



Canadian International  
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Agence canadienne de  
développement international



CIDA's Country Development  
Programming Framework  
for **INDONESIA**  
2005–2009

Canada 





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Programming Framework  
for **INDONESIA**  
2005–2009**

**Canadian International Development Agency (CIDA)**

200 Promenade du Portage  
Gatineau, Quebec K1A 0G4  
Canada

Telephone:

(819) 997-5006 1-800-230-6349 (toll-free)

For the hearing- and speech-impaired:

(819) 953-5023 1-800-331-5018 (toll-free)

Fax: (819) 953-6088

Website: [www.cida.gc.ca](http://www.cida.gc.ca)

E-mail: [info@acdi-cida.gc.ca](mailto:info@acdi-cida.gc.ca)

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# INTRODUCTION

The 1997–98 economic crisis in Indonesia—one of the harshest in world economic history—triggered the downfall of President Soeharto and launched the country on a major transition to democracy. But it also revealed the depth and complexity of poverty in Indonesia, which had been obscured by trickle-down economic growth in the years before the crisis. Another historic shock occurred when the Indian Ocean earthquake and tsunami struck on December 26, 2004. It devastated the northwest region of the country, destroying lives and livelihoods and leaving Indonesia with enormous humanitarian and reconstruction needs that will take several years to meet.

These two challenges—ongoing development and emergency reconstruction—are at the core of the Canadian International Development Agency

(CIDA) program of cooperation with its Indonesian partners, as articulated in its Country Development Programming Framework for 2005–2009.

Many bilateral and multilateral donors provide assistance to Indonesia. The Indonesian government has recently prepared a poverty reduction strategy that identifies four action plans to reduce poverty. CIDA's program has been designed to complement the work of other donors and support Indonesia's efforts to create economic opportunity, empower communities, build capacity among local governments and civil society organizations (CSOs), and provide for the effective and equitable delivery of social protection measures.



It will also help Indonesia attain the Millennium Development Goals. These goals, which both Canada and Indonesia support, were endorsed by the United Nations in 2000.

**CIDA's two goals will be:**

- to support Indonesian efforts to reduce vulnerability to poverty, focusing on three areas:
  - improved governance at the local level;

- growth of the small and medium-sized enterprise (SME) sector; and
- equitable access to, and sustainable use of, natural resources; and

- to provide meaningful reconstruction assistance that is coordinated, demand-driven and harmonized, focusing on two areas:
  - governance; and
  - economic and environmental rehabilitation.



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Gender issues will play a key part in development activities in these areas of focus. As well, to ensure that CIDA's program has the maximum impact, and to facilitate the Government of Indonesia's efforts in donor coordination, CIDA's bilateral program will focus primarily on the island of

Sulawesi. CIDA will also harmonize its support with the reconstruction objectives of the Government of Indonesia, stressing local ownership and donor coordination in its programming in Aceh and Northern Sumatra.

**AT A GLANCE: CIDA'S BILATERAL DEVELOPMENT PROGRAM**

**Geographic focus: Sulawesi**

Objective	Expected Results
Improved quality of decentralized social services, particularly in the health sector, provided in an equitable and gender-sensitive manner	<ul style="list-style-type: none"> <li>• Local governments demonstrate an increased capacity to link policy, planning, and budgeting</li> <li>• Local governments demonstrate an increased capacity to develop strategic and fiscal plans</li> <li>• Improved capacity of the central government to develop and implement policies, guidelines, and systems to ensure effective decentralization</li> <li>• Local governments demonstrate the capacity to plan the delivery of health services and to monitor results</li> <li>• Local governments demonstrate the capacity to plan and implement consultation strategies and use consultation inputs</li> <li>• CSOs become stronger, sustainable, and better able to enhance public participation in decision-making</li> </ul>
Increased economic opportunities for men and women who are vulnerable to poverty, through the promotion and development of the private sector at the SME level	<ul style="list-style-type: none"> <li>• Sustainable SME expansion and the equitable creation of more and better jobs</li> <li>• Sound and accountable private and public institutions to support well-functioning and competitive local and national markets for SMEs</li> </ul>
Protection and creation of sustainable livelihoods through equitable access to, and sustainable management of, natural resources	<ul style="list-style-type: none"> <li>• Increased capacity of all stakeholder groups to take action on key issues affecting communities in selected watersheds</li> <li>• Increased capacity among stakeholders to use dispute resolution processes and negotiated solutions concerning the sustainable management of, access to, and control of, natural resources, including land</li> </ul>

**Crosscutting theme: gender equality**

Gender equality is to be integrated into all projects within CIDA's bilateral program.



## AT A GLANCE: CIDA'S BILATERAL RECONSTRUCTION STRATEGY

Geographic focus: Aceh and Northern Sumatra

Objective	Expected Results
<p>Improved planning and delivery of reconstruction activities and public services, in an equitable, participatory and gender-sensitive manner</p>	<ul style="list-style-type: none"> <li>• Strengthened capacity of national government to support and coordinate reconstruction</li> <li>• Strengthened capacity of local (district and provincial) governments to plan and deliver reconstruction activities</li> <li>• More inclusive public participation by men and women in recovery planning and reconstruction activities</li> <li>• Capacity of CSOs restored and strengthened to enable and enhance inclusive public participation</li> <li>• Capacity of local (district and provincial) governments to deliver equitable and gender-sensitive public services restored and strengthened</li> <li>• Strengthened capacity of organizations and networks to advocate for a more gender-sensitive policy agenda</li> </ul>
<p>Creation and restoration of sustainable livelihood opportunities through support for micro, small and medium enterprises (MSMEs) and the restoration and sustainable use of the natural resource base</p>	<ul style="list-style-type: none"> <li>• Capacity of financial institutions restored and strengthened</li> <li>• Markets and marketing systems are restored and functioning</li> <li>• Capacity of business development services restored and strengthened</li> <li>• MSMEs restored and strengthened through entrepreneurship training and vocational skills development</li> <li>• Sustainable forestry, fishery and agriculture livelihoods restored through training and microfinance</li> <li>• Enhanced capacity of local governments, CSOs and communities to understand and manage natural resource systems in a sustainable manner</li> </ul>

### Crosscutting themes: gender equality and conflict sensitivity

Gender equality is to be integrated into all CIDA's reconstruction projects; furthermore, all activities should be non-partisan and mindful of opportunities to support peace.

# WHY INDONESIA?

The Government of Canada identified Indonesia as one of its 25 development partners in its International Policy Statement of April 2005. Indonesia's acute poverty, its strategic significance, and its transition to democracy underlie CIDA's involvement. A strong, stable, and prosperous Indonesia is important not only for Indonesians, but also for Southeast Asia, Canada, and the world.

With more than 210 million people, Indonesia is the world's fourth most populous country. That demographic weight, as well as the country's economic potential, its mineral, oil and gas reserves, and its vast forests and biodiversity, make Indonesia the most strategically important country in Southeast Asia. Its standing as the world's largest Muslim country, where Islam and other faiths are generally practised in harmony, accords it significance for global security and anti-terrorism. For Canada, Indonesia is an important trading partner and the largest single destination of Canadian foreign investment in Southeast Asia.

## AT A GLANCE: INDONESIA (2003-04)

Capital: Jakarta  
Government: Presidential, democratic (since 1998)  
Last elections: 2004  
Total area: 1.9 million km<sup>2</sup>  
Population: 214.7 million  
Population growth: 1.3%  
Religions: 88% Muslim, 8% Christian, 2% Hindu, 2% other  
Life expectancy: 66.9 years  
Infant mortality: 31 per 1,000  
Literacy: 88.5%  
GDP: US\$208.3 billion  
GDP growth: 4.1%  
GDP per capita: US\$970  
Inflation: 6.3%  
Total external debt: US\$136.9 billion  
Debt % of GDP: 65%

Sources: World Bank;  
Asian Development Bank



# DEVELOPMENT CONTEXT

## The Setting

With the exception of a brief period during the 1950s, Indonesians had no experience with democracy until the 1998 downfall of President Soeharto.

General Soeharto, who replaced founding president Sukarno after a bloody 1965 coup, brought virtually all political and economic power under his control, and carefully shared it with his family and cronies. His legacy was a political culture in which rule from above and unquestioning obedience to the ruler were the mainstays.

Economically, the 1997–98 Asian financial crisis bankrupted many of the country's most important companies, and those that managed to survive were tainted by their close relationship to Soeharto and his clan. In many ways, politically and economically, the country started from scratch in 1998.

The crisis of 1997–98 left a deeper mark on Indonesia than on any other country. In 1998, its economy contracted by more than 13 percent—twice the drop experienced in Thailand or Malaysia. Alone among crisis countries, Indonesia experienced a simultaneous political upheaval. While it ushered in a democratic transition, it increased uncertainty and limited the government's ability to respond quickly and decisively. As well, the fact that corporate power was highly centralized and closely linked to the Soeharto regime magnified the extent of the fall, as did a fragile and corrupt banking system. Government intervention to stave off a complete banking collapse cost more than 50 percent of gross domestic product (GDP).

Despite success in restoring macroeconomic stability, it took longer for Indonesia to fully recover than its crisis-hit neighbours. The reasons include the very depth of the collapse, existing corruption, and a poor climate for business and investment. The problems have been compounded by a commitment to reform that has been inconsistent and too timid to break the hold of vested interests. The result has been relatively slow growth up to now: GDP is still about 10 percent below its 1997 level and investment is still below its pre-crisis level. The economy is growing too slowly to fully absorb new entrants to the labour force. Much of the banking system is still in government hands as a result of bailouts, and banks are still weak. The continued concentration of economic power means the benefits of growth go disproportionately to the privileged few. More than half the population remains vulnerable to poverty.

It is in this highly challenging context that Indonesia is attempting to build a new democracy.



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## The 2004 tsunami

On December 26, 2004, an earthquake in the Indian Ocean triggered a tsunami that resulted in the greatest humanitarian tragedy in Asia in living memory. The disaster claimed more than 220,000 lives, displaced half a million more, and caused US\$4.5 billion in damages. The most affected areas were in Aceh and North Sumatra, on the Indonesian island of Sumatra. Whole communities were wiped out; approximately 300 kilometres of coastline were severely damaged up to six kilometres inland, and countless homes, landscapes and habitats completely vanished. A significant proportion of the local governing authorities perished, severely hampering recovery efforts. The economic toll was also dramatic, exacerbating poverty and falling disproportionately on women and girls. More than three-

quarters of the losses were borne by the private sector, mainly small fisherfolk, farmers and market sellers.

## Democratic transition

In 1999, Indonesia held its first free elections in more than four decades. In 2004, the country took its boldest steps in democracy since the fall of Soeharto: it held elections for the national parliament, created a new upper house to represent the regions, and introduced regional parliaments. These were followed by the country's first direct presidential elections. These exceptionally peaceful elections were deemed by international observers to be free, fair and transparent. The new president, Susilo Bambang Yudhoyono, is committed to an open, accountable and transparent administration and has begun to take several steps to reduce corruption.

After years of authoritarian rule in Indonesia, democratic transition has been accompanied, not unnaturally, by instability and uncertainty. Civil society has grown, but tolerance for the views of others has yet to become a feature of political debate. Greater freedom has meant a larger voice for Islam, in the formal political arena and in civil society. Although the country remains secular, and moderate Islamic voices predominate, there has been some increase, at least by volume, in support for radical Islamic groups. Communal conflicts have flared. The role of the military in politics has been checked, but not decisively. National unity questions persist in Papua, and also in Aceh. In the aftermath of the tsunami,

peace talks have resumed and there is some hope that an acceptable political solution can be found.

Decentralization has been one of the country's most fundamental changes. City and county governments now have jurisdiction over areas such as health, education and culture, agriculture, investment, the environment, industry, and trade. A new system of revenue sharing was also established to provide regional governments with funds to finance their new responsibilities. Revenue sharing has generally pleased resource-rich regions that for years had seen all the wealth go to the central government. However, poorer regencies have complained that they do not have



## AT A GLANCE: CHRONOLOGY OF EVENTS IN INDONESIA

Aug. 17, 1945	Indonesia declares independence from the Netherlands; the Netherlands considers the declaration illegal; war ensues
Nov. 13, 1945	Sukarno becomes president
Dec. 27, 1949	The Netherlands recognizes Indonesian independence
Sept. 1955	Indonesia's first democratic election, and its last until 1999
1963–1965	Armed conflict with Malaysia and the Commonwealth (known as the “Years of Living Dangerously”)
Oct. 1, 1965	The army puts down a supposed Communist coup; hundreds of thousands die in the aftermath
October 1965	General Soeharto forces Sukarno to put him in charge of restoring order, becomes army commander
March 11, 1966	Sukarno signs over presidential powers to Soeharto
1966	Inflation at 640 percent, deeply in debt, no foreign reserves: Soeharto turns economic policy over to U.S.-educated technocrats
March 1967	Soeharto formally becomes president; the New Order begins
Dec. 7, 1975	Indonesia invades the former Portuguese colony of East Timor
Sept. 12, 1984	Tanjung Priok incident: dozens killed as army fires on Muslim demonstrators
July 2, 1997	Thailand floats the baht and calls for IMF help; Asian financial crisis begins
Dec. 9, 1997	Rumours that Soeharto is ill sends the weakening rupiah into free fall
May 12, 1998	Six students killed in protests against Soeharto; about 1,200 killed in riots
May 21, 1998	Soeharto resigns; the New Order ends
1998	Per capita GDP falls by 15 percent; poverty rates double; gross national income falls by more than one half; inflation and interest rates soar; national debt surges to more than 100 percent of GDP
June 7, 1999	Indonesia's first free parliamentary elections since 1955; Megawati Sukarnoputri's party wins plurality
Aug. 30, 1999	East Timor votes for independence in UN-sponsored referendum
Oct. 20, 1999	Parliament selects Abdurrahman Wahid as president; Megawati becomes vice-president
Jan. 1, 2001	Decentralization: wide powers transferred to local governments
July 23, 2001	Parliament impeaches Wahid; Megawati becomes president
August 2002	Parliament passes constitutional changes: military seats abolished, direct presidential elections approved
April 2004	Elections for national and local parliaments and a new regional representatives council. The vote is the country's second consecutive free election.
July 2004	First round of direct presidential elections
September 2004	Second round of direct presidential elections
December 2004	Indian Ocean tsunami hits Aceh and North Sumatra, claiming more than 220,000 lives





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## AT A GLANCE: POVERTY

- Pre-crisis success in reducing poverty masked the reality that those who moved out of poverty were still economically vulnerable.
- Then in 1997 came the crisis: the proportion of the population living on incomes below US\$1 a day rose from 7.8 percent in 1996 to 12 percent in 1999.
- The proportion of the population vulnerable to poverty (less than US\$2 a day) jumped from 50.5 percent in 1996 to 65.1 percent in 1999.
- Severe poverty has returned to pre-crisis levels in the cities, but not in rural areas.
- Absolute rural poverty rates are more than double those for urban areas.
- Infant mortality rates are double those in the Philippines.
- Maternal mortality is five times as high as in Vietnam.
- The heads of almost 90 percent of poor households are illiterate or have only primary school education.
- Seven of the poorest 14 provinces are in eastern Indonesia.
- Three quarters of the poor live in rural areas.
- In poor rural households, less than half the income is earned through agriculture.
- Access to natural resources is critical for the rural poor, but two thirds of the land is classified as forest; much of it is controlled by private and state firms.
- Disputes over access to resources are a direct or contributing cause of many conflicts.
- In the work force, women earn about 72 percent of what men earn.
- The 2004 tsunami affected some 1.8 million livelihoods and more than one third of the affected population is at risk of becoming poorer.
- Women, the poorest of the poor, suffered the greatest casualties in the tsunami.





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sufficient funds to meet their responsibilities. Although high local expectations often have not been met, it is clear there is widespread support for the idea that many decisions will be made closer to home.

Corruption has followed the shift in power and is increasingly a problem at the local level. District governments and legislatures are now formally accountable to their citizens, but transparency and real accountability have yet to be established.

Democracy has also meant a blossoming of civil society. Although many national non-governmental organizations (NGOs) are well established, there is a need to improve the capacity of local groups. Many regional NGOs are tiny and may represent only a few people. Many operate on a shoestring. This severely limits their capacity to hold district and provincial governments to

account. Although many organizations have the best of intentions, civil society has not been immune to corruption.

Civil society organizations (CSOs) are critical in bringing community views to government attention. But governments are often dismissive of community groups, and many Indonesian CSOs and NGOs see themselves in opposition to government. There is a development challenge in ensuring that government and civil society can cooperate for the common good.

## The Economy

In recent years, Indonesia has managed to sustain a modest recovery and has achieved some measure of stability. The economy is growing at an annual rate of 3-4 percent. Single-digit inflation has permitted the central bank to reduce interest rates. Deficit and debt levels have fallen. There

has been some progress in structural reforms, especially in bank and asset sales, which have supported macroeconomic gains. Cautious economic management and half-hearted reforms will combine to provide sustained but modest economic growth in the years ahead.

The tsunami has had a major impact on the livelihoods of fisherfolk and farmers in the provinces of Aceh and Northern Sumatra. Physical damage and economic losses are estimated at US\$4.5 billion, representing 97 percent of Aceh's GDP. The sectors most affected are housing, commerce, agriculture, fisheries and transport. Since Aceh only represents about 4 percent of Indonesia's economy, it is expected that the national GDP will drop by 0.1–0.2 percent.

## Natural resource management

Decentralization transferred considerable jurisdiction over natural resources to local and provincial governments. Given the complexities of natural resource management, local governments need to develop their capacity to handle the challenge. In some cases, local governments have used their new powers responsibly; in others, they have exploited resources as a source of easy wealth.

## Economic growth and the role of small business

The SME sector is relatively underdeveloped. Large corporations contribute about 60 percent of GDP, and 60 percent of corporate assets are owned by the wealthiest 10 families. The state



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sector also has a large role, even in such sectors as retail trade, construction, and small-scale manufacturing. As a result, small businesses find themselves squeezed by unfair competitive pressures from giant, well-connected companies. They also face other obstacles, including government-mandated monopolies and a banking sector that lacks the will and the skills to lend to small enterprises. Small businesses also face the same challenges as other businesses: corruption, legal uncertainty, and a poor investment climate.

Broadly based growth and increases in employment will require a more robust SME sector. Its expansion and increased viability are considered essential for the country to achieve real growth in employment and incomes, and thus tackle core poverty issues. In the agricultural sector, providing for SME development and linkages back to the farm gate not only generates income for business proprietors and their employees, but also makes it easier for farmers to bring products to market.

# WHAT CIDA IS DOING

Since 1991, CIDA's bilateral program has delivered over \$375 million in development assistance to Indonesia (as of March 31, 2005). For 2005–06, the planned budget is \$23 million, excluding reconstruction activities. Other CIDA branches have complemented the bilateral effort. The Multilateral Programs Branch provides assistance through a combination of programming, including core funding to multilateral organizations such as the World Bank and UN agencies, as well as major efforts to fight tuberculosis. The Canadian Partnership Branch works with the Canadian private and voluntary sectors.

All of these aid channels worked together in response to the December 26, 2004 Indian Ocean earthquake and tsunami. Canada reacted quickly to the disaster, providing emergency assistance and developing a long-term plan for reconstruction. The Government of Canada is contributing \$425 million over five years to support relief and rehabilitation work, of which \$130 million over four years is designated for reconstruction programming in the affected countries, including Indonesia. CIDA's emergency response in Indonesia included provision of water purification and shelter materials, wells and mobile water treatment units, emergency food rations, improved water and sanitation infrastructure, household and cooking items, medical supplies, and help in the reunification of children with their parents.

CIDA's bilateral program will follow two major streams: ongoing development assistance for Sulawesi, and reconstruction for Aceh. CIDA's program framework has integrated Aceh and

North Sumatra into its overall approach. Given that reconstruction needs will extend well beyond the four years of this program framework, it is anticipated that CIDA's reconstruction activities will dovetail into the next programming framework.

## In Sulawesi

**The program in Sulawesi will focus on the areas outlined below.**

### *Improved local governance*

The principal emphasis will be support for decentralization. Initiatives will be undertaken with government institutions at the national and local levels and will focus on fiscal management, consultative processes, and the provision of social services.

Decentralization will have a major impact on primary health services. Given the difficulty that the poor have in accessing health services, and Canada's experience and influence in the sector, assistance will aim to help local governments establish better systems for the provision of health services. Capacity building efforts will help district governments develop systems to monitor local progress on health indicators, including the Millennium Development Goals. Improved monitoring will better inform decision-making at the national and local levels on the allocation of funds, and will allow local governments to improve budgeting and planning that benefit the poor in the delivery of health services.

A key challenge is the need for local governments and local CSOs to develop the capacity to engage in constructive dialogue to ensure transparency and accountability. It is also important that they provide for the delivery of improved development through effective empowerment of the people.

In strengthening civil society, attention will be centred on organizations whose work will contribute to the implementation of decentralization. Programs will seek to increase public capacity to participate in decision-making at the local level and to build the capacity of CSOs to dialogue with governments and exert influence over decision-making.

### *Growth of the small business sector*

Given that SMEs have the most potential for job creation, government policies, combined with structural reforms, aim to promote more efficient and productive SMEs. There are also opportunities to remove gender barriers to entrepreneurship. Finally, decentralization provides opportunities for district governments to establish SME-friendly policies.

The program will employ a two-pronged approach. It will target government policies at national and local levels, as well as support services for improved business operations, with an emphasis on enhancing opportunities for women in small business. Existing projects in this area will be supplemented by new initiatives to create a more supportive policy environment

for SMEs. Linkages with programs on natural resource management can be developed through initiatives seeking to improve opportunities for SMEs in the agro-industry sector. There may also be linkages with the improved governance program because of the need for district governments to create policies that will support SME development.

### *Sustainable use of natural resources*

The past economic successes of Indonesia, based largely on resource extraction, have produced few benefits for local people and have contributed to rural poverty. The Indonesian government recognizes that access to natural resources and community empowerment are important for poverty reduction. Decentralization now allows these principles to be applied directly at the local level to increase access to, and use of, natural resources, to generate income and improve livelihoods for the rural poor.

Activities considered under this program area will focus on raising awareness and capacity building for local stakeholders to achieve the sustainable use of natural resources. Activities will be based around watersheds, in keeping with one of the key lessons learned from the environmental portfolio review. Initiatives will be closely linked to the program's proposed focus on improved governance at the local level. Changes in governance, particularly the implementation of decentralization measures (such as fiscal reallocations), will have a considerable influence on the sustainable management of natural resources.



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## In Aceh

**The program in Aceh will focus on the areas outlined below.**

### *Improved local governance*

CIDA will be working with national and local partners in a program similar to the one in Sulawesi. In Aceh, where up to 80 percent of local government personnel have lost their lives, the emphasis will be on replacing, retraining and strengthening the capacity of national and local partners to deliver pro-poor public services. Support will also be provided to CSOs that contribute to and support the implementation of decentralization, building capacity for greater public participation and influence in decision-making at the local level. This enhanced ability to dialogue with governments will be especially

important in the reconstruction period. In addition, CIDA will work at the community level to support peacebuilding initiatives.

### *Restoring livelihoods*

CIDA will target both enterprise assistance and restoration of natural resources in an approach similar to the one taken in Sulawesi. In the reconstruction program, CIDA will be stressing re-establishment of lost livelihoods for sustained survival, involving support in such areas as capital investment, microcredit and market development. Activities related to equitable access and sustainable use of natural resources will emphasize restoration of the natural resource base destroyed by the tsunami. Initiatives in this component will be closely linked to the program's proposed focus on improved governance at the local level.

## Gender focus is an integral part of both programs

Promoting women's political and economic empowerment is crucial. Support will be provided for CSOs that focus on enhancing women's participation in decision making, policy formulation, program and project implementation, and the electoral process. Capacity building support to governments will prominently feature gender issues to ensure that social programs are planned and implemented to take better account of the needs of women. Regular monitoring of the effects of decentralization on gender equality will be important, particularly in regions that

are planning laws based on religion. The promotion and integration of women's equality in curriculums for Islamic schools is another important part of the program.

Supporting civil society and encouraging more participation by women in CSOs will help advance the goal of gender equality and ensure that women can derive benefits from improved access to, and sustainable use of, natural resources. In terms of activities to support SMEs, new initiatives will include specific approaches and activities addressing issues for women, such as discrimination in the workplace and barriers to female entrepreneurs.





## AT A GLANCE: ACEH

Aceh is located on the northern tip of the island of Sumatra. It is administered as a special territory, which gives it greater autonomy from the central government in Jakarta. The capital and largest city is Banda Aceh, located on the coast near the northern tip of Sumatra. The major ethnic groups are the Acehnese, Gayo, and Alas, and there are also a substantial number of people of Arab and European descent.

Since 2003, Aceh has been the site of renewed conflict between the Indonesian military and the local separatist movement over both economic and cultural/religious issues. Many Acehnese people feel that most of the economic benefits of the region's oil and natural gas resources go to the national government and foreign corporations. In addition, a more conservative form of Islam is practiced in Aceh. The broadly secular policies of past regimes were especially unpopular in Aceh, where many resented the central government's policy of promoting a unified "Indonesian culture". This dissatisfaction has led to a long-running push in the province for greater autonomy, or complete separation, led by the Free Aceh Movement (GAM). Some local municipalities are also pushing to create new autonomous areas.

Nearly half of Aceh's approximately US\$45 billion in GDP is generated by the petroleum sector; fortunately, neither the oil and gas fields nor the natural gas plant were damaged by the tsunami. However, it did damage roughly 300 kilometres of coastline up to six kilometres inland, disproportionately affecting the poor. Some 65 percent of the population earns its living by fishing or farming, and 78 percent of all the property destroyed was privately held, including homes, fishing vessels, farms, and markets. In April 2005, the Government of Indonesia estimated that the tsunami had claimed 126,602 lives in the region, with 93,638 still missing and over half a million displaced.





## AT A GLANCE: SULAWESI



Sulawesi is the 11th largest island in the world and the fourth largest in Indonesia. Covering an area about twice the size of the island of Newfoundland, Sulawesi has a population of almost 15 million, divided into six provinces. The province of South Sulawesi accounts for about half the population. It also has the island's major city, Makassar, with about 1.3 million people. About 80 percent of the population practises Islam. North Sulawesi is predominantly Christian, and there is also a large Christian population in Central Sulawesi.



Sulawesi is one of the very poorest islands in Indonesia. In 1999, 23.7 percent of the population lived below the national poverty line. Three provinces—Gorontalo, South Sulawesi, and Southeast Sulawesi—are among the poorest in Indonesia.

Parts of Central Sulawesi

have seen outbreaks of communal violence, resulting in many deaths and the displacement of thousands of people. The conflict is due in part to migration, usually state-sponsored, that has upset the traditional ethnic balance by bringing in Muslim populations from Java or Madura. Local Christian populations have been marginalized. Militias from outside the area have played a role in accelerating the violence. Unlike conflicts in Aceh and Papua, the violence in Central Sulawesi has not been motivated by a desire for independence.

Sulawesi is rich in resources. Inco's nickel laterite mine, the largest Canadian investment in Indonesia, is located in South Sulawesi. The island is well known for food and non-food agricultural production, and its mountainous landscape produces some of Indonesia's best coffee. There are rich stands of timber and agricultural estates yielding coconuts, cacao, pepper, and spices. Fisheries and tourism are also important. In addition to nickel, there are also gold reserves.

# CONCLUSION

The immense volume of resources pouring into Indonesia for reconstruction in Aceh and Northern Sumatra, and the more than 200 organizations active on the ground delivering assistance, will test the country's capacity to manage the resources wisely and curb corruption. Complicating this picture is the ongoing conflict in Aceh, which has the potential to disrupt reconstruction efforts and threaten the safety of aid workers. The Government of Indonesia has committed to operating in a transparent, open and accountable manner in the administration of reconstruction funds. It has established a special financial oversight office in Aceh to ensure compliance and to clarify the roles of various participants, including the military and local civilian authorities. CIDA has also established a presence in Banda Aceh to coordinate its own activities with the Government of Indonesia, local officials and the rest of the donor community.

Indonesia's most pressing development challenge is reducing poverty and vulnerability to poverty. To meet this goal, CIDA will work closely with Indonesian partners and other donors. CIDA's mandate is to reduce poverty. Doing so in Indonesia will meet the security agenda of the Canadian government in creating a more secure and stable environment, which will in turn have positive effects on economic development. CIDA will work closely with Foreign Affairs Canada and other government departments to achieve this end.



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A key aim of CIDA's efforts will be to ensure the sustainability of development gains and of reconstruction activities. Indonesia's democratic transition and the involvement of civil society in the country's development process should ensure a much stronger foundation for progress in the years ahead.