Indonesia: Neoliberal development in the context of decentralized patronage politics

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Introduction

In recent years, Indonesia has been described as an emerging 'Tiger economy' and potentially 'the world's first Muslim and democratic superpower' (Keating 2010). Alluding to the country's potential as an investment destination, Indonesia is also part of what the economist Jim O'Neill has dubbed the MINTs, the Next Economic Giants (See Wethal & Hansen, chapter 1 in this volume). It is true that in the current political climate, it is difficult to overlook Indonesia's prospects for material growth. Having overcome the massive economic downturn suffered during the 1997 Asian economic crisis, when the country's GDP plummeted with an impressive 13 per cent that was followed by the toppling of the centralist authoritarian New Order regime the following year, Indonesia has indeed recovered. Since 2010, comparatively unaffected by the 2008 global financial crisis, the growth rate has been stable around 6 per cent.[i] Foreign debt is low at 26 per cent of GDP and food security is considered high with two-thirds of its GDP deriving from domestic consumption (Reid 2012), a number that is much higher than for instance China (Roland-Holst, Sugiyarto et al. 2010).

The combination of several factors account for these successes: A young population, which together with a rising middle class also accounts for the rise of a new consumer class,[ii] generous endowments of natural resources, energy and commodities, stable macroeconomic conditions and political stability (see Basri 2012). These factors have led analysts predict that Indonesia is even better positioned than China for long-term economic growth (see Buiter and Rahbari 2011; Deutch 2011).

Yet, despite these positive predictions, it is unclear whether and how Indonesia will fulfil the high expectations and the extent to which the current growth trend can be accompanied by policies ensuring sustainable development, as is the topic of this book. The exploitation of natural resources accounts for a large share of the country's economic activity. The conversion of natural forests to oil palm plantations and mining of minerals and coal bring jobs and infrastructure, while also creating large profits for industry and tax revenues for the state alongside the extraction of oil and gas. Meanwhile, growth in service and manufacturing industries together with rising household incomes and an expanding middle class mean ever-increasing demand for electricity and other forms of energy. Although the current growth has not led to a substantial increase in inequality, Indonesia is still faced with a poverty crisis. The official Indonesian poverty rate is currently around 12 per cent, but over the past four years there has been a steady decrease in the annual reduction in the poverty rate. Another problematic feature is that the remaining poor Indonesian households are further below the poverty line than in the early 2000s (World Bank 2013).

It is true that the Indonesian government has implemented quite substantive policies aimed at poverty reduction and income distribution as well as having committed to a number of international agreements that address its environmental problems, especially in relation to carbon emissions. In 2005 and 2008 the government undertook drastic measures to raise fuel prices in order to free up funds for the expansion of its new flagship poverty alleviation program, the National Program for Community Empowerment (*Program Nasional Pemberdayaan Masyarakat*, PNPM) – although high fuel subsidies still remain. At the 2007 UN climate conference in Bali, Indonesia took on a rare leadership role in getting the Bali Roadmap to shore (Jotzo 2012) and in 2009 President Yodhoyono announced that Indonesia would adopt a unilateral emissions target (Yodhoyono cited in Jotzo 2012). Recognising the growing threat of Indonesia's deforestation to climate change, these latter initiatives culminated in the commitment to UN REDD (Reducing Emissions from Deforestation and Forest Degradation) to which Norway pledged $1 billion to Indonesia to improve forest management as a reward for curbing deforestation (Governments of Norway and Indonesia 2010).

But pledges and even concrete policies do not equal effective implementation to reach the goals of sustainable development. As highlighted by McNeill and Wilhite (chapter 3 in this volume), the combination of a persistent growth imperative alongside the shift to neoliberal trends of assigning the responsibility for sustainable policies to the market, has in many instances derailed the sustainability agenda. With this in mind, this chapter therefore looks beyond the macroeconomic predictions and grand policy commitments, and instead assesses the ways in which policies are being implemented, received and transformed at the intersection between the central and local levels in Indonesia. Specifically, the chapter analyses two sectors that illustrate both the disjunction between maintaining the growth imperative and protecting the environment and the use of market mechanisms in promoting sustainable development: The forest sector, with a particular focus on the REDD-initiative and Indonesia's poverty reduction strategy as exemplified by the aforementioned community empowerment program, the PNPM.

As the only country in Southeast Asia currently assessed by Freedom House (2012) as 'free,' democracy inevitable serves an important context for the making and conduct Indonesia's current development strategies.[iii] In contrast to the authoritarian centralism dictating New Order development policies, the current official development narrative places emphasis on democratic mechanisms as a means to ensure more equitable and sustainable development. As the chapter highlights, these trends must also be seen in relation to the neoliberal agenda promoting good governance and free market formulated with the assistance of a number of international agencies in the immediate post-Suharto period.

The chapter proceeds as follows. The next section begins with a brief outline of Indonesia's current development strategy, highlighting similarities and breaks with the past. It then discusses the institutional and programmatic shifts brought about by the transition to democracy in 1998 emphasising how the parallel processes of democratisation and decentralisation have redefined development planning. It then discusses the forest sector and UN REDD and the PNPM in two separate sections. In analysing the intersection between policies and politics as it is played out on the ground, the chapter pays specific attention the political economy and the role of entrenched interests in curbing reform.

From centralist authoritarianism to decentralised patronage politics

Indonesia's current development strategy is a curious one and one that is characterised by a mix between the formulation of state regulated development programs and free market liberal policies designed to ensure economic growth infused with neoliberal ideas of marketisation, decentralisation and monitoring. The emphasis on neoliberalism and good governance, especially on the inclusion of bottom-up participatory and market-based mechanisms into almost all of the current government's development programs is a clear break from the state centrist and authoritarian approach of the New Order era. At the same time, the implementation of recent regulations aimed to protect domestic interests against control by foreign companies and the strategy to build a domestic industrial base as exemplified by the recent ban on export of raw commodities, are highly reminiscent of the economic nationalism of the Suharto period (see Hill 1996).[iv] Hence, while the fiscal and monetary policies of the past decades have been explicitly liberal, neither the New Order regime nor the democratically elected governments post-1998, have been governed purely by liberal market principles (Robison and Hadiz 2004, Basri 2012). On the contrary, the state remains a key actor in defining the boundaries and possibilities in development.

Consequently, the role of the state can only be understood in relation to its organisation and how power is distributed between public and private actors. The post-Suharto period has been characterised by rapid democratisation and localisation of politics. This process of *reformasi* was accompanied by pressures of localisation characterised by the shifts in priorities of state centrism of the New Order to the prioritisation of local economic, political and cultural identities across the archipelago (Schulte Nordholt and van Klinken 2007). The subsequent introduction of regional autonomy legislation under the Habibie government (1998-99) further devolved wide-ranging political powers and financial responsibilities to 34 provinces and several hundred district-level governments. Indonesia's process of *desentralisasi* remains one of the most far-reaching, speediest and radical experiments in decentralisation in the world (Aspinall and Fealy 2002).

While the impulses for decentralisation were in part both domestic and political, the reform was also reflective of a global trend aimed to create better foundations for 'good governance.' The World Bank, the International Monetary Fund (IMF) and the US Agency for Development Aid (USAID) provided advice and technical assistance (Aspinall 2013). From the IMF's viewpoint it was important to dismantle the centralised authoritarian state in order to remove the obstacles to markets embedded in it (Schulte Nordholt 2004). Another underlying rationale from the vantage point of the international community was the notion that by moving decision-making authority and program delivery to the level of government and administration that was closest to the 'users,' the allocation of resources and delivery of services would become both more effective and efficient (Aspinall and Fealy 2002; see also Harvey 2005).

The decentralisation discourse also entails the desire to enhance competition over resources so as to improve service delivery. Different regions would compete in creating 'business-friendly investment climates' that would 'generate a virtuous circle of better governance, economic development and contended citizens' and ensure re-election of local politicians able to deliver such goals (Aspinall 2013, p. 38). Meanwhile, targeted assistance to civil society and local communities would generate accountability and voice and enhance the demand side of improved governance. NGOs play a decisive role in what accounts for the 'governmentality' of the emerging neoliberal order. Through their interaction, subordinate groups are encouraged – or perhaps 'disciplined'– to accommodate their lives to the new liberal economic and political order (Ong 2006). In this regard, while neoliberalism in the conventional sense has come to mean a way to allocate economic resources through 'entrepreneurial freedoms and skills' within the framework of 'strong private property rights, free market and free trade' (Harvey 2005, p. 2) neoliberalism in the Indonesian context has been diluted to simply denote the 'practice of making economic calculation a universal standard for how decisions are made' (Aspinall 2013, p. 28).

As mentioned in the introduction to this chapter, the logic of marketisation and commodification of services described above very much defines the formulation of contemporary development programs in Indonesia. Yet, another logic plays out in the contexts where state development policies are being implemented, i.e. the logic of decentralised patronage politics. A legacy of the New Order rule that continues to shape the political economy today is the formation of an incredibly wealthy oligarchy made up of powerful business cronies and political business families, probably best represented by the Suharto family itself. Under New Order rule, these oligarchs constituted a highly centralised patronage network through which a range of predatory business, military, bureaucratic and political interests interlocked (Robison and Hadiz 2004). With the collapse of the New Order, these interests did not disintegrate, but rather adapted to the new circumstances continuing to latch on to new but more diffuse and decentralised networks of patronage (Robison and Hadiz 2004; see also Hadiz 2013 and; Winters 2013). In practical terms this led to an immediate explosion of rent seeking, especially in relation to the extraction of natural resources, as will be discussed in closer detail below. What emerged was a system of electoral competition through which local bureaucrats, politicians and businesspeople are able to buy their way into office via the parties that nominate them (Buehler and Tan 2007; Mietzner 2009). One sign of this is the degree to which in the direct elections for local executive government offices the winners are usually career bureaucrats rather than individuals whose political and economic authority derive from the private sector (Buehler 2010; Aspinall 2013).

With such caveats in mind, the remainder of this chapter examines how the combination of neoliberal strategies that permeates the contemporary attempts at creating sustainable forest management systems and the PNPM poverty reduction strategy play out in the context of localised patronage politics.

The forest sector

During 2007, reports on Indonesia's contribution to climate change pointed to large-scale carbon emissions linked to forest fires, peat drainage and land clearance by oil palm plantation owners. In fact, Indonesia is currently the top world producer of crude palm oil. In light of this massive expansion of natural resource exploitation, Indonesia is also seen as subject to an environmental tragedy with attention principally focused on the loss of vast areas of forest cover each year (Jotzo, 2012). In addition to the critique of the unsustainability of the management of natural resources, criticism also concerns issues linked to environmental and distributional injustice, especially those of indigenous peoples (McCarthy and Warren 2009).

The collapse of the New Order revealed widespread illicit resource use practices and resource-related conflicts. The upheavals also attracted the attention of donors and international aid agencies that advocated the parallel development challenges of reducing greenhouse gas emissions associated with rapid deforestation, promoting sustainable forest management and protecting the rights of indigenous peoples. The means through which donors, the state and NGOs have promoted reform in this sector is through a combination of legal changes to natural resource rights and benefit sharing, the development of more integrated environmental policy and the promotion of participatory planning mechanisms (McCarthy and Moeliono 2014). A defining feature is the promotion of public-private arrangements and market mechanisms to achieve these goals.[v]

The political economy of deforestation is complex and ties directly to the persistence of material powers of old oligarchic elites, revealing the deep problems of governance within the forest sector. Post-1998, this oligarchy of domestic corporations that had emerged within the nexus of state power and influence during the New Order, were able to take control over corporations and concessions over vast areas of land. While previously, extraction had largely been limited to capital accumulation from timber extraction from natural forests, the manifestation of more localised forms of governance enabled expansion into more capital intensive products such as palm oil and paper and pulp (Gellert 2004). As McCarthy and Moeliono (2014) emphasise, it was this shift that required the acquisition of extensive areas of land, which has entailed the kind of rapid, large-scale conversion of land into timber and oil palm plantations of the past decade. These conflicts are further exacerbated by the unclear division of authority between central and local governments on the one hand, and between the line ministries governing the forest sector, especially the Ministry of Forestry, the State Ministry of the Environment and the National Development Planning Agency, BAPPENAS.

Through nurturing close ties with district level politicians and bureaucrats, business oligarchs win contracts and logging permits, thriving on the surpluses derived from commodity exports in the resource sector. Consequently, another key feature of the system is that individually and as a group, they are ‘more powerful than the laws and the system of legal enforcement’ (Winters 2014, p. 58). Collectively, they constitute powerful networks who have the resources and material power to block or minimise the impact of the system of laws and otherwise stall the initiatives of reformist actors within the state and civil society (McCarthy and Moeliono 2014; Winters 2014).

It is within this context that REDD projects are being implemented. With Indonesia being the world’s third leading producer of greenhouse gases and the majority of these emissions coming from deforestation, Indonesia has played centre-stage in the global discussions regarding the REDD-initiative. With REDD, market based mechanisms have emerged as the central strategy for dealing with deforestation. The logic behind the approach is that market-based approaches will supposedly correct the inherent weakness of the conventional market system, which ‘tends to undervalue ecosystem services in everyday decision-making’. Market-based mechanisms will correct this market failure and transform the basic logic of the existing (illicit) political economy described above into manageable and sustainable resource management systems. Forests ‘should be given monetary value, and financial rewards introduced as a mechanism for reducing forest-based emissions’ (McCarthy and Moeliono 2014, p. 253). That said, for market-based mechanisms to work Portela, Wendland et.al. (2010) argue that clear property rights are critical in order to ensure that an exchange can be made between the landowner (supplier of the good) and those who demand it (the buyer of credit). Due to the lack of clarity regarding accountability and authority described above, REDD projects are implemented without the kind of legal framework that can potentially offer secure property rights to village landowners in place. As one commentator noted: 'Identifying who should receive compensation as well as negotiating transparent and effective payment arrangements, is at best challenging especially with ambiguous land use rights and government jurisdiction in Indonesia' (Lang cited in McCarthy and Moeliono 2014, p. 254).

In this setting, the kinds of governance problems that cause deforestation in the first place might not be resolved. Those with formal tenurial rights may obtain the main share of REDD funds, rather than those with 'informal' de facto rights (Poffenberger and Smith-Hanssen 2009). The Rainforest Foundation for instance, notes that the fear is that REDD could allow the market to define rights in an uncompromising manner (Rainforest Foundation, Poffenberger and Smith-Hanssen 2009). If so, the benefits will again exclusively flow to industrial and corporate interests, supporting the formalisation of land rights in a fashion that bypasses local 'customary' authority structures and those unable to assert *de jure* rights. Moreover, actors interested in forest conservation are also using the market approach, establishing companies investing in restoration concessions in the hope of gaining income from REDD.

The participation of communities is seen as critical to controlling the local forces driving deforestation. The benefits to communities from REDD could include the strengthening of tenurial rights under national law and international agreements, increased revenues and grants for community development and forest management, and empowering local communities in multi-tiered agreements (Poffenberger and Smith-Hanssen 2009). However, in the past companies hve been able to extract resources from forest areas mapped within village boundaries, with few gains for local villagers (McCarthy and Moeliono 2014). NGOs and social movements continue to demand that forest zoning processes and legal property categories be reworked to incorporate local customary and territorial rights in a way that reduces the scope for land speculation and land grabbing (Veierland 2011). However, to date they have been unsuccessful.

As long as major domestic firms continue to promote the extension of large-scale extractive and agricultural industries, 'it remains unclear whether REDD can offer sufficient immediate incentives to prevent forest conversion' (McCarthy and Moeliono, 2014 p. 254). For instance, Poffenberger and Hanssen (2009, p. 2) predict that oil palm development will offer higher yields than REDD: Over 30 years, oil palm development would yield between $ 3,800-$9,600 per hectare net present value while REDD would offer only $614-$994 per hectare. It is also unclear how REDD projects alone are able to halt the expansion of oil palm plantations and road networks in the regions surrounding REDD projects. With vulnerable lowland forests remaining open to plantation development, this increase in the 'likelihood that deforestation might be displaced from the REDD project areas to forests' outside the project area ('leakage'), 'simply because the demand for agricultural products won't go away' (Lang 2010 cited in McCarthy and Moeliono 2014, p. 254).

Discussions of market-based mechanisms also place emphasis on the efficiency of legal and regulatory frameworks that are supported by monitoring and enforcement. In other words, for governance to work, the state needs to retain its autonomy while being sufficiently 'embedded' in the social networks connecting it with private actors located outside the state (Evans 1995). The Indonesian state is not well fashioned to apply significant infrastructural power to obtain the collaboration of networks of groups and individuals that could lead to good environmental policy outcomes. The difficulty of implementing regulatory frameworks within the forest sector thus partly results form the problems of competition between agencies such as BAPPENAS, the Ministry of Forestry and the State Ministry of the Environment, which leads to lack of clarity and accountability (McCarthy and Warren 2009). This institutional complexity of state administration has exacerbated the already existing state capacity problems resulting from overlapping of authority between different levels of government. During the New Order, Suharto had overseen the contradictions between environmental regulation and the rent seeking of powerful business interests and at least limited the number of actors involved to those belonging to his inner circle. Within the current situation, the state's inability to enforce regulations is partly a consequence of the lack of coordination and clear authority structures between the relevant institutions that are creating their own rules according to their own agendas (Winters, 2014). The forest sector is thus a highly contested field of development. The market-based mechanisms engrained in the REDD framework cannot substitute for political forces and institutions necessary to transform the existing structures that are underpinning the political economy of resource extraction in Indonesia.

Politics of alternative development: Participation and empowerment through the PNPM

The second trajectory of development concerns the implementation of participatory mechanisms as a main strategy to combat poverty through the National Program for

Community Empowerment, the PNPM. The implementation and streamlining of community participatory mechanisms as part of national poverty reduction strategies is a key feature of decentralisation as well as a response to popular pressure to empower marginalised groups. Moreover, the PNPM reveals much about the dynamics of the contemporary involvement of he World Bank in Indonesia.

While the World Bank has had a long-standing engagement with Indonesia consistently seeking to influence its economic and social policies, since 1997, its engagement has shifted towards more insistent promotion of neoliberal policy and institutional reform alongside the promotion of 'country ownership of the development process' (Rosser 2014, p.174). Underlying this strategy is the recognition that successful institutional change tends to be government-initiated and government-led. Yet, in their strategy papers, the World Bank also stresses that it will prioritise support for sectors and areas in which 'reform opportunities arise' and where the World Bank has the 'capacity to deliver' (World Bank cited in Rosser 2014, p. 179). Thus, the World Bank is both choosing to support policies and programmes that are consistent with its neoliberal agenda, and is instrumental in designing such programs, of which the PNPM is one example.

The PNPM is a massive community development project, one of the largest in the world operating in over 60, 000 villages across Indonesia (World Bank 2011a).[vi] It originated as the Kecamatan Development Programme (KDP) formulated and developed by the World Bank's social development team in Jakarta in the period 1997-2008. Renamed the PNPM and scaled up to a nation-wide program it was subsequently launched as the Indonesian government's new flagship poverty alleviation programme. The PNPM represents a conscious move away from the notion of projects as the deliverer of a product and toward a model of projects as a way to promote social processes in which villagers solve self-identified development problems (Guggenheim 2006). The basic model is that resources are allocated to villages on a competitive basis for projects that villagers have identified and chosen themselves (World Bank 2011a).

Unlike most decentralisation projects, the PNPM requires and provides spaces, incentives and resources with which villagers convene a series of facilitated forums and meetings in villages and sub-districts to encourage and institutionalise broader community participation in decision-making and setting priorities. With an integrated complaint mechanism, the PNPM has the potential to shift power relations in favour of marginalised groups (Gibson and Woolcock 2008). As such, an important feature is the combination of a stress on market mechanisms and competition within a framework where marginalised groups can implicate change beyond the conventional democratic institutions of elections and political parties (Sindre 2012). This is an important domain to impact political change considering the limited access of ordinary Indonesians to elected officials and bureaucracies (Törnquist 2013).

In terms of development provision, the program has been deemed successful for its role in providing cost-effective infrastructure including clean water supplies and irrigation systems and in terms of strengthening the capacity of communities to formulate demands on the state (Gibson and Woolcock, 2008; Li 2006). In addition, reports suggest that there is relatively little corruption tied to PNPM projects. The proximity to communities and ownership to the very process of deciding on, building and implementing a community project has not only created incentives for curbing corruption but also internalised methods of hindering it. It has also been successful in increasing women's access to tertiary socio-economic infrastructure and other basic services. About 60 per cent of funded village proposals arise from women's special meetings and a majority of the beneficiaries are below or at the poverty line (World Bank 2011a, p. 3).

A key feature of the PNPM is that it is organised in such a way that it bypasses the budgeting allocations to regional governments and is channelled directly to the sub-district (*kecamatan*) level, circumventing much of local government usually considered adamantly slow and unpredictable (Sindre 2012). At the national level *kecamatan* grants are managed by the Community Development Agency within the Indonesian Ministry of Home Affairs, which is also the implementing agency, while BAPPENAS manages a national coordination team whose task is to provide the overall strategic planning and coordination of the project implementation (World Bank 2011a). The funds are transferred in block grants down to collective accounts for the villages, each being subject to certification, and monitoring in the community. Typically, the funds are directed towards construction of the economic and social infrastructure needed and requested by the communities while there is also a component that provides grants to pilot and special programs such as gendered lending schemes and micro-credit schemes (World Bank 2011a, see also Carroll 2009).

In light of the previous discussion of the weakness of local government following *reformasi,* the decision to integrate the *kecamatan*-level is a curious one and is important beyond being a practical solution ensuring administrative proximity to villagers. Curcially, *kecamatans* are not fully autonomous units of government: They are located below the provincial and city level and in contrast to governors, district heads, mayors, the sub-district head (*camat*), is not democratically elected. Administratively they have no budget and contracting powers of their own. This means that the collection of commercial and political interests that had a stronghold over governments in the districts was much weaker. *Kecamatans* also had a requirement to coordinate village development through a *kecamatan* council that included all of the village heads, but because the *kecamatan* has no budget of its own to invest, most of these councils only met once or twice a year. Having villagers compete for funds in *kecamatan* meetings would encourage the kinds of direct negotiations and cooperation that would provide a basis for rebuilding the supra-village horizontal institutions destroyed or neglected by the New Order (Sindre 2012, Carroll 2009, Guggenheim 2006).

That said, the aims of the PNPM are much more ambitious than merely making development provision more efficient. As one scholar pointed out: its aim is ‘extraordinarily ambitious: to transform society’ (Li 2007, p. 243). This expectant transformation was formulated as a strategy for strengthening social capital in villages, which encompasses such ideas from the globalised development discourses as ‘capacity building’ and ‘empowerment.’ From the World Bank’s standpoint, the notion of social capital was consistent with the strategy of government through community, inspired by Putnam’s argument that one could ‘promote the efficiency of society’ and thereby also the social and political capacity of communities (Putnam and Leonardi 1993). Social capital in the Indonesian village was, in Li’s words, perceived as something that ‘was naturally present, yet potentially deficient’ (Li 2006). While the state institutions, and especially BAPPENAS, had been an inefficient provider of development to rural communities, village communities had in place relatively autonomous institutions through which villagers could mobilise for collective purposes that could be effectuated (Carroll 2009).

The perspectives of the Indonesian village and community engrained in the World Bank’s approach to social capital also resonate well with the dominant Indonesian perspectives on democratisation and decentralisation reform of the 2000s. The tradition for consultative assemblies in villages, a process known as *musrenbang* or *musyawarah* is often hailed as a natural part of village community (Sindre 2012). With such decision-making procedures in place, the conclusion was that one could achieve rural development by way of reforming local-level governance by moving the control of projects and resources to the village communities. Social capital is a conceptual framing for this capacity and a precondition for governance, which is expected to 'trickle upwards' and contribute to overall enhanced democratisation (Guggenheim 2006, Carroll 2009). Attention to 'community' as an entity that with the available resources is able to provide 'better solutions' rather than discussing poverty as a consequence of unequal distribution of power or as a class issue is also a way to depoliticise development. Inadequate planning and failures of governance are perceived as the main source of poverty and have thus become the arenas targeted in the major policy strategies (Li 2006).

Due to its structure of localising decision-making, the *kecamatan* grant system creates new avenues of organising that may circumvent existing economic, social, and political organisations. A significant difference from ordinary development projects in Indonesia and elsewhere is its emphasis on the process in addition to the specific projects that are being executed. By focusing on the *kecamatan* level, an administrative level that does not have budgeting or implementing authority, it bypasses much of government in the planning process and thus becomes devoid of the politicking and corrupt play-out that dominate the resource sector.

With the deficiencies of local government in mind, the strategy of bypassing existing institutions in its implementation is probably one of the reasons for why the program has proven so efficient in terms of both implementing and completing projects. Although the fundamental power relations are left intact, the emphasis on participatory planning on the scale of the PNPM has created a new terrain of governmental intervention as well as a potentially new arena for political mobilisation. At the same time, it raises some important questions about the role of the grant system at creating new institutions, both formal and informal, and whether these structures and mechanisms can lift whole communities out of poverty, or just above the poverty line.

Conclusion

As this chapter has highlighted, Indonesia's current development strategy is divided between encouraging domestic industrialization and protectionism of Indonesian corporations on the one hand and the implementation of policies that embody inclusive bottom-up approaches to sustainable development on the other. By focusing attention to the inherent problems of governance evident in light of decentralization, this chapter shows that the two are not easily combined. Both REDD and the PNPM are examples of major nation-wide policies that meet the general expectations of promoting sustainable development as discussed in the introductory chapters of this book. Moreover, democracy remains a defining feature of how these policies have been designed.

Yet, as this chapter has highlighted, the ways in which these are received is shaped as much by the workings and efficiency of its domestic political institutions as by the national strategies adapted by its leaders. The persistence of entrenched interests in business and the bureaucracy acts as a brake on reform and the unclear authority divisions between central and local government interests only create additional complexity. As this chapter has highlighted, the market-mechanisms introduced through the REDD initiative and its successor programs (REDD+ and REDD++) have not sufficiently accounted for the fragmentation of political forces as policies and jurisdiction reached in the national parliament, via competing ministries and down to local-level governments. Importantly, the ways in which oligarchic business corporations are able manipulate electoral politics and buy their way into contracts precludes not just environmental reform, but also reforms that are beneficial to the economy in the long run. In contrast, the Indonesian poverty reduction strategy is designed in a way that bypasses at least some of these structures allowing for strengthening of communities to control development in their own vicinity.

That said, this aspect of the PNPM is also the reason for by community development rarely reaches beyond the community. Communities will likely continue to have little impact on business expansion in their near vicinity. Moreover, expectations about linkages between democratic participation and improved parameters for sustainable development are engrained in the program it is essentially built on a notion of achieving market functionality rather than on building political or democratic notions of citizenship. In conclusion, while there are many important and far reaching policy initiatives and strategies that aim to tackle both problems relating to climate change, local environmental degradation as well as poverty, there are many reasons to be cautious. Ahead of the 2014 presidential and parliamentary elections the main question remains: Can it deal with its incredible problems of cronyism, corruption and problems of governance.

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[i] In 1980-81, 1984 and each year from 1989-1996, the GDP grew more rapidly than it has in any year since (Emmerson 2012).
[ii] With middle class as identified per capita income between \$2 and \$20 per day, proportion of the Indonesian population defined as 'middle class' increased from 37.7 per cent in 2003 to 56.5 per cent in 2010 (World Bank 2011).
[iii] Of the Asian countries, Indonesia is ranked as fully democratic country alongside India, Japan, South Korea and Taiwan (Freedom House 2012).
[iv] These strategies are reflected in the Ban on Mining Law passed in 2009 which increases the divestment requirement to Indonesian interests for Foreign Investment Companies from 20% to 51% while Regulation No.7/2012 issued by the Ministry of Energy and Mineral Resources prohibits the export of unprocessed raw materials or ore.
[v] While relevant, it is beyond the scope of this chapter to account for the legal and regulatory changes within this sector, the problem of coordination in implementing such regulations is discussed further below (see McCarthy and Moeliono (2014) for detailed account on this.
[vi] PNPM includes five core programs, which collectively cover every sub-district in the country. PNPM-Rural is the largest of the programs.