

ANNUAL GOVERNMENT WORK PLAN 2007

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***Your Excellencies: Ambassadors and Chiefs of International Institutions,
Ladies and Gentleman,***

First and foremost, allow me to express my gratitude to all Excellencies the Ambassadors and Chiefs of International Institutions for their presence at this meeting and for their generous aids extended to Indonesia, in its development efforts this past year and through the years. I greatly appreciate the cooperation that has already been forged and it is my sincere hope that it will continue.

I am very happy that we are starting a new chapter with this CGI meeting. In the last two years, the Government of Indonesia has taken the initiative to convene CGI meetings in an independent manner. Various agendas proposed for this meeting are really the Government of Indonesia's initiative in line with the development needs and issues faced by the Indonesian people themselves.

Excellencies and Distinguished Guests,

Since I was appointed as the State Minister for National Development Planning/ Chairman of BAPPENAS, I have stood for the spirit of self-reliance in implementing development. What I mean by self-reliance is not self-reliance in a narrow sense, namely closing oneself from cooperating with other countries. Instead, I am talking about the self-reliance of deciding on our own country's destiny, of deciding which path we must take in reaching that destiny, and of pursuing this chosen path with determination in executing development.

Excellencies and Distinguished Guests,

Our progress in development, which needless to say cannot be severed from the cooperation extended by other countries and international institutions, has reached a stage where self-reliance is inevitable and must be put forward. The decision to limit the state budget deficit is one means of gradually building such self-reliance. Limiting the state budget deficit forces the government to increase efficiency and effectiveness in spending. Our need to diversify our financing also leads us to continued efforts towards finding alternative sources of funding in addition to foreign aids. New financing mechanisms such as issuing domestic and international bonds will also force the rigor of further pushing the government to improve a variety of economic policies and to avoid a reckless action which could result in the loss of market confidence. The effort to limit the related budget deficit is also closely linked to efforts to reduce the burden of foreign debt in line with the strategies of the government debt management. That decision was taken by the Parliament (DPR) while I was Head of the Commission for Government Finance and Banking of the DPR. I will continue to hold fast to the spirit of self-reliance in leading this Planning Agency.

Excellencies and Distinguished Guests,

With this spirit, allow me to avail myself of this opportunity to briefly present the Government's Annual Work Plan (RKP) for the year 2007. As we all know, Indonesia has experienced significant and fundamental changes. Significant changes occurred in economic, democratic and political realms, in addition to changes in regional autonomy and decentralization. It is a blessing that these changes drove us into unity and self-reliance in the development of our nation's welfare.

These significant changes have also driven us to undertake changes in formulating the National Development Plan. The President's vision and mission or, simply, his promises during his presidential election campaign, are the focal points upon which we have developed our main development goals and activities, reflected in our medium-term plan and our annual work plans. Furthermore, aside from

target alignment with the President's vision and mission, the process of preparing the development plan itself is now very different from that in the previous process. It is more participatory, involving the general public and other stakeholders. The bottom-up approach in formulating our development plan has been implemented at all levels.

In accordance with the President's vision and mission, the government's Medium-Term Development Plan (RPJM) for the period of 2004 to 2009 has introduced three main development agendas that are further elaborated into the Annual Government Work Plan (RKP). They are:

1. Creating a safe and peaceful Indonesia;
2. Creating a just and democratic Indonesia;
3. Creating a prosperous Indonesia.

The targets to be achieved by the Government are in line with the Millennium Development Goals or MDGs. Yet, our mid-term development planning goals are more ambitious than the MDGs. This confirms the Government's commitment to improving people's welfare as fast as possible. Numerous achievements were accomplished in the first and second year of the implementation of these agendas.

For the first agenda, the government has ended the dispute with the Free Aceh Movement (GAM) in Aceh by signing the Helsinki Agreement, which has become a significant accomplishment for this government. In the fight against terrorism, the Government has captured and put on trial several terrorists through a transparent judicial process.

For the second agenda, we have continued to improve and build up our democracy. Direct presidential elections were held for the first time in Indonesia. This was followed by direct elections of heads of local government—both at the provincial and at the district/city level—which demonstrated our aspiration in continually building up our democracy. Nowadays, there is not a day without a PILKADA (local election)—that is the mark of democracy in Indonesia.

For the third agenda, we cannot deny that there are shortcomings that need to be addressed. However, considering the burden of economic challenges and recent natural disasters, it is not an overstatement to say that, in the face of adversity and shocks, the government has successfully laid down strong economic fundamentals to move forward into the future. Macroeconomic stability, the reallocation of fuel subsidies, and the improvement of many economic institutions are just some areas where we consider we are making progress, the significance of which should not be disparaged.

For the third year's implementation of these development agendas, the government has, since early March 2006, prepared the Annual Government Work Plan (RKP) 2007. In view of the achievements from the first two years of implementing the Medium-Term Development Plan (RPJM) agendas and the present conditions, and in order to fulfill the RPJM objectives, the RKP 2007 has adopted the following theme: "Increasing Employment Opportunities and Reducing Poverty to Increase the People's Welfare." Based on this theme, we have articulated nine priorities for 2007:

- 1) Reducing poverty;
- 2) Increasing employment opportunities, investment and export;
- 3) Revitalizing of agriculture, fisheries, forestry and rural areas;
- 4) Increasing accessibility and quality of education and health services;
- 5) Enforcing the laws, basic human rights, corruption eradication and reform of the bureaucracy;
- 6) Improving of defense and security capabilities, maintaining order and improvement of conflict resolution;
- 7) Rehabilitating and Reconstructing Nanggroe Aceh Darussalam (NAD), Nias (North Sumatra), Yogyakarta and Central Java and Mitigating and Overcoming Disasters;
- 8) Accelerating infrastructure development;
- 9) Developing border areas and remote isolated areas.

All government ministries/institutions will plan their activities in support of these priorities. The Annual Government Work Plan (RKP) consists of budgetary and policy frameworks that will need efforts and resources to implement. A good policy framework will facilitate public participation in development. In a more democratic era such as today, where public contribution in economic activities surpasses government's contribution, there is all the more need for a good policy and regulatory framework. Along with it, the Government's quality of spending should be improved. Therefore, I will continue to

implement good governance within the Planning Agency. This is closely related to Indonesia's commitment to develop and pursue policies in a self-reliant manner.

Excellencies and Distinguished Guests,

Indonesia is indeed facing serious challenges at the moment. However, its economic development is believed to be on the right path with several macroeconomic indicators showing continued improvements, although in mid-May 2006 there was a fluctuation in international stock exchanges, which affected the world's stock market indices and exchange rates, including Indonesia's. Our inflation rate is declining and our reserve assets have reached more than US\$ 44 billion. Yet, evidently, the level of people's welfare is still far from what is desired. Presently, Indonesia is facing substantial problems, namely high poverty and unemployment rates. This indicates that the real sector has not yet performed satisfactorily.

Our nine priorities for 2007 were chosen to support efforts towards reducing poverty and open unemployment through:

- **First**, promoting quality growth. We want to generate growth and development that will create employment opportunities leading to a reduction in poverty. Supporting labor-intensive industries and increasing agricultural productivity will benefit the poor. Most people who work in the agricultural sector have low productivity which generates low income level. By prioritizing the revitalization of agriculture, fisheries, forestry and rural areas, we will increase the productivity of the agricultural sector which in turn will reduce poverty significantly. In addition, developing the labor-intensive industries, including micro, small and medium scale business enterprises, on which most of the population are relying their source of earnings, is important and will be continued. The government will in 2007 continue to promote micro, small, and medium scale enterprises.
- **Second**, increasing the poor's access to basic necessities. The data indicates that there is unequal access to basic necessities between the poor and the non-poor. Therefore, increased access to education, health services, basic infrastructure such as clean safe water and housing, as well as access to food and nutrition, is imperative in reducing poverty. Our program in RKP 2007 will focus on improving the programs of enhancing access of poor communities to basic needs, including measures that are designed in the context of reducing oil-fuel subsidies.
- **Third**, empowering the people through community-driven development. Community empowerment is aimed at the people having the capacity to determine their own lives and to involve them directly in development-related decision-making process. In 2007, the Government intends to expand these community-based poverty reduction programs to most regions in Indonesia.
- **Fourth**, improving the social protection system. Improving and fine-tuning social assistance for the vulnerable population is an important task in reducing poverty. For those who are less vulnerable, we aim to develop a more comprehensive social security scheme. Subsequently, the Government is of the opinion that the unconditional cash transfer program is a first step in building a social assistance system to the poorest. In 2007, we will try out a system of conditional cash transfer in certain regions. We expect that this conditional cash transfer will give a wider impact upon the people's welfare and become one of our efforts to support investment in human capital through improvements of their access to health and educational services.

Employment creation and poverty reduction require full support from the Government, encompassing adequate infrastructure development. Accelerating infrastructure development is a priority of the government that will be seriously implemented in 2007. The Government will focus on infrastructure development that is able to improve competitiveness of the real sector by increasing the minimum service standard and encouraging the private sector to invest in infrastructure projects.

The occurrence of a series of natural disasters lately has made us realize that as a nation living in a disaster-prone zone, we truly need a comprehensive and reliable system and a capability in post-disaster management, from the emergency response stage to the rehabilitation and reconstruction stage. The management of the tsunami tragedy in Aceh and Nias has given us very important lessons on the importance of the above-mentioned capability improvement. The need is intensified by the earthquake in Yogyakarta and Central Java on the 27th of May, which also has caused a significant scale of destruction.

In this opportunity, I would also like to convey my sincerest gratitude for any supports provided for the people of Aceh and Nias so as to allow them to return to their normal life. My deepest appreciation is

also for all attentions and supports for the victims of Yogyakarta-Central Java earthquake. In managing the post-earthquake, we are trying our best to accelerate every process required for making the rehabilitation and reconstruction action plans implemented in due course, including eliminating any bureaucratic problems in receiving humanitarian aids from gracious countries. There are three focuses on the rehabilitation and reconstruction stage, namely (a) reconstructing the damaged social and economic infrastructure, (b) helping people rebuild their houses, and (c) empowering the local economy. From available information, we are aware that the biggest and most critical expenses will be those required for rebuilding houses. There are approximately 358,694 homes destroyed and damaged by the earthquake. It is not a small number, so we still expect aids and assistance from all generous parties. In order to speed up the process as well as maintain the management accountability, the rebuilding of houses will be done through a community-driven development pattern.

Excellencies and Distinguished Guests,

As I mentioned previously, the government has put together a national development plan. The next question is whether this plan, which has been carefully designed, will be implemented by the Government. I have led the reforms to ensure that this plan can truly be implemented. BAPPENAS as the Planning Agency will continue synchronizing the implementation of Law Number 17 of 2003 on the State Budget and Law Number 25 of 2004 on the National Development Planning System to ensure that government's activities are rooted in thorough planning. Early involvement of the Ministry of Finance in preparing the Annual Government Work Plan (RKP), especially in determining the indicative budget ceiling, strengthens the linkages between planning and budgeting. Therefore, it is expected that the Work Plan can be implemented because we have anticipated the availability of funding. In addition, the activities listed in the budget must reflect the nine priorities in the Annual Work Plan (RKP) and must be targeted to achieve development goals listed in the Medium-Term Development Plan (RPJM).

In connection with the execution of the policy framework, I have instructed every level in the Ministry for National Development Planning/BAPPENAS to continue monitoring and evaluating policy implementation of the plans set by the government.

Excellencies and Distinguished Guests,

In a nutshell, I have presented the Government's Annual Work Plan (RKP) for 2007. Improvement of the planning process and implementation of the plan once again indicate the degree of our stronger self-reliance in deciding on the agenda of our national development. The big plan in RKP 2007 requires positive bilateral and multilateral cooperation and aids. As I mentioned above, I expect that the future-pledged loans and grants will be in line with our development plan.

Loans that we are proposing shall be the loans that are really needed by our people, and as a result, we will be very selective in consideration that there is already high burden of loan repayments in our budget. At the moment, the Government, pursuant to Government Regulation Number 2 Year 2006 concerning procurement procedures for foreign loans or grants, is formulating our borrowing strategies, which will be issued under a Presidential Regulation. This document will provide guidance on the utilization of the Government's foreign loans for the period of 2006 to 2009. I expect that the people will favorably benefit from all development activities, including those financed by foreign loans. Yet again, the quality of government spending becomes the main priority of improvement. We will improve the planning capability as well as strengthen the foreign project monitoring and evaluation. The projects with poor and difficult-to-improve performance will be reallocated or cancelled. With various measures for improving our foreign loan management, I am optimistic that our loan burden, including the burden originating from foreign loans, will decline. This is in line with the targets stated in our mid-term development plan, while at the same time providing support for improving our people's welfare.

To conclude, on behalf of the Government, once again I would like to express my sincerest gratitude for all your continuing assistance and cooperation during these challenging times. I do hope that this constructive cooperation will continue in the future. Thank you very much.

Jakarta, June 14, 2006

State Minister for National Development Planning/Chairman of BAPPENAS

H. Paskah Suzetta