

### III. Toward Better Governance Economic Policy and Macroeconomic Management

#### Overview

JICA's assistance for economic policy and macroeconomic management has combined two approaches. One is emergency/short-term intensive assistance for the purpose of economic stabilization, which is represented by international balance of payments support, and the other is long-term continuous assistance for capacity building, which is represented by technical cooperation.

JICA's emergency/short-term intensive assistance for economic stabilization has primarily taken the form of non-project yen loans. Typical examples are assistance provided during the international balance of payments crisis of the 1960s and 1970s, the economic crisis caused by an international decline in crude oil prices in the late 1980s, and the economic crisis influenced by the Asian currency crisis that began in 1997. The assistance in the late 1990s includes "Social Safety Net Loan" and "Health and Nutrition Sector Development Program Loan" that gave consideration to socially disadvantaged people who were greatly affected by the economic crisis.

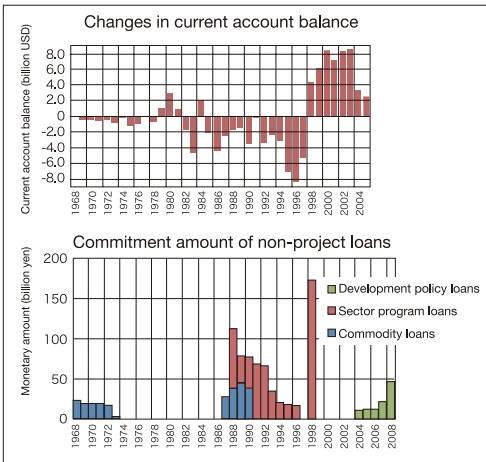
JICA has also provided long-term technical cooperation to the National Development Planning Agency (BAPPENAS). Among other areas, this cooperated has focused on economic analysis needed for the formulation of economic policies. Additionally, in the wake of the economic crisis of the late 1990s, Japan provided "economic policy assistance" that considered responses to economic crises through dialogue between Indonesian policymakers and Japanese experts.

In recent years, JICA has been providing financial support for the improvement of investment climate (e.g., institution-building, infrastructure development, etc.), with the aim of promoting further economic growth amid stable economic conditions. JICA provides this support in forms that encourage reform efforts by the Indonesian government. Representative among them are "Development Policy Loans" and the "Infrastructure Reform Sector Development Program." Japan also supports institution-building and human resources development in other fields, including finance and tax administration.

#### Results

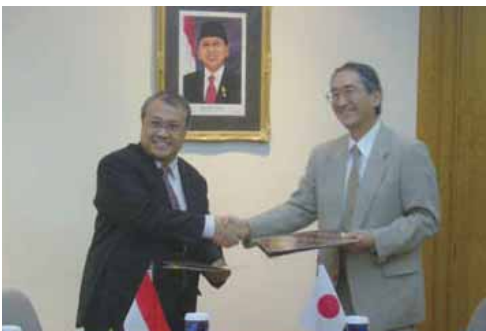
As is shown above, JICA has been combining two forms of support: short-term intensive support to address emergencies in international balance of payments and fiscal balance for the main purpose of bringing economic stability, and support for long-term and continuous capacity-building during normal times for the purpose of encouraging economic growth. Through these approaches, JICA has:

- Contributed to Indonesia's weathering of economic crises through emergency international balance of payments support when its macro economy has fallen into extreme difficulty, as during the international balance of payments crisis and Asian currency crisis.
- Contributed to improved macroeconomic management capability by providing technical cooperation from various standpoints—specifically, assistance in formulation of economic growth plans; policy dialogues during currency crises; institutional reform to address pressing issues in finances, capital markets, taxation, etc.; and human resources development.
- Been promoting recent reform efforts and infrastructure development for economic growth by the Indonesian government through providing technical and funding assistance, maintaining the Indonesian government's ownership.



#### Development Policy Loan (started in 2005)

This is a general budget support scheme that provides financial support based on the achievement of "policy actions" that are established based on discussions with the Indonesian side. Among the items established under the "policy actions" for the sixth Development Policy Loan (provided in 2010) were review of investment regulations, preparation toward unification of offices handling import/export procedures, and formulation of an order by the Directorate General of the Ministry of Finance for simplification of taxation documents. The scheme can be considered support that is in line with the Jakarta Commitments, which seek ownership and integrated application of aid funds.



### Governance

#### Overview

Cooperation concerning governance is a relatively new field for JICA in Indonesia. Under the Suharto administration, which was in power continuously for 30 years until 1998, JICA provided cooperation in statistics-keeping (e.g., introduction of computers into BPS-Statistics Indonesia, etc.) on just a few occasions. However, statistics-keeping, which includes improvement of population censuses, is an important foundation for the nation and has been a basis for democratization since the mid-1990s.

Since 1998, JICA's cooperation in this field has gained momentum as democratization and decentralization in Indonesia have progressed. In the area of democratization, JICA has provided support toward the smooth holding of elections, judicial system reform (including reform of settlement and conciliation systems, and creation of schemes for training mediators), and police reform. JICA's support for police reform sprung from the police force's establishment as an independent organ in 1999 (it had been part of the military until then) as a step toward democratization and a shift in focus from maintenance of national order to improved public safety. Since 2001, JICA has been providing cooperation to create a model for the new Indonesian police force. JICA's activities here have sought to help the "police gain the fundamental trust of the public." As part of this approach, JICA introduced a system that sets up Indonesian-style police boxes (BKPM). These are modeled after those in Japan and take charge of public safety in their jurisdictions. The Indonesian national police recognized the effects of BKPM-centered civilian policing and its compatibility with Indonesian society, and consequently BKPM are now being set up in Indonesia as community-based policing spreads nationwide. At the same time, the new model for policing that was created with JICA's assistance has become policy in the form of the POLMAS (Indonesian-style community policing) notification, which seeks to "build partnership between police officers and communities" and "solve various social problems that occur in the community."

As for support for decentralization, projects are underway to reinforce functions entrusted to local governments by the central government in all sectors, and JICA is adding to them by providing cooperation to reinforce the capabilities of Regional Representative Council and local public servants. In the area of human resources development for local public servants, JICA's cooperation provided central and local training organizations with the ability to plan and implement training programs that match actual circumstances. As a result, institutional support for the firm establishment of changes brought by Japanese cooperation is now being provided through, for example, the formulation of "training management guidelines (Minister of Home Affairs regulation of 2007)" by the Ministry of Home Affairs.

#### Results

As Indonesia makes great strides toward democratization and decentralization, JICA-provided assistance has not simply presented Japan's experience and attempted to apply it to Indonesia. Instead, it has built mechanisms suited to Indonesia and developed human resources in collaboration with Indonesian counterparts. As a result, JICA has:

- Achieved the creation of specific mechanisms and models for police democratization and local governments that meet actual circumstances in Indonesia within a new paradigm of democratization and decentralization.
- Contributed to the development of human resources that will manage these new mechanisms.



An Indonesian-style police box modeled after those in Japan



Guidance of criminal identification techniques

#### The road to democratization and decentralization

Indonesia has been energetically promoting democratization and decentralization since President Suharto's resignation in May 1998. Its moves toward democratization have greatly liberalized the forming of political parties, loosened qualifications for participating in elections, overhauled the People's Consultative Assembly, and paved the way for direct elections of President and local leaders. Indonesia has also separated the police force from the military and clearly defined the police force as public servants. And Indonesia is placing priority on eliminating corruption, which has been a lingering problem.

As for decentralization, Indonesia is striving to implement projects that better meet regional needs by reinforcing the authority of local governments. This includes allocating budgetary expenditure to local governments and transferring the central government's field offices to local government control. Nonetheless, further improvement is needed in reinforcing the capabilities of local governments, which have little experience taking the initiative to plan and implement projects.



Seminar for improved government services based on good governance concept