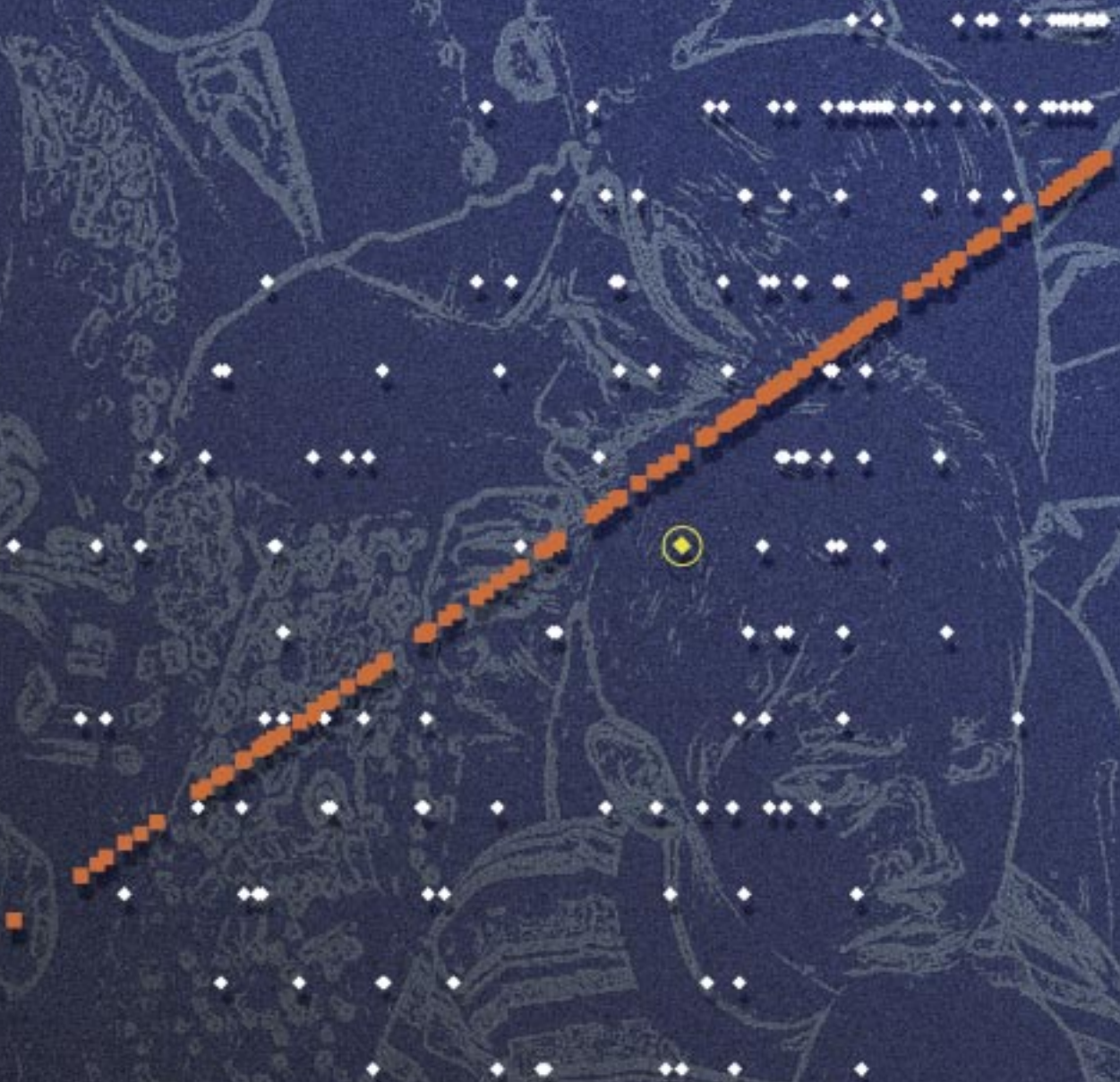


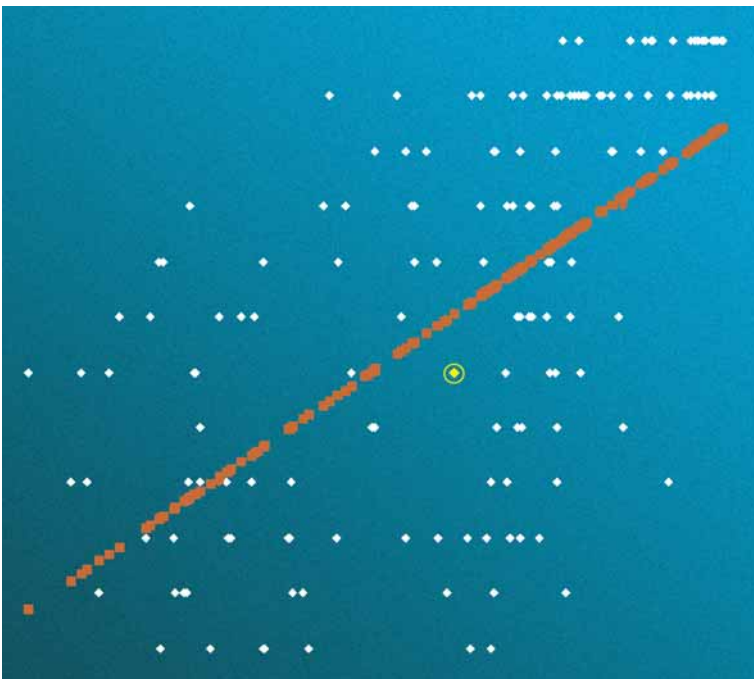


INDONESIA
HUMAN DEVELOPMENT
REPORT 2001

Towards a new consensus

Democracy and human development in Indonesia





The diagram on the cover page depicts the correlation between democracy and human development. The white dots locate different countries according to their attainments on the human development and democracy indices. Indonesia's position is indicated by the yellow circled dot.

INDONESIA
HUMAN DEVELOPMENT
REPORT 2001

**Towards
a new consensus**

Democracy and human development in Indonesia

BPS-Statistics Indonesia
BAPPENAS
UNDP

BPS



**Indonesia Human Development Report 2001
Towards a New Consensus: Democracy and Human Development in Indonesia**

ISBN: 979-598-865-4

Publication Number: 04400.0115

BPS Catalogue: 1156

Size: 210 x 297 mm

No. of Pages: 156

Manuscript: BPS-Statistics Indonesia, Bappenas, UNDP

Cover design: Bharata Kusuma

Published Jointly by BPS-Statistics Indonesia, Bappenas and UNDP Indonesia

Foreword

This is the first National Human Development Report for Indonesia. It has been preceded by National Human Development Index Reports in 1996, 1997 and 1999. As before, this has been a collaborative effort between the National Development Planning Agency (BAPPENAS), Statistics Indonesia (BPS) and the United Nations Development Programme (UNDP).

The National Human Development Report is being published at an important juncture in Indonesia's history, when the country is consolidating its nascent democracy while simultaneously striving to overcome the economic and financial crisis that overtook much of East Asia in 1997. The timing of this Report has dictated its concerns and contents. The primary focus is on the interrelationships between human development, democracy and economic progress in Indonesia. This Report is an ambitious and innovative undertaking compared to many other national human development reports, which focus on a single theme.

This Report poses a question that is very much on the agenda of policy-makers in Indonesia: How can Indonesia achieve steady progress in all indicators of human development as it restructures its economy, refashions its governance institutions, and devolves decision-making to regions and localities?

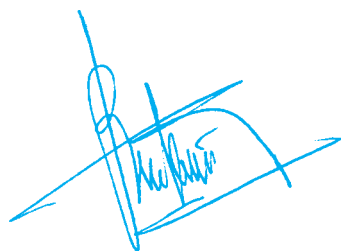
The answer, this Report argues, lies in building a new social consensus for Indonesia - a consensus that renews a shared commitment to human development, establishing that all Indonesians - as citizens of Indonesia - are entitled to nationally mandated standards of human development. Despite the odds confronting Indonesia, which this Report spells out in some detail, it is optimistic that current challenges can be surmounted.

The Report is enriched by a wealth of new statistical tables. These include the Human Development Index, along with its complementary measures: the Human Poverty Index, the Gender-related Development Index, and the Gender Empowerment Measure. These data are now available not just at the national but also at the provincial and district levels, allowing key human development issues and priorities to be publicized and debated throughout the country.

These detailed statistics will be invaluable as Indonesia decentralizes much of the responsibility for development planning and policy to hundreds of individual districts. As with all such composite measures, however, the various human development indices need to be applied with care. Although they offer broad signposts toward human development needs and priorities, they must also be supplemented with all other quantitative and qualitative information that local authorities should have at their disposal.

This Report owes much to the many people and institutions that have taken part in numerous consultations contributing to its contents. Not all will agree with all of the argument or conclusions presented here. But we hope that readers will find the contents of this Report a compelling contribution to the policy debate on human development in Indonesia.

Jakarta, 17 October 2001



Kwik Kian Gie
State Minister for Development Planning/
Chairman of BAPPENAS



Soedarti Surbakti
Chairman of
BPS-Statistics Indonesia



Bo Asplund
Resident Representative
UNDP Indonesia

The analysis and policy recommendations of this Report do not necessarily reflect the views of BAPPENAS, BPS-Statistics Indonesia or UNDP. The Report was commissioned by UNDP under project INS/99/002 commonly known as UNSFIR (the United Nations Support Facility for Indonesia Recovery). The principal partner and executing agency of this project within the Government of Indonesia is Badan Perencanaan Pembangunan Nasional (BAPPENAS). The present report is the outcome of a series of open consultations around an initial draft prepared by an UNSFIR team led by Satish C. Mishra. The statistical tables of the indicators and indices presented in this Report were computed by a team of BPS-Statistics Indonesia.

This Report has been prepared jointly by
a UNDP-Bappenas Project commonly known as UNSFIR and BPS-Statistics Indonesia

Team Leader:
Satish C. Mishra.

Drafting Team:
Anis Chowdhury, Iyanatul Islam, Widjajanti I. Suharyo,
Moh. Zulfan Tadjoeuddin, Puguh B. Irawan.

Statistical Team:
Wynandin Imawan, Arizal Ahnaf, Uzair Suhaimi, Tono Iriantono, Tolkhah Mansyur, Nurma Midayanti,
Zuraini, Ahmad Avenzora, Yulin Haniati, Aldian Taloputra.

Administrative and Secretarial Support:
Brasukra G. Sudjana, Diana Venturini, Syane Luntungan, Rosana Erinaldi, Cut Dian Rahmi.

Editor:
Peter Stalker.

Desktop Composition and Production Management:
Bharata Kusuma.

Acknowledgements

This Report has evolved as a collaborative process that has benefited from the skill, energy and commitment of many people, including those directly involved in its production and many others who have generously offered their time to comment and contribute at various stages.

The Report benefited greatly from the general support of BAPPENAS in its preparation – reflecting its keenness to adopt a wider consultative process. BAPPENAS also facilitated a major consultation meeting to discuss the main ideas in the Report and helped to put this report in the broader policy setting. The team also expresses its gratitude to the BAPPENAS staff who offered ideas and inputs throughout the drafting process, in particular to Mr. Djunaedi Hadisumarto, Mr. Soekarno Wirokartono, Mrs. Leila Ratna Komala, Mr. Dedi M. Masykur, Ms. Nina Sardjunani, Mr. Arum Atmawikarta, Mr. Daroedono, Mr. Bima Wibisana, Mr. Bambang Prijambodo, Mr. Lukita Dinarsyah Tuwo, Mr. Bambang Widiyanto, Mr. Joyo Winoto, Mr. Max H. Pohan, Mr. Ikhwanuddin Mawardi, Ms. Yohanawati, Mr. Guntur, Mr. Sanjoyo and their colleagues in BAPPENAS.

The team is especially grateful for the close collaboration with BPS-Statistics Indonesia. BPS shouldered the responsibility of preparing the human development indicators and indices presented in this Report, and also organized workshops on data refinement and verification. Thanks in particular to Mrs. Soedarti Surbakti, Mr. Kusmadi Saleh, Mr. Wynandin Imawan, Mr. Toto E. Sastrasuanda, Mr. Uzair Suhaimi, Mr. Tolkhah Mansyur, Ms. Nurma Midayanti along with other staff at both the central and regional offices who have contributed to the refinement of the data.

Many individuals and institutions have actively participated in the discussions or consultations and shared their views and comments. Lack of space precludes naming all of them here, but we would like to recognize especially the contributions of Mr. Fachry Ali (LSPEU Indonesia), Mr. H.S. Dillon (Poverty Commission), Mr. Iqbal Djajadi (Sociology Laboratory, University of Indonesia), Mrs. Mayling Oei Gardiner (UI), Mr. Peter

Gardiner (Insan Hitawasana Sejahtera), Mr. Anton Gunawan (Citibank), Mr. Andi Hakim Nasution (STT Telkom), Mr. Halide (Hasanudin University), Mr. Jim Hope (USAID), Mr. Terry Hull (ANU), Ms. Jacqueline Pomeroy (World Bank), Ms. Haning Romdiati (PPT-LIPI), Mr. Satoto (UNDIP), Mr. Firdaus A. Siddik (Rothschild Indonesia), Mr. Hananto Sigit (BPS), Mr. Soekandi (PPK-UGM), Ms. Nunik Sriyuningsih (PSW Diponegoro University), Ms. Emmy Susanti (PSW Airlangga University), Mr. Bambang Heru Susanto (BPS East Java), Ms. Mely G. Tan (Unika Atmajaya), Mr. Soni Sumarsono and Ms. Nining (Ministry of Home Affairs) and Ms. Rahmi Untoro (Ministry of Health). The team must also express its special thanks to the discussants in the BAPPENAS consultation: Mr. Ichlasul Amal (UGM), Mr. Sugeng Bahagijo (INFID), Mr. Fasli Djalal (Ministry of Education), Mr. Tommy Legowo (CSIS), and Mr. Soekirman (IPB).

The team also wishes to thank many individuals from the various UN agencies, who commented on the draft, including: Mr. Iftikar Ahmed (ILO), Mr. Stephen C. Hill (UNESCO), Mr. Rolf C. Carriere and Mr. Stephen J. Woodhouse (UNICEF), Mr. Shafiq Dhanani and Mr. Asif Hasnain (UNIDO). From the Human Development Report Office in New York, Mr. Omar Noman and Mr. Richard Ponzio offered helpful comments on the drafts.

From the inception of the Report many people in UNDP-Indonesia have offered suggestions and support. We would like to mention in particular Mr. Andre Klap, Ms. Bona Siahaan, Mr. Kevin Evans, Mr. Carl Hessic, Ms. Mette Jensen and Ms. Barbara Brouwer. We owe special thanks to Mr R. Sudarshan for his consistent interest in the Report and his spirit of intellectual engagement. This has helped us refine many initial hunches and ideas. Last but not least, the team is especially grateful to Mr. Ravi Rajan, former UNDP Resident Representative, who initiated the preparation of the report as well as provided useful comments on an early draft. We thank Mr. Bo Asplund, the current UNDP Resident Representative, for his continuing interest and encouragement.

Abbreviations

BAPPENAS	: <i>Badan Perencanaan Pembangunan Nasional</i> - National Planning Board
Bimas	: <i>Bimbingan Masal</i> - Mass (Agriculture) Extension Programme
BMI	: Body Mass Index
BPS	: <i>Badan Pusat Statistik</i> - Statistics Indonesia
GEM	: Gender Empowerment Measure
GNP	: Gross National Product
GDP	: Gross Domestic Product
GDI	: Gender-related Development Index
GRDP	: Gross Regional Domestic Product
HDI	: Human Development Index
HDR	: Human Development Report
HPI	: Human Poverty Index
Inmas	: <i>Intensifikasi Masal</i> - Mass (Agriculture) Intensification Programme
Inpres	: <i>Instruksi Presiden</i> - Presidential Instruction
NGO	: Non-Government Organization
PKK	: <i>Pendidikan Kesejahteraan Keluarga</i> - Family Welfare Movement
Puskesmas	: <i>Pusat Kesehatan Masyarakat</i> - Health Centre
Sakernas	: <i>Survei Tenaga Kerja Nasional</i> - National Labour Force Survey
Susenas	: <i>Survei Sosial Ekonomi Nasional</i> - National Socio-Economic Survey
SSN	: Social Safety Net
UNDP	: United Nations Development Programme
UNICEF	: United Nations Children's Fund

Contents

EXECUTIVE SUMMARY

Towards a new consensus 1

CHAPTER 1

Human Development Challenges in a Democratic, Decentralized Indonesia 5

Achievements in human development 6

Poverty 7

Inequality 8

Gender disparity 8

Inter-provincial disparity 9

Impact of the crisis 10

Challenges of human development 11

Annex 1.1: Trends in human development at provincial level: 1990-1999 14

Annex 1.2: Monitoring human development and human poverty indicators, 1990-1999 15

CHAPTER 2

Consolidating Indonesia's Democracy 16

Trading freedom for progress 17

The road to democracy 17

The democratic tide 19

Democracy under strain 20

Weak political parties 20

The escalation of social conflict 21

The demise of social consensus 22

Is democracy a luxury? 22

The democratic dividend 24

Annex 2.1: Human development, democracy and economic growth 25

CHAPTER 3

Understanding Indonesia's transformation 27

Decades of transformation 28

Employment 29

Income inequality	29
Education	29
Health care	30
Food Policy	31
Protection of the development budget	32
Income poverty	32
The disappearing miracle	32
<i>A changing production environment</i>	32
<i>A new macroeconomic environment</i>	33

CHAPTER 4

Rebuilding the Indonesian miracle	35
A collapsing economy	35
Shrinking employment and incomes	36
Income distribution maintained	37
A dip in human development	38
Keeping children at school	38
Cuts in the health budget	39
Stagnation in human poverty	39
Reworking the miracle	39
Coping with globalization	40
Investing in human development	41

CHAPTER 5

Putting people first: A compact for human development	43
Responsibility passes to districts	44
A compact on human development	46
A mission statement	47
Human development standards	47
<i>The minimalist approach</i>	47
<i>The universalist approach</i>	48
<i>Can the regions catch up</i>	50
Public deliberation	51
A new consensus	51

Endnotes	52
-----------------	----

Bibliography	55
---------------------	----

BOXES

1.1. What human rights add to human development	7
1.2. Human Development Index	10
1.3. Women in Indonesia	13

1.4.	Impact of the Crisis on Females	13
2.1.	Democratic transitions in Southeast Asia	20
2.2.	Principles of good governance in Indonesia	23
4.1.	Indonesia's financial crisis in historical perspective	36
5.1.	Decentralization	44
5.2.	Outcomes of decentralization around the world	45
5.3.	Applying the Human Development Index in Indonesia	46

TABLES

1.1.	Population below selected poverty lines, 1996-99	11
2.1.	Elections in Indonesian History	18
2.2.	Social violence, 1945-1999	21
3.1.	Indonesia: Gini ratio of household expenditure across provinces, 1976 - 1999	30
4.1.	L-index of per-capita household expenditure, 1990-1999	37
4.2.	Poverty severity index, 1996-1999	37
4.3.	Number of teachers (thousands)	38
4.4.	School enrolment and adult literacy, 1993-1998	38
4.5.	Children's use of health facilities	39
4.6.	Public expenditure on health and education	41
5.1.	Years required for provinces to reach 1999 national average based on past trends	48
5.2.	Time required from 1993 to reach selected international development goals, based on 1993-1999 trends	49
5.3.	Time required in years to reach selected universal targets based on 1990-1999 trends	50

FIGURES

1.1.	Human Development Index (HDI), 1975-1999	6
1.2.	Indonesia: Human Development Indicators	6
1.3.	Trend in Poverty, 1970-1999	8
1.4.	Trends in Interpersonal Inequality of Expenditure, 1975-1999	8
1.5a.	Percentage of Illiteracy by Gender (Total)	9
1.5b.	Percentage of Illiteracy by Gender (Age 10-14)	9
1.6.	Relationship between Rank of HDI and GDI, 1990 and 1996	11
1.7.	Selected Social Indicators in 1995	11
1.8.	Human Development Index of selected ASEAN countries	12
1.9.	Public Expenditure on Health, 1996-98 (as % of GDP)	12
1.10.	Public Expenditure on Education, 1996-98 (as % of GNP)	12
2.1.	Urbanization and Literacy, 1930 - 2000	17
2.2.	Global picture of democratic governments elected by universal suffrage	19
2.3.	Democracy and income	22
2.4.	Democracy and the human development index	22
3.1.	Long-term real GDP growth, 1951-2000	28
3.2.	Employment by sector	29
3.3.	Education and health expenditure, 1969 - 1998	30
3.4.	Primary enrolment in Southeast Asia, 1965-1990	30

3.5.	Infant mortality and life expectancy	31
3.6.	Maternal mortality, 1988-1993	31
3.7.	Real and nominal wages in manufacturing, 1986-1989	32
4.1.	Per capita GDP growth scenarios	36
4.2.	Inter-districts disparities, 1998 Lorenz curves	37
4.3.	Gini coefficients above and below the poverty line, 1996-1999	38
4.4.	Access to safe sanitation	41
5.1.	Literacy rate by province, 1999	47

HUMAN DEVELOPMENT INDICATORS AND INDICES

	The concept and measurement of human development	64
	What do the human development indices reveal?	71
1.	<i>Human Development Index (HDI) by Province, 1996 and 1999</i>	78
2.	<i>Gender-related Development Index (GDI) by Province, 1996</i>	79
3.	<i>Gender-related Development Index (GDI) by Province, 1999</i>	80
4.	<i>Gender Empowerment Measure (GEM) by Province, 1996 and 1999</i>	81
5.	<i>Human Poverty Index (HPI) by Province, 1995 and 1998</i>	82
6.	<i>Human Development Index (HDI) by District, 1996 and 1999</i>	83
7.	<i>Gender-related Development Index (GDI) by District, 1999</i>	90
8.	<i>Gender Empowerment Measure (GEM) by District, 1999</i>	97
9.	<i>Human Poverty Index (HPI) by District, 1998</i>	104
10.	<i>Health Condition by District, 1999</i>	111
11.	<i>School Attendance by District, 1999</i>	118
12.	<i>Housing Condition by District, 1999</i>	125
13.	<i>Economic Performance by District, 1995-1998</i>	132
14.	<i>Labour Force and Poverty Conditions by District, 1999</i>	139
	Technical notes	147
	Definitions of statistical terms	154

Towards a new consensus

This report puts people first. It argues that progress in human development is not just essential in itself but also lays the foundations for a stable and unified democracy, and promotes the transition towards a rules-based market economy that can permit sustained economic growth. In a country as large and diverse as Indonesia, however, this can only be achieved through extensive national and regional consultations – leading to a new consensus and a shared commitment to human development.

Until the onset of the financial crisis Indonesia had taken enormous strides in many aspects of human development. From 1975 to the second half of the 1990s the country's human development index (HDI) rose steadily, until the sudden dip in 1998. But the HDI tells only a part of the story. If it also reflected the extent of human rights and freedoms, the trajectory would look much less impressive, because for three decades the New Order regime had forced Indonesians to trade political freedom for economic progress.

The purpose of this National Human Development Report is to assess Indonesia's democratic and economic transitions – to demonstrate why the country is unlikely to make enduring economic progress, or consolidate its democracy, unless it can make a firm commitment to human development. A consensus among the regions on citizens' rights to human development can also act as a centrifugal force for national unity.

Achievements and challenges

Over the past three decades Indonesia has had laudable achievements in human development. These range from reductions in poverty and inequality to increases in life expectancy and literacy. Infant mortality, for example, declined substantially, following improvements in access to health care and sanitation. At the same time there have been considerable improvements in the status of women: male-female gaps have been narrowing at all levels of education, and women's earnings have been increasing as a proportion of earned family income. Meanwhile disparities between the provinces have also been shrinking.

The sudden and unexpected crisis of the late 1990s dealt a serious blow to Indonesia's journey to progress. For most people the immediate and sharpest impact of the crisis has been through inflation. Between 1997 and 1998 inflation surged from 6% to 78%, while real wages fell by around one-third. As a result there was a sharp increase in poverty. Between 1996 and 1999 the proportion of people living below the poverty line jumped from 18% to 24%. At the same time, poverty became more severe as the incomes of the poor as a whole fell further below the poverty line.

The crisis seems to have affected women and children more adversely. For many families where both men and women were working before the crisis, women were forced to work longer hours as men lost their jobs. Declines in income also reduced families' access to health care and other basic services. There is some evidence of increased domestic violence due to economic stress following the crisis.

The overall impact of the crisis was reflected in the deterioration of Indonesia's human development index (HDI) – largely the result of the drop in real incomes. Meanwhile, although the Human Poverty Index (HPI) remained stable, there were reductions in access to health services.

In the aftermath of the economic crisis, Indonesia faces serious challenges of human development. The long-term outlook for public services is poor. Because of the decision to bail out the banks the government is now deep in debt. Effectively the population as a whole has assumed a massive burden that will require them to pay higher taxes and have less effective public services.

In the short-term, the tight-budgetary situation poses a threat to social spending. Any cut in social spending will have serious long-term implications, especially since Indonesia has historically lagged behind her neighbours, and a large number of people remain vulnerable to poverty.

Consolidation of Indonesia's democracy

Indonesia has already experienced several forms of government, and different shades of democracy – the most recent change being the collapse of the autocratic New Order regime and the successful elections

of June 1999. Is this just another swing of the pendulum, to be followed soon by another swing backwards? Certainly there is no cause for complacency: The twentieth century saw dozens of democratic openings that were extinguished by coups and military takeovers. But the tide of history is in the other direction. Now that Indonesia has joined the democratic fold, the proportion of world population enjoying democratic government has risen to 63%.

However, Indonesian democracy still remains fragile. The political parties are weak and inexperienced. Several provinces are being torn apart by social conflict. Added to this is the country's ambitious schedule for decentralization that will make government an even more complex affair.

The political parties are weak because they are based not on distinctive principles or policies but on sectional interests and personalities. Different governing coalitions seem therefore to be alternative permutations of wise individuals. Party formation is also weak in the country at large, and there are few channels through which people can bring pressure to bear on the institutions of the state, especially the state bureaucracy.

In these circumstances, people vent their frustrations in other ways. In such a large and diverse country there is always the danger that conflicts over employment, or land, or other natural resources will cleave along ethnic or religious lines. When the New Order government disappeared, a new political landscape opened up, allowing many old disputes to resurface. This is having a deeply corrosive effect – undermining confidence in political institutions and damaging the prospects for continuing Indonesia's economic reforms.

It might be argued that the most practical option is for Indonesia to unite once more behind a single charismatic figure. But this could prove even more dangerous. Rather than ensuring national integrity a military-backed autocrat is more likely to provoke the kind of determined resistance that will sever national ties across the archipelago forever. And the economic implications are equally chilling. The international companies on which Indonesia's economy depends are now under intense consumer pressure on labour rights. If Indonesia's international human rights ratings take a dive, so too will its economy. Nowadays it is human development grounded in democracy that pays economic dividends.

Understanding Indonesia's transformation

Until the outbreak of the economic crisis in 1997, Indonesia was one of East Asia's miracle economies, combining high growth with an equitable distribution of income – first with the green revolution in rice in the

mid-1970s, then with a rapid expansion of labour-intensive industries in the mid-1980s, and later with the establishment of a manufacturing export base in the 1990s.

At the outset Indonesia had the advantage of a relatively equitable distribution of income. In the rural areas this was because land ownership had traditionally been fragmented. But urban areas were not much wealthier. Although nominal incomes were higher these were offset by high housing costs.

Moreover this income distribution was largely maintained. Even in the late 1980s when growth averaged over 8% annually, there was no serious increase in inequality. Meanwhile, standards of education and health had been rising, thanks in part to the government's efforts to protect the development budget even when its income fluctuated along with the price of oil. The government's food policy also helped reduce poverty and inequality – on the one hand establishing a floor price to support farmers, on the other hand stabilizing prices at a reasonable level for urban consumers. This combination of rapid economic growth and equitable distribution of income resulted in a steep reduction in income poverty – from over 40% in 1976 to 11% in 1996.

By the second half of the 1990s, however, there were already signs that the golden age of Indonesian economic growth was coming to a close. There were two main sets of issues: the first was the changing production environment; the second the changing macroeconomic environment.

A changing production environment

Indonesia's former structure of production could no longer be relied upon to produce steady growth. Neither agriculture nor industry could continue in the same fashion.

- *Stagnating agriculture* – One of the features of the earlier period was a steady increase in agricultural productivity. But land is now scarcer, and it will be difficult to drive rice yields up much further.
- *More capital-intensive production* – Many industries, including textiles, wood products and food are becoming steadily more capital intensive.
- *Slower export growth* – By the end of the 1980s the trading environment was becoming tougher, partly as a result of recessions in the importing countries, as well as fiercer competition from other low-wage economies.
- *Growth of the formal labour market* – The increase in formal employment has raised new issues of social protection. Without unemployment insurance, people who lose their jobs can also see their skills erode if they have to resort to work in the informal sector or agriculture.

A new macroeconomic environment

At the same time Indonesia was increasingly exposed to the demands and moods of the international money markets.

- *Savings and investment* – In the 1990s Indonesia's savings-to-GDP ratio reached an upper ceiling of around 29%. Further investment will probably have to come from foreign portfolio investment – with the attendant risks of volatility.
- *Exchange rate management* – The more Indonesia depends on foreign capital the more its exchange rate and its growth rates will fluctuate.
- *Monetary and fiscal policy* – Efforts to control inflation have concentrated on constraining public expenditure – with serious implications for human development. It might be better to accept a higher level of inflation which might hurt the poor less than cuts in public services.

Rebuilding the Indonesian miracle

If Indonesia is to rekindle both economic and human development, it will have to build a different economic structure. Thus far the government has resisted the temptation to try to insulate itself from global pressures and has shown a resolute determination to maintain open regimes. This is the only feasible option. If Indonesia is to progress economically it will have to engage in a third round of industrial diversification, stepping up the technology ladder to produce goods that embody higher levels of productivity. And most of this innovation will have to come from the stimulus of foreign investment and technology transfer.

With an open and more capital-intensive economy, however, Indonesia is almost certainly going to see a further increase in inequality. And if the current pattern of distribution of industrial activity remains the same – with most concentrated in Java – then there are likely to be greater disparities between different provinces and districts.

Rekindling Indonesia's economic miracle will mean achieving higher levels of productivity but also doing so within the kind of stable social and political environment on which productive enterprises rely. Fortunately both objectives can be achieved through the same basic policy – substantial and sustained investment in human development. Without a more highly qualified workforce, Indonesia will be unable to benefit even from the lower-level spin-off effects of higher technology production. And without delivering better standards of health and other social services, social unrest is likely to persist.

This will require much greater investment in education. Indonesia is spending only around 1.4% of GNP on

education, compared with a global average of 4.5%. Health should also be a priority. This is not just a question of providing better health services. Even some of the more basic needs like sanitation are not being met – compromising not just the health but also the nutritional standards of Indonesia's children. Another emerging issue is social protection, and in particular some form of unemployment insurance.

Indonesia now has to pursue human development, while deep in debt, restructuring its economy, and coping with a more competitive and unstable economic environment. The key, however, is to recognize how all these issues connect – the social, the economic and the political – and to bring this recognition to the forefront of public consciousness.

Putting people first: A compact for regional decentralization

Indonesia urgently needs to build a new social consensus. Already there has been a fundamental shift in values and perceptions – and an explosion in expectations: millions of people sense the possibility for a different kind of future both for themselves and for Indonesia in the world. In short they have become more aware of their rights – not just political rights but 'economic' rights – to food, say, or to health, or to work. When people emphasize their regional or ethnic identity they are not just demanding greater autonomy or political freedom, they are also saying that some of their most basic social and economic rights have yet to be fulfilled.

How can the Government of Indonesia possibly afford to fulfil such rights? Similar doubts have arisen in poor countries all over the world, where the promotion of economic rights has foundered on the hard question of who has a duty to fulfil them. But all rights do not have to be paired with corresponding duties. A better approach is to see the assertion of rights as the first step towards fulfilment and of building acceptance and support.

In future, more of these rights are going to have to be fulfilled at the district level. Indonesia has embarked on a radical programme of decentralization that has raised a host of difficult questions – particularly about the fiscal relationship between the centre and the regions – as well as the prospect of widening gaps if the better endowed districts can pull further ahead of the rest of the country.

How can Indonesia ensure that decentralization does indeed cement national cohesion and deepen national commitment to human development? One option is to establish a new social compact: an agreement that all Indonesians – as Indonesians – are entitled to nationally mandated standards of human development. With these

in place, regional cultural and ethnic diversity are not divisive elements but rather the building blocks of a strong and coherent nation.

Such a compact should be based on a clear mission statement that establishes the primacy of human development, while highlighting the importance of a productive partnership between central and regional governments.

The compact must also be based on a set of standards to which all districts should aspire. The best approach would be to adopt the international standards and norms that have been established as a result of a series of United Nations conferences held during the 1990s – on poverty, for example, education, gender disparities and health.

Indonesia has already incorporated many of these into its national plan documents. Now these goals could be regionalized and merged with other important universal goals – to achieve 100% literacy, for example, and 100% access to safe water. Another possibility is to include Indonesia's stated intention to have all children complete nine years of basic education.

Extrapolating from recent progress suggests that Indonesia as a whole could reach these targets within the

international target date of 2015. But when broken down by region the picture is less optimistic: in the case of poverty, for example, 18 provinces will miss the 2015 target date. This underlines the importance of drawing up a human development compact. If these are basic rights then they must be achieved by all Indonesians.

Democratic values and norms can only emerge from deep and extensive consultation, especially when vital decisions are scattered across more than three hundred districts of a vast archipelago. One way to trigger such deliberations would be to hold a 'National Social Summit' – to agree on national standards, the entitlements for each region, and the necessary plan of action.

In sum, Indonesia faces enormous and diverse challenges – consolidating democracy, addressing regional conflicts, and regenerating the economy. But a common thread runs through them all. They will only be achieved if they are based on common values and a new consensus – on a shared commitment to human development.