of 'human dignity' and the fact that productive employment entails appropriate investments in education and training to enhance the employability of individuals. The DWA also explicitly highlights the need for social protection to deal with vulnerability (or the problem of 'security') and the need to use 'social dialogue' as way of providing voice and representation to ordinary citizens. In this sense, there is a good deal of complementarity between the MDGs and the DWA.

It is fair to suggest that neither the Decent Work Agenda nor the MDGs explicitly enunciates benchmarks to monitor progress towards goals and targets in a context of decentralised governance. In its 2003 Human Development Report (HDR), the UNDP calls for a compact on the MDGs and offers a pragmatic way of monitoring progress, but this is pitched at a national level.⁶ The 2003 HDR recognises that the focus on the national level is likely to be inappropriate for large, diverse countries where regional inequality may be quite significant. Yet, the notion of a compact is an appealing one and can be adapted to the needs of a decentralised policy. The UNDP calls for a 'compact among nations to end human poverty', while this TBN calls for a 'compact among the regional communities of Indonesia to end human poverty'.

As is well-known, the Indonesian government initiated a radical program of decentralisation in 1999 that consciously sought to transfer authority and resources to the districts *within* provinces rather than *to* provinces per se. The unwritten agenda was that the administratively much smaller districts lacked the political clout and allegiance to regional identity that could enable them to mutate into mini-states.

The Indonesian experience with decentralisation and its implications for dealing with the key challenge of poverty reduction in a context of equitable growth

The current institutional arrangements that govern centre-region relations – implemented since 2001 – bear the imprint of a legislative framework that was enunciated in mid-1999 under the transitional government of Habibie formed after the fall of Suharto. One law (no.25/1999) devolved administrative authority to the districts and cities and provided for the country's district chiefs and mayors to be elected by local parliaments. This

⁶ See UNDP (2003)

effectively ended the practice of the appointment of political leaders at the sub-national level by the central government in Jakarta.

Complementing the devolution of administrative authority is a fiscal decentralisation law (no. 25/1999) that determines centre-region fiscal relations under the guise of an 'Equalisation Fund'. This, in turn, has three components: (a) revenue sharing, (b) block grants and (c) special purpose grants. The revenue-sharing component of the Equalisation Fund is clearly intended to act as a means of pacifying the discontents of the resource-rich and better-endowed parts of the country, given that it is designed to 'reimburse' the producing regions a portion of the revenues generated from their terrain. The block grants, which is a combination of a fixed and a variable component (the latter reflecting such region-specific attributes as poverty rates, population, land size etc), are designed to allocate a certain quantum (25 per cent) of domestic revenues collected by the central government mainly to the districts in order to enable them to provide basic services, such as health and education, that were previously the responsibility of the centre. Finally, special grants are designed to look after the interests of particular regions with special characteristics (such as regions with below average fiscal capacity and regions hosting activities deemed to be of national significance) that cannot be covered under the rubric of the block grants.

When the decentralisation agenda was first announced in mid-1999 with an implementation target of 2001, concerns were expressed that it could be chaotic and counterproductive without appropriate modifications.⁷ Commentators felt that by circumventing provinces, the 1999 legislative framework would simply create a large number of compliant districts that would create a facade of decentralisation without genuine devolution of authority. Others argued that the rapid implementation date would lead to major disruptions in the delivery of public services, while the scale of fiscal flows that would be required between the centre and regions could threaten macroeconomic stability. Yet others noted that the Equalisation Fund

⁷ For a critical assessment of the decentralisation framework as it was originally conceived see, for example, Ahmed et al (1999), Bahl et al (2001), Islam (1999a, b) and Hill (2002).

would paradoxically widen spatial disparities because of their bias in favour of well-endowed parts of the country.

Fortunately, so far at least, some of the worst-case scenarios do not seem to have materialised.⁸ There has been a steady increase in budgetary resources devoted to regional expenditure between 2000 and 2002 without leading to major fiscal strains. The transfer of more than a million government employees and many thousands of public facilities from central to local levels has occurred without significant disruption to the delivery of public services. Opinion polls – for what they are worth – do not indicate a greater degree of dissatisfaction with the quality of public services, while some assessments indicate a greater degree of civic activism and public participation in local governance.

Despite a promising beginning that largely reflects pragmatic adjustments by government to immediate problems of transition,⁹ the Indonesian decentralisation agenda needs to meet a number of current and evolving challenges. The fiscal dependency of the many of the regions on the centre will probably remain as acute as ever. The proliferation of local levies suggests that the risk of significant restraints on domestic trade remains unresolved.¹⁰ The threat of local governments being 'captured' by local elites cannot be discounted, if international experience with decentralisation is any guide.¹¹ The current government – as well as future governments – have to resolve ideological differences among key stakeholders pertaining to the evolution of Indonesia in the post-crisis era. Should the political and administrative focus remain on districts – as is currently the case – or should it eventually treat provinces as key entities in a much more federalist structure that would in turn fundamentally mould the unitary nature of the Indonesian state?¹²

⁸ This assessment draws on Stalker (2003).

⁹ For example, the central government paid the wages of government employees for seven months even though they were transferred to local governments in cases where the latter were unable to meet such financial obligations. The central government also ensured that the fiscal position of local governments were protected to the point where they got as much as the pre-decentralisation budgetary allocations.

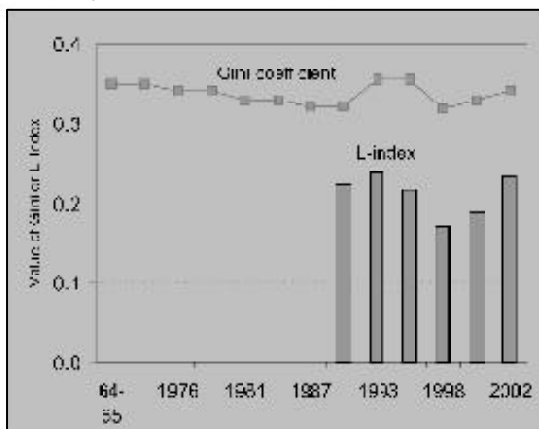
¹⁰ Restraints to domestic trade are examined in Ray and Goodpaster (2001).

¹¹ See, for example, Blair (1998).

¹² See Hull (1999).

It is by no means clear that the core issue of spatial disparities – and associated problems of regional, communal and ethnic tensions – have been satisfactorily tackled under the current decentralisation framework. The latter seems to be caught in a delicate balancing act between preserving the status quo and rewarding the better-endowed parts of the country. Despite attempts to pacify the discontent of resource-rich provinces through the Equalisation Fund, critics fear that it may be a case of ‘too little, too late’.¹³ At the same time, the initial concerns that the restructured centre-region fiscal flows may not adequately protect the interests of the poorer parts of the country have not turned out to be a false alarm. A preliminary assessment reveals that the Equalisation Fund as it has so far operated would exacerbate spatial inequality.¹⁴ Indeed, as Fig. 1 shows, when seen from the perspective of long-term trends (1964-2002), there is evidence of a discernible increase in inequality at the aggregate level between 1999 and 2002, although it is too early to tell whether this is the onset of a more persistent trend.

Figure 1
Inequality indices for household expenditure, 1964-2002



One has to recognise that decentralisation, as some observers have aptly noted, should not be characterised as a ‘plague or a panacea’.¹⁵ This eclectic conclusion is upheld by international evidence that shows that the impact of decentralisation on poverty and equity is rather mixed.¹⁶

Sources and notes: BPS, special tabulations as reported in Stalker (2003:6)

13 This prediction was made in media reports when the decentralisation laws were first announced. See Far Eastern Economic Review, May 13, 1999 (John McBeth, ‘Too Little, Too Late: Revenue Law May Not Appease Restive Provinces’)

14 Suharyo (2002).

15 Bird and Villancourt (1998:1).

16 See, for example, Crooke and Sverrisson (1999) and Manor (1999). See also Azfar (1999) and the warning by Prud’homme (1995) of ‘the dangers of decentralisation’.

Decentralisation cannot, on its own, compensate for the fundamental problem of slow growth that continues to characterise the post-crisis Indonesian economy. Aggregate growth depends largely on the overall policy and institutional environment of which decentralisation is one element and may not even be the most important one. In recent years, growth has been below 4 per cent vis-à-vis the 7 per cent average growth rate experienced during the Suharto era.¹⁷ While it is by no means necessary to replicate the high growth of the past, the current sluggish growth rate is below the threshold required to absorb new entrants to the labour force and well below the long-run growth potential of the Indonesian economy.¹⁸ As is well known, growth matters critically for poverty reduction. Recent estimates based on district-level data suggest that, *for a given distribution of income*, every one 1 per cent increase in growth leads to a fall in (income) poverty incidence by as much as 0.8 per cent.¹⁹

Given these concerns, where does one proceed from here? It seems that the issue of dealing with spatial disparities in a decentralised Indonesia has to be approached in a much broader context. In particular, it is necessary to link the issue of decentralisation and spatial inequality to the renewed commitment to poverty reduction that is increasingly evident at both the global and national level. It is possible to bring about such a linkage by enunciating a compact for MDGs in the context of a decentralised Indonesia.

An encouraging fact is that, despite the setback of the 1997 financial crisis, Indonesia appears to be on track to attain the core MDGs by 2015. This

*Using the MDGs to align the goal of alleviating spatial disparities with national poverty reduction: a proposed compact*²⁰

17 Recent growth estimates are available at BPS (www.bps.go.id).

18 An ILO study concludes that growth would need to be at least 5 per cent to maintain 'flow equilibrium' in the labour market (see ILO, 1999). The long-run growth potential is estimated to be 5.9 per cent (UNSFIR, 2002). In a study of the Indonesian economy that was published more than twenty years ago, Booth and McCawley (1981: 321) noted that: '(it) is difficult to envisage a viable development strategy for Indonesia that does not at least involve an annual per capita growth of income of between 4 and 6 per cent'.

19 Balisacan *et al* (2002: 8). The assumption of a given distribution of income is critical in such estimates. Rising inequality can more than offset a rising growth rate in reducing poverty.

20 The basic conceptual framework is laid out in Islam (1999b). It is revisited in BPS/BAPPENAS/UNDP (2001) – or the Indonesian National Human Development Report – as well as Islam (2002) and Stalker (2003).

presupposes a growth rate of around 6 per cent and the assumption that past trends in poverty reduction both along income and non-income dimensions will be maintained.²¹ However, attainments at the national level can be deceptive, particularly in such a large and diverse country as Indonesia. An important message of the 2001 National Human Development Report is that monitoring goals and targets with respect to poverty reduction at the national level cannot be isolated from the issue of spatial disparities. The point is that some provinces – and many districts within provinces – will not be able to achieve the MDGs (or similar targets) by 2015.

Table 1 sets the scene for a discussion of the implications that follow from the quest to creatively adapt the MDGs to reflect the regional diversity of Indonesia. It is clear that, if one concentrates on the national level, it is possible to make the optimistic inference that, with the exception of universal access to safe water and net enrolment in primary education, Indonesia will attain the 2015 targets. Yet, a number of provinces (ranging from 2 to 21) will not attain the targets.²² On average, about 32 per cent of the provinces are lagging behind – sometimes by very wide margins – in terms of at least one of the 2015 targets. To complicate matters even more, neither the number, nor the type, of provinces are identical in terms of their failure to attain the 2015 targets, given that provinces vary in terms of their past performance with respect to reductions in both income and non-income dimensions of poverty. This highlights the complex and diverse nature of deprivation at the regional level in Indonesia.

If, as argued, national attainment of the MDGs masks significant diversity at the province-level, it is likely that the degree of this diversity will be even

21 A required growth rate of 6 per cent to reduce poverty is noted in GOB/ADB (2001).

22 This example is similar in spirit to the global comparison of 'leaders' and 'laggards' in terms of attaining the MDGs by 2015 offered in UNDP (2002: 24-25). For example, in case of halving extreme poverty and hunger, 57 developing countries representing 49 per cent of the world's population, are on track in terms of reaching the goal. 24 countries representing 24 per cent of the world's population are far behind. Nothing can be said about 68 countries accounting for 8 per cent of the world's population because of lack of data. In the case of some of the MDGs, the scenarios are more depressing. For example, in the case of reducing infant mortality (by two-thirds), 66 countries amounting to 57 per cent of the world's population are lagging behind, often by wide margins.

Table 1
The regions of Indonesia and the 2015 targets
(using either 1990 or 1993 as base)

	50% reduction in income poverty	100% prime net enrolment by 2015	100% adult literacy rate	No gender disparities in primary and secondary end By 2015	2/3 reduction in infant mortality by 2015	4/5 reduction in maternal mortality by 2015	Universal access to safe drinking water By 2015	Universal access to shelter of minimum quality (housing without dirt floor) By 2015
Number of provinces (out of 26) that will fail to attain targets by 2015	15	15	3	4	0	6	21	2
Year by which Indonesia will attain targets	2008	2023	2006	2003	2003	2011	2030	2003

Source: Derived from National Human Development Report, BPS/BAPPENAS/UNDP (2001: 49-50)

greater at the district level. This is an important point given that the districts represent the locus of the current agenda of regional decentralisation in Indonesia. Indeed, preliminary estimates drawing on 2002 data suggest that only 21 per cent of Indonesia's districts will attain the target of halving extreme poverty by 2015 (such districts usually form the most populous municipalities in the country²³).

The finding that there is significant regional diversity with respect to the attainment of the 2015 targets should inspire policy-makers into taking appropriate action. An important proposal of the 2001 National Human Development Report is that the MDGs may well serve as a platform for enunciating a compact on regional decentralisation.²⁴

23 Preliminary estimates kindly supplied to the author by Zulfan Tajoeddin (UNSFIR-UNDP, Jakarta, Indonesia). \

24 The National Human Development Report did not specifically mention the MDGs as the draft of the report was finalised prior to the promulgation of the MDGs. Nevertheless, the spirit and intent was closely aligned with the MDGs, given the emphasis of the report on universal access to basic services.

This approach reinterprets the MDGs as a 'right to development' initiative that national authorities should undertake.²⁵ In other words, the philosophical premise of decentralisation ought to be the notion that all Indonesians, as Indonesians, are entitled to minimum economic and social standards that are as important as core political rights and civil liberties. One way of prescribing the minimum economic and social standards is to relate them to the MDGs. Thus, one could articulate a strategic vision of poverty reduction where the central government, in partnership with its regional counterparts, reformulates the MDGs so that the attainment of the 2015 targets and goals are set at the district-level. Such a reformulation should clarify that the MDGs are minimum standards that the regional communities of Indonesia are entitled to, while recognising that dynamic and more entrepreneurial regions can, and will, move ahead and above those standards.

An advantage of the approach advocated here is that it creates the real, rather than imaginary, prospect of the reduction of spatial disparities (within a given time-frame) vis-à-vis a national standard derived from norms endorsed by a global consensus. This reinforces the complementarity between the amelioration of spatial disparities and alleviation of poverty and seems to be a more appealing, and pragmatic, policy goal relative to vague statements about reducing income gaps between rich and poor regions. The approach advocated here – ensuring prescribed national standards in terms of human development indicators derived from the MDGs – steers clear of contentious notions of pitting poor against rich communities within nation-states.

10 *Challenges of
developing a
compact on MDGs
in a decentralised
Indonesia*

The challenge for the government is to take the necessary steps to translate the proposed strategic vision on amelioration of spatial disparities and poverty reduction to a politically and administratively feasible, as well as fiscally sustainable, set of policies and programmes. In an authoritarian system of the past, a 'command-and-control' approach to the implementation of the MDGs would have been the preferred method. In a

25 Stalker and Mishra (2003) forcefully argue for the 'right to development' in the case of Indonesia.

nascent democracy a more creative, and more challenging, approach is required. This pertains to the role that the central government, in partnership with their regional counterparts, can play in inculcating a shared vision on national poverty reduction and mitigation of spatial inequality where the proposed compact becomes the key driver. The articulation of the shared vision should be mediated through a series of public deliberations and consultations with multiple stakeholders – trade unions, employer’s associations, other civil society actors and development partners - that are democratic in spirit and substance and in turn reinforce democratic norms and values. This principle is also fully compatible the DWA’s emphasis on the principle of social dialogue to offer voice and representation to ordinary citizens.

While the process of public deliberations and consultations in a democracy are crucial in building broad-based support, such support can easily dwindle if some pertinent issues are not resolved. Is the compact compatible with existing and emerging institutional arrangements, with the capacity to translate it into concrete programmes by an agreed time-frame (such as 2015 as proposed in the MDGs)? Does a credible poverty monitoring framework exist that can inform public debates, guide the allocation of budgetary resources and evaluate performance with respect to goals and targets? Are the goals and targets fiscally sustainable?

A national body – such as the recently established National Committee on Poverty Reduction can provide a much-needed focal point for the government in its renewed quest to deal with the issue of both spatial inequality and poverty in post-crisis Indonesia. The Committee could become the custodian of the proposed compact on MDGs by coordinating the necessary analytical and technical work, building broad-based support for a national strategy of action and by drawing on a monitoring and evaluation framework that would inform public debates, guide the allocation of budgetary resources and evaluate performance with respect to goals and targets.

Whether the proposed compact on MDGs is fiscally sustainable is less clear. The persistence of

sluggish growth can itself act as a brake on fiscal buoyancy because of the well-known evidence that budgetary revenues in developing countries are quite sensitive to changes in the growth rate.²⁶ Hence, the return of reasonably rapid growth in Indonesia is important for both the fiscal health of the state and for poverty reduction.

There is also the issue of development assistance to augment domestic resources. The global community has agreed that unless there is doubling of development assistance, the MDGs cannot be met by 2015 for all developing countries.²⁷ Translating this idea to the case of Indonesia, one could ask: what additional resources – both from internal resources and external agencies – would be required for the MDGs to be implemented by 2015 for all the regional communities within the country, after allowing for a reduction in the static inefficiencies that currently afflict the budgetary framework? Are they compatible with the current task of fiscal consolidation induced by the 1997 crisis? These are key issues that would need to be resolved as part of the enunciation and implementation of the proposed compact on MDGs for a decentralised and democratic Indonesia.

**Conclusions and
policy
recommendations:
a proposed
matrix**

The TBN has suggested how the goal of poverty reduction in Indonesia can be derived from the MDGs and the spirit and principles of the Decent Work Agenda within a context of decentralised governance. In sum, the reduction of income and non-income dimensions of poverty within a set time-frame (2015) in Indonesia needs to take account of the regional diversity of the country as well as its emerging democratic traditions. As the proposed matrix shows (table 2), the aim is to translate goals and targets on poverty reduction into a credible plan of action. This in turn requires the synergistic interaction among multiple stakeholders: the Indonesian government (both national and local), trade unions, employers associations and other civil society actors as well as development partners.

26 Estimates based on Latin American data show that a 1 per cent decline in the growth rate can lead to a 5.8 per cent fall in fiscal revenues (Lustig, 2000).

27 UNDP (2002:30). The estimates suggest that official development assistance (ODA) will have to range between US\$96 billion and US\$ 116 billion vis-à-vis the current total of US\$ 40-56 billion.

Table 2
Developing a framework for poverty reduction in a decentralised Indonesia:
a proposed matrix

Objectives	Activities	Outputs	Responsibility (agencies and stakeholders)
To reduce, by 2015, both income and non-income dimensions of poverty according to goals and targets set at district level that are derived from MDGs and are consistent with the spirit and principles of Decent Work Agenda	<p>Collect relevant data and monitor progress using 2015 as target date and either 1990 or 1993 as base year using district level disaggregation</p> <p>Draw up diagnostic framework to assess political and administrative feasibility and fiscal sustainability of the MDG-compatible goals and targets</p> <p>Assess need for external resources to augment domestic resources in financing the proposed compact on MDGs</p> <p>Set up a process of public deliberations consistent with the notion of a social dialogue to elucidate, adapt and implement the proposed compact on MDGs</p>	<p>Installation of an appropriately disaggregated poverty monitoring and evaluation framework based on the proposed compact on MDGs</p> <p>Administrative, political and financing scenarios as part of poverty monitoring and evaluation framework enunciated and disseminated to relevant stakeholders</p> <p>Public deliberations culminating in national summit on MDGs leading to a plan of action on poverty reduction at district level by 2004</p>	<p>National government</p> <p>Local government</p> <p>Trade unions (national/ local)</p> <p>Employers associations (national/ local)</p> <p>Other civil society associations (national/ local)</p> <p>Development partners</p>

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