



PostScript

Monthly Political and Economic Analysis

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State Minister for Bureaucratic Reform Taufiq Effendy in his meeting with members of the House of Representatives has stressed that his priorities are still the eradication of corruption and the acceleration of the reform of bureaucracy. The target, he says is to reduce corruption practices, to increase the corruption perception index (CPI) on Indonesia and to uplift society's participation in the corruption eradication. However, the increase of bureaucratic performance has to be supported by the more efficient and effective development, indicated by the decrease in the misuse of power among the government bureaucracy and the better service provided by the civil servants.

For this, there will be a public campaign connected to the national action plan in eradicating corruption in the central government institutions with the focus on the formulation of regional action plan in eradicating corruption in the field of land permit, investment, goods and service procurement, taxation and one roofed integrated administration system.

It has been known widely that bureaucratic practices in Indonesia is quite complicated. Complaints by Malaysian businessmen emphasized the bitter fact: they have to wait one to two years to get a permit to open palm oil plantation, a practice quite different from one in their country. But there has been a sign from the Minister of State Owned Enterprises (BUMN) Sofyan Djalil. He promises to cut the long line of bureaucracy short. He says that he will abolish all kinds of bureaucratic practices in connection with the BUMNs. He says that so far any decision is made by the BUMNs and the ministry. In the future there will be no longer be such a practice.

For instance, if a BUMN is going to build a factory or an industry, it has not to have a permit from the minister. The minister is also planning to make a matrix of policy and time of completion of the permit. There will be a decision which has to be completed in just a day or five days, a week or a month. A decision has to be made quickly. There is no need for many signs and countersigns; "my secretary's signature would be enough," says he. But first, he promises, and has to succeed, in ironing out problems inside the State Ministry of State Owned Enterprises itself. And, anybody knows that is not easy, because, Sugiarto, the State Minister for State Owned Enterprises before him, had not succeeded to do it in the previous 2,5 years. Will Sofyan Djalil be capable of accelerating the improvement during the rest of President Yudhoyono's 2,5 years cabinet tenure? Many people are skeptical, very skeptical.

The reform of bureaucracy peaks at the better or even best public services as stated in the Law on Public Services. All people might say that public service has a very strategic role in the reform of bureaucracy, but it seems to all also that the peak is still a long way to go. It has been six years since its inception in the form of academic transcript formulation in 2002 by the cooperation of the experts of the University of Indonesia, continued by material tests, experts meetings, socialization, its enactment in the National Legislation Program and inter-department discussions, but the discussion between the Commission II of the House of Representatives and the Government (the State Minister for Bureaucratic Reform) has just started on January 15, 2007.

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State Minister Taufiq stresses that the public services will not only meet the basic needs according to the civil rights, but has also had to meet other needs of services outside of the basic needs.

Taufiq is optimistic that there will be a continuous increase in the public services seen from the more and more regions provide the one roofed services. In 2005 there had been six regions provided the one roofed services, and in 2006 the number has increase to 95 and 283 in 2007. There has also been an increase in regencies epitomizing the best practices in serving their people. In 2005 there had only been 9 regencies but in 2006 there was an increase to 29 and in 2007 there has been 75 regencies practicing their best services to the community.

One of the most publicized regencies which has succeeded in the best practices in Sragen under Regent Untung Wiyono who has succeeded in reforming his bureaucrats. From 2001 till 2006 the number of civil servants in Sragen has been downsized from 13,000 to 11,000. Technology plays an important part in the practice of governing, where "if you want to send a report to the regent you do not have to use papers. E-mail is enough," says Untung.

Such an efficiency has enabled Untung to reduce the cost of operation. He also improves the civil servant's performance by implementing the reward and punishment system. His reform of bureaucracy has even attracted the United Nations Development Program (UNDP) to make Sragen Regency its working partner and lately has asked the regency to help it to direct the Aceh's government management.

The problem is, there are more than 400 regencies in Indonesia nowadays, as a result the Law 32 on the Regional Autonomy.

Jakarta Governor Election:

Incumbent versus Challengers

On August 8, 2007, Jakarta will be holding a direct election for regional head (pilkada). Almost six million Jakartans cast their votes to choose a new governor and deputy governor for the period of 2007-2012. As a capital of the state and center for governance, a direct election for regional head in Jakarta is very strategic. This election also have political impact on election 2009, legislative election and president election. For the first time the Jakarta governor and deputy governor will be elected directly. A ticket will need to secure at least 25 percent of the votes plus 1 vote to win the election .

There are several figures nominate to run for Jakarta governorship. They are: Fauzi Bowo (deputy of governor), Adang Daradjatun (former deputy chief of the National Police), Sarwono Kusumaatmadja (senator or member of Regional Governmental Council—DPD), Agum Gumelar (former minister and retired general), Bibit Waluyo (former Greater Jakarta Military Regional Commander—Pangdam Jaya), Faisal Basri (economist), Rano Karno (artist), Jeffrie Geofanie (businessman). But, among the governor candidates, there are two potential candidates: Fauzi Bowo and Adang Daradjatun. Fauzi Bowo has a support from the Golkar Party, the winner of 2004 national legislative election. Meanwhile Adang is backed by the Prosperous Justice Party, the winner of 2004 Jakarta legislative election.

Jakarta Coalition

One of the nominators for the Jakarta's 2007 governor election next August is Foke—as Fauzi is usually called. Foke is currently the deputy governor and have background as a Jakarta bureaucrat for a very long time. As an incumbent, public have assumed that Foke's opportunity to become the next Jakarta Governor for period 2007-2012 is more favorable than Adang.

Beside having Golkar support, Fauzi Bowo is also supported by the majority of political parties in Jakarta, as stated in the Joint Declaration of political parties' leaders in Mega Kuningan on Thursday, March 15, 2007. The political parties in the declaration are Democratic Party (PD), Indonesian Democratic Party of Struggle (PDI-P), United Development Party (PPP), Golkar Party, Prosperous Peace Party (PDS) and Star Reform Party (PBR). Furthermore, non-faction political parties joined in Non-Faction Jakarta Coalition like the Star and Crescent Party (Partai Bulan Bintang—PBB), the

Nation's Concern Working Party (Partai Karya Peduli Bangsa—PKPB), the Independence Bull's Nationalistic Party (Partai Nasionalis Banteng Kemerdekaan—PNBK), the Regional United Party (Partai Persatuan Daerah—PPD), Independent Party (Partai Merdeka—PM), the Indonesian United Nahdlatul Ulama Party (Partai Persatuan Nahdlatul Ulama Indonesia—PPNUI), the Marhaen (Little People) Indonesia Nationalistic Party (Partai Nasionalis Indonesia Marhaen—PNI Marhaen), the Indonesian Uphold of Democracy Party (Partai Penegak Demokrasi Indonesia—PPDI) and the Democratic Nationality Party (Partai Demokrasi Kebangsaan—PDK) also supported Fauzi. The Joint Declaration of political parties' leaders for Fauzi is called the Jakarta Coalition.

The head of Democratic Party, Hadi Utomo, said that the declaration is meant to gain mass force systematically to win Fauzi Bowo on the August local election. Utomo said that the purpose of the coalition is to create a strong, clean and effective regional government based on professionalism and togetherness. Another purpose is to improve the role and function of political party as the vehicles for people's aspiration to develop democratic process.

The deputy head of Golkar Party, Agung Laksono, said that in the joint coalition there is no one particular political party which is more favorable than the others.. "We all have the same vision and mission to make a better Jakarta in the future. Jakarta needs a figure that is capable to lead the capital because as the time goes by the challenges faced will be much harder to cope," added Laksono.

The chairman of the PDI-P advisory council, Taufik Kiemas, who is also the husband of party chairwoman Megawati Soekarnoputri, said the PDI-P decided to nominate Fauzi because of his experience in dealing with Jakarta's two chronic problems of flooding and traffic. "The party has received assurances from the candidate (Fauzi) and an explanation from him on how as governor he will solve these chronic problems," he said, declining to share the explanation. However, PDI-P Secretary-General Pramono Anung is more practical. He said the party has been backing Fauzi because he was seen as the candidate with the best chance of winning the election.

Meanwhile the National Mandate Party (Partai Amanat Nasional—PAN) and Nation Awakening Party (Partai Kebangkitan Bangsa—PKB) have joined the "Solution Coalition" which is supporting Sarwono Kusumaatmadja and Jeffrie Geofanie who were running as alternative candidates.

Fauzi vs Adang

June 7, 2007 was the last day for gubernatorial candidates to register for the August election in the Jakarta's Regional Election Commission (KPUD). While time was running out for other hopefuls to register, the incumbent deputy governor Fauzi was the sole competitor until just an hour-and-a-half before midnight. Rumors said that the Jakarta Coalition, which says it comprises 19 parties, were looking for a dummy candidate

Initially determined not to register before Fauzi and his running-mate Prijanto did, the former National Police Deputy Chief Adang and his running-mate Dani Anwar, a politician from the Prosperous Justice Party (PKS), were the first to sign up. PKS Jakarta chapter chairman Triwisaksana, who filled in the registration forms, said the change of mind was due to last-minute information that a third candidate existed. "We look forward to have more than two candidates in the election," he told reporters after

registering at about 8:15 p.m. As the winner of the 2004 legislative election in Jakarta, the PKS doesn't have to meet the required 15 percent voter threshold to run in the election.

The National Mandate Party (PAN) finally decides to support Fauzi Bowo and Mayjend Prijanto as governor and vice governor candidate on Jakarta Local Election 2007. "The decision was stated on 14.00 Western Indonesia Time," said Jakarta Head of the PAN's Regional Leadership Council (Dewan Pimpinan Wilayah—DPW) PAN, Andi Anzhar on Thursday, June 7, 2007. The decision, added Andi, "is based on the Central Leadership Council (DPP) PAN daily meeting the day before. As known before, PAN and PKB has been supporting Sarwono Kusumaatmadja-Jeffrie Geovannie and Agum Gumelar-Didik J. Rachbini on local election. As time run goes by, Sarwono-Jeffrie resigned from the candidacy and Agum-Didik could have not been collecting 15% votes as the requirement to be registered at the election commission.

The Nation's Zawakening Party's Jakarta chapter chairwoman Nursyahbani Katjasungkana told that her party, with its counterpart the National Mandate Party, had failed to meet the minimum voter threshold of 15 percent to name a candidate. The Regional Autonomy Law requires a party or a coalition of parties to have made a minimum of 15 percent of the votes in the 2004 general election, while the PKB only had got merely 3.5 percent voter threshold

Beside candidates from political parties, there are many independent "candidates". But, they will not be verified. The Head of Jakarta KPU, Juri Ardiantoro, said that Jakarta KPU will still apply the Law 32/2004 about local governance and the Law 22/2007 about local election procedure. "In those 2 regulations, it is stated that candidates for the coming governor and vice governor must be proposed and supported by political parties," said Ardiantoro in between the registration of candidates at Jakarta KPUD on Thursday, June 7, 2007 night, the last day for governor to register.

Until the closing time of the registration, there were only two pairs of candidates proposed by political parties or coalition. They are Adang Darajatun-Dani Anwar proposed by the PKS and Fauzi Bowo-Prijanto proposed by 19 political parties joined in a coalition. There are also 3 independent pairs of candidates. They are Mulyo Wibisono-Teddy Suryamaji, Cuk Sugiarto-HA Widodo and Rachmat Imanuddin-Adia Munandar. And there are also 2 independent candidates with no partners, Ewee Siong Wey and Suryanto.

Fauzi-Prijanto came down to Jakarta KPU accompanied by the Head of the Regional Leadership Council (Dewan Pimpinan Daerah—DPD) of Jakarta's Democratic Party, Ferrial Sofyan, as the representative. After the registration procedure was completed, Fauzi-Prijanto gave a press conference about their expectations and promises for the local election. Both were certain they will win the election because they are supported by 19 political parties which claim to have garnered around 75% of the ballots. They also explained their goals if they would be elected. Among the goals are to create a transparent governance and to transform all citizens' aspiration into citizens'-oriented real program.

Meanwhile, Adang Darajatun-Dani Anwar came down and were accompanied by the Head of Regional Leadership Council (Dewan Pimpinan Wilayah—DPW) of Jakarta's PKS, Triwicaksana. He, on behalf of the pair, said that PKS wants to make a change in Jakarta even though they are facing party oligarchy. Triwicaksana added that PKS is ready to work with the citizens to make a change. Adang Darajatun also

said he and Dani Anwar have prepared strategic plan to win the election.

After the registration was officially closed, Jakarta KPU would verify the administration tools of candidates starting from June 8 until 14, 2007. On June 12-13, there would be a medical examination for candidates at the Gatot Subroto Central Army Hospital. The determination of official candidates for the very first Jakarta local election will be announced on July 2, 2007. The number of the candidates will be announced on July 3, 2007. Meanwhile, the campaign will start from July 22 to August 4, 2007. Silent time is on August 5-7, 2007. And the election will finally be done on August 8, 2007.

New Governor's Homework

Next Jakarta's 2007-2012 Governor will face hard challenges because several problems demand to be solved soon. At least, there are 5 acute problems that will be the main priorities for the next Jakarta leader. Those problems are megapolitan project, creating safety condition to invite investors and economic growth to reach 6-7%, continuing city transportation and solving flood which needs, among others, the building of giant underground reservoir, garbage disposal and poverty among its citizens.

"I realize Jakarta development in my era is could not be separated from future developments. Future challenges that will face any coming governor is really hard in order to realize a competitive Jakarta condition," said Sutiyoso at Jakarta Regional House Office, Thursday, June 7, 2007. Sutiyoso is optimistic that Jakarta will have better future condition compared to what it was before. Sutiyoso also asked for the entire Jakarta society to create a safe and peaceful condition in connection with the election. "I hope the election implementation is a success and fair. Local election is Jakarta's future," said Sutiyoso.

Perspective of Democracy

According to democratic perspective, the decision by the majority of political parties in Jakarta to support current Deputy Governor Fauzi Bowo in August's gubernatorial election is not without consequences. This announcement could result in a head-to-head battle between Fauzi and Adang.

While some people may believe it is better to have just two candidates in the gubernatorial election, the Executive Director of Center for Electoral Reform (Cetro) Hadar Navis Gumay said that having too few candidates could result in low voter turnout because of the lack of options. "People might feel reluctant to lend their support since both candidates were little known before massive public relations campaigns over the past year," he said. Hadar said election hype would only reverberate among political parties and their most fervent supporters, as well as in the media, if their were only two candidates in the race. Both Fauzi and Adang have appeared frequently in public advertisements and in the media over the past year, but never introduced themselves as governor hopefuls.

Another political analyst and the rector of Jakarta's Syarif Hidayatullah State Islamic University, Komaruddin Hidayat, said the Jakarta coalition backing Fauzi was set up to counter the extensive political network of the PKS in Jakarta. "Those parties in the coalition do not feel quite happy about it, but they think they have no other choice if they want to win the election," he said. Komaruddin also warned that the decision by political parties to support candidates with little grassroots support would create a

“pseudo-government” that would act only on the needs of the parties instead of the voters.

Meanwhile, the PKS has expressed concern as only two figures are running for Jakarta’s governor. “If there are many candidates, the Jakarta regional elections would be more lively and the people could vote for more candidates according to their choices,” PKS’s President Tifatul Sembiring said. He said his party also deplored the absence of figures such as Agum Gumelar, Faisal Basri, Sarwono Kusumaatmadja and Bibit Waluyo in the candidacy as they were formerly mentioned as figures to run in the race. “This is questionable as it reduces the people’s choice to vote for figures who are expected to improve the national capital city’s condition,” he said.

Although facing a coalition of political parties supporting Fauzi Bowo, Tifatul admitted he felt not besieged as he only hoped that all the participating parties would play according to the prevailing rules. “Let`s play according to the prevailing regulations. They should not be arrogant nor spay democracy,” he said, adding that his party was not afraid of losing the election but would continue to support reforms which is undergoing in this country since 1998. “We will continue our struggle for the election like those in Depok, Sukabumi and Bekasi, all in West Java, where PKS had won the elections. We are for reforms. Jakarta must be reformed for the better. We hope Jakartans are against the status quo,” he said. (smn)

Reference:

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The Millennium

Development Goals and Poverty Eradication

On 8 September 2000, leaders and representatives around the world gathered at the United Nations Headquarter in New York to reaffirm their commitments towards a more peaceful, prosperous and just world. The milestone of the event was the launch of so called *the Millennium Development Goals (MDGs)* as the objectives with concrete measurable actions to address global problems such as poverty with its many dimensions. Prominently important from the MDGs is poverty eradication. It states that “we will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected” (Resolution of the General Assembly 55/2 on United Nations Millennium Declaration, para. 11).¹ More importantly, the MDGs further emphasizes two important objectives: “to halve, by the year 2015, the proportion of the world’s people whose income is less than one dollar a day and the proportion of people who suffer from hunger...” (para. 19).

After more than a half decade later, these objectives seem far from promising. According to Human Development Report 2003, since the 1980s, the number of people living in extreme poverty has increased by almost 100 million and at least 54 countries are poorer now than two decades ago.² To make the picture even grimmer, more than 800 million people experience from malnutrition, more than 13 million children have died because of diarrheal diseases and every year, over half a million women die during pregnancy or childbirth.³ The gap between the rich-developed countries and the poor-less developed countries seems widening. While those who are living in the Western world can easily meet their needs, those in African continent are still struggling to fight against extreme hunger to satisfy their basic needs. Does it mean the failure of the MDGs? Or does it have policy problems in the implementations? A careful examination is surely needed to assess the real problems to further rectify the flaws. And it will require global partnership among all stakeholders.

¹ The Resolution can be downloaded from www.un.org or www.undp.or.id .

² As cited in Focus on the Global South, ‘The Millennium Development Goals (MDGs) and the Eradication of Extreme Poverty and Hunger’, *Discussion Paper*, Asia Pacific Civil Society Forum, Bangkok, 6-8 October 2003, p. 2. The paper can be downloaded from <http://www.focusweb.org/pdf/MDG-2003.pdf> .

³ *Ibid.*

The Importance of the MDGs

Described in short, the MDGs “are the world’s time-bound and quantified targets for addressing extreme poverty in its many dimensions—income poverty, hunger, disease, lack of adequate shelter, and exclusion—while promoting gender equity, education and environmental sustainability”.⁴ It is the most comprehensive and details strategies to address poverty issues. They are prominently important because it starkly address the issue of human development as the central objective. In other words, “the MDGs speak directly to improving human lives”.⁵ For many decades, policymakers and economists had been focusing the development on increasing economic growth of a country. Since the 1990s, it started to shift towards endorsement of poverty eradication and human well-being as central objectives.

The MDGs are also important because they are the road map guiding countries to achieve human security in their development. Human security is security which puts people as the referent object. In other words, the idea is to provide people as the focus—and not the state—from chronic threats such as hunger, malnutrition, disease and repression. Human security also means “protection from sudden and hurtful disruptions in the patterns or routine of daily life”.⁶ Poverty eradication through MDGs is also seen as a parallel effort towards increasing global security. According to the Millennium Project, “poverty increases the risks of conflict through multiple paths”.⁷ Poor and hungry societies tend to have weak governments, making it easier for violent conflicts to erupt in struggling for vital resources. Therefore, increasing human security through MDGs is logical step to avoid such conflicts.

Another important point of the MDGs is its function to have global partnership, which includes trade, debt, aid and technology transfer. The Resolution affirms “to develop strong partnership with the private sector and with civil society organization in pursuit of development and poverty eradication” (para. 20). The MDGs are powerful tools than mere UN declarations because the progress can be objectively measured and monitored. MDGs are monitored by specialized agencies reporting annually to the UN General Assembly. Therefore, they can be “framework for accountability at local, national and international levels”.⁸ Rich-developed countries should then work hand-in-hand with poor-less developed countries to help the last group come out from extreme poverty situation. Poverty Reduction Strategy Paper (PRSP) of the World Bank and some other international financial institutions is the example to show commitment of those in developed countries to help their counterparts in less-developed ones.

⁴ UN Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, New York, 2005, p. 1.

⁵ Sakiko Fukuda-Parr, ‘Millennium Development Goals: Why They Matter’, *Global Governance*, Vol. 10, Issue 4, 2004, p. 395.

⁶ Bo Asplund, ‘Human Security, Human Development and the Millennium Development Goals, 22 July 2003 (speech at the Opening Session of a seminar organized by the Ministry of Foreign Affairs of Indonesia entitled “Human Security and Millennium Development Goals: Indonesia Efforts and the Role of International Communities”). The written speech can be downloaded from http://www.undp.or.id/statement/2003/20030722_rrspeech.asp .

⁷ UN Millennium Project, *op.cit.*, p. 9.

⁸ Fukuda-Parr, *op.cit.*, p. 397.

Poverty Reduction Strategy

Around the world, there have been various trends between regions in poverty eradication. Many countries have seen economic growth while others have experienced stagnation. In the developing world, headcount poverty rate decreases from 28 to 21 percent between 1990 and 2002.⁹ Poverty rate in China fell from 33 percent to 17 percent between 1990 and 2001.¹⁰ However, based on *UN Statistic Division 2004*, in Sub-Saharan Africa, little progress has been shown on poverty and hunger.¹¹ As cited by the UN Millennium Project, in this region, the number of people living on less than \$1 a day rose from 227 million to 313 million between 1990 and 2001; and the poverty rate increased from 45 percent to 46 percent in the same period.¹² In general, Sub-Saharan region in Africa is the region which is off track to meet every MDGs.

Reducing poverty and fight against hunger need a collaborative efforts from all stakeholders. There are still more to be done than simply PRSP imposed to a poor country. The US\$ 1 poverty line per day used by the World Bank has been a benchmark worldwide to quantify those who are living in poverty. However, critiques say that this standard still tells little about how people in different countries, regions and conditions experience poverty and hunger. It is considered inadequate to tackle different trends and dimensions of poverty among different populations.¹³ Thomas Pogge considers the World Bank's standard on counting the poor is problematic because it uses an income of \$1 per person per day in the United States in 1985 as the benchmark which deemed includes only spatial translation to examine the situation in other countries.¹⁴ This suggests that the World Bank's standard of \$1 is unreliable to understand poverty situation in many different countries and populations.

PRSP is also revealed to be problematic. PRSP is considered to "provide a key opportunity to mobilize national actors to achieve the Millennium Development Goals".¹⁵ Increasingly, PRSP is now used by major donor institutions such as the World Bank and the International Monetary Fund (IMF) as a framework for indebted countries to get financial assistance from them. In theory, PRSP is intended to be a document prepared by a country government—under the supervision of the World Bank or IMF team—that identifies the causes of poverty, who the poor are, and strategies to overcome the issue.¹⁶ It is supposed to be "locally generated and owned" by a local government. However, it turns to be another Structural Adjustment Programmes (SAPs) in which indebted countries have to be bent down to the Bank or IMF's policy prescriptions. In reality, local governments have only little control over their PRSPs.

⁹ UN Millennium Project, *op.cit.*, p. 14.

¹⁰ *Ibid.*

¹¹ *Ibid.*, p. 15.

¹² *Ibid.*, p. 14.

¹³ *Op.cit.*, p. 4.

¹⁴ Thomas Pogge, 'The First United Nations Millennium Development Goals: a cause for celebration?', *Journal of Human Development*, Vol. 5 No. 3, November 2004, pp. 380-385.

¹⁵ As cited by Nicola Bullard, 'The Millennium Development Goals and the Poverty Reduction Strategy Paper: Two Wrongs Don't Make A Right', in *Focus on the Global South*, *op.cit.*, p. 15.

¹⁶ Jenina Joy Chavez Malaluan and Shalmali Guttal, 'Poverty Reduction Strategy Papers: A Poor Package for Poverty Reduction', in *Focus on Global South*, *op.cit.*, p. 17-18.

More Works to Be Done

The MDGs has mentioned about global partnership as the important point to address the development and poverty issues. The commitment of those in developed countries to help those in poor societies needs to be translated in a way that based on human development and not merely the economic growth. The global partnership then will require cooperation between governments as well as civil society. Civil society groups deemed to be important in this matter because they have the knowledge, experience and networks at multiple levels to elaborate alternative development models.¹⁷ The focus should be the people or human development. It suggests that development programs should also address the real problems faced by marginalized groups such as women, children, ethnic minority, indigenous community, and those who have been systematically discriminated.

Sustainable solutions to poverty will also require a more comprehensive understanding on the root causes of poverty and its multidimensional aspects so that the right policies can be formulated. In the end, all efforts to address extreme poverty and hunger will definitely require participation from all people at all levels, not only government and related financial institutions. The people should have greater voice and power in shaping a country's development policy on how the national resources will be used. The idea is to have a bottom-up approach rather than a top-down one. The poor should not be excluded in the entire process because they experience the real problems and their views should be heard and taken into consideration in formulating poverty reduction strategies. (endah)

¹⁷ Focus on Global South, *op.cit.*, p. 11-12.

Indonesia

the Fastest Forest Destroyer

The record speed of Indonesia's deforestation, 1,8 million hectare per year during 2000 and 2005, has made the Guinness World Records even estimated it was the fastest in the world and put it in the 2008 Guinness World Record, counted from a record of 44 countries which collectively have 99 percent forest in the world.

Around 72 percent of Indonesian forest has been destroyed and half of them are destroyed by commercial cutting, forest fires, and land clearing for coconut-palm plantation.

According to the spokesman of South-East Asia Regional Forest Greenpeace, Hapsoro, Indonesia's forest cutting is also done by other countries which are growing their own forests in increasing percentage every year. One of them is China, which has been growing its own forest approximately as fast as 2 percent per year.

On the other hand, the speed of Indonesia's forest destruction is about 2 percent per year. It means that if China's forest better and better, Indonesia's forest, conversely, is getting worse. Besides China, other countries which use Indonesia wood are Japan, South Korea and the USA.¹

Table of Statue Wide of Permanent Forest in Indonesia between 1986 and 2000

Classification of Forest	Wide (ha) in 1986	Wide (ha) in 2000	Change of Wide (ha) 1986-2000	Percentage of Change of Wide (ha) 1986-2000
Production Forest	31,850,000	35,200,000	3,350,000	11
Limited Production Forest	30,520,000	21,800,000	-8,720,000	-29
Protected Forest	29,680,000	31,900,00	2,220,000	8
Conservation Forest	18,250,000	23,300,000	5,050,000	28
Conversion Forest	30,540,000	8,200,000	-22,340,000	-73

Source : "Strategic Plan of Forestry Department 2001-2005"²

¹ "Guinness Juluki Indonesia sebagai Penghancur Hutan Tercepat", at www.antara.co.id

² Potret Keadaan Hutan Indonesia, *Forest Watch Indonesia-Global Forest Watch (FWI & GFW)*, Edisi ke 3, Juli 2003

Data above shows that a wide change of conversion forest from 1986 till 2000 was till 22.3 million hectares, equivalent with -73 percent of the wide before.

Forest Watch Indonesia records that in the middle of 1990's, Indonesia had forest which was potentially damaged and which had been damaged around 41 million hectares.

Meanwhile, during the same period, a total forest degradation in Sumatera reached 5,831,404 ha, in Kalimantan 20,537,897 ha and in Sulawesi 2,006,262 ha.³

Indonesia's forest had decreased since agricultural period until 1997. Deforestation has begun to become an important problem since 1970's, when forest cutting as a commercial activation started in a very large amount. Actually the aim of the forest logging was to improve wood system production for a long time. But these activities had been having big impact on the forest degradation. That was also followed by a period of opening the area and conversion becomes another function.

In Soeharto era, in last 1960s, economic experts stepped fast and implemented policies to build the weak Indonesian economy. Economic experts had also decided to make companies with authorities to harvest and exported wood. Sumatera and Kalimantan were the main target of wood exploitation, since both islands have many specific plants which have high economic yield. They are also near with Asia market.

Forest Law of 1967 become a fundamental legal instrument to give the right to harvest the wood and many holder of the Right of Forest Exploitation (HPH) have got the right to manage a forest for 20 years. Although at the beginning the purpose of the provision of the right was to keep the forest areas permanent production forest, in fact this system has actually become the main cause of deforestation and forest degradation.

Illegal Logging

Illegal logging is another cause of worst deforestation and forest degradation in Indonesia. Illegal logging has happened widely and has become systematic activities in many areas and 2000 supplying around 50 to 70 percent wood needed in Indonesia. It is believed that illegal logging have been done by organized crime activities with support and intensive network. It was very difficult to pinpoint and captured people behind the illegal loggers who have unhesitatingly threaten government's understaffed forestry agencies.

Illegal logging has been happening widely in HPH areas as well as in conservation areas and national parks. Illegal logging keeps on increasing in conservation areas because of better wood potential quality than wood in production forest. Illegal loggers are people from forest areas who are believed hired by investors, seller, HPH holders and license holder, buyer of illegal wood from industry and some of legislator.

Illegal logging has spread out prompted by the sharp differences between the wood supply and demand in world market. It happens because Indonesia has pursued an aggressive policy in forest production sector without considering the sustainability of wood supply in long term.⁴

³ *Op Cit*

⁴ *Op Cit*

At the beginning of 2000, wood industry expanded without considering the wood supply capability. So, the lack of wood supply then was met by wood supplied by illegal loggers.

The impact of deforestation and forest degradation has changed a forest area to become susceptible to forest fire. It is also supported by long dry weather from the El Nino phenomenon.

A big forest fire in Kalimantan in 1982-1983 destroyed 210.000 km² in East Kalimantan. East Kalimantan was first the focus of wood production in Indonesia. In 1983 around 3.2 million hectares forest of the area Kalimantan had been destroyed by fire, around 2.7 million hectares of which was tropical forest. Level of damaged is directly correlated to level of forest degradation.⁵

Forestry Department has many times denied the allegation of the United Nation's Development Program (UNDP) that Indonesia is the fastest forest destroyer and that it will be included in the 2008 Guinness Book of Records. But, one thing could not be denied, it is the fact that wood processing industries in central of forest—Sumatra, Sulawesi, Kalimantan—have suffered a chronic lack of wood materials. This fact is the result of the so called super imposed *alias* an excess of exploitation without caring for the support capacity of the environment when forest product export was spurred horribly. The tremendous export of logs, raw rattan, and other raw materials were done along the first and second Five Year Plans during the period of 1969-1974 and 1974-1978. It was later corrected to be half finished and finished products export compulsory to pursue their value added.⁶

However, the mercantilistic character has embedded inside the mind of the national wood industrialists which has made everything even more uncontrollable. Efforts to brake and keep the wood cutting inline with the speed of re-forestry could never be in balance. Moreover, various forms of retributions and taxes are not effective to save Indonesian tropical forests which are said to have the richest and most varied biodiversity in the world. Along the rivers of Batanghari, Jambi; Barito and Mahakam in Kalimantan, Musi in South Sumatra, Siak in Riau, and many others, one can see for himself the barren forests, evidence of the history of deforestation which have been going on for decades and keeps on and on until who knows when.⁷

Attempts to Solve Deforestation

The legacy of the past has during the last few years been tried to overcome by enforcing the law of eradicating the illegal cutting and smuggling of logs. On local and national scale, the government has developed re-forestation, preventing de-forestation, involving the active participation of the society, building the sense of belonging of the society around the forests.

Of course nobody can judge its results in just one or two years. However, this matter has involved sociological character which has so far created. In the midst of poverty, the societies around the forests have become the part of in-separated parts of de-forestation activities and see that its is the only alternative for their survival.⁸ It

⁵ Op Cit

⁶ Suwidi Tono, "Di Balik Krisis Industri Kayu Nasional", *Jurnal Nasional*, June 18, 2007.

⁷ *Ibid*

⁸ *Ibid*

is the poverty and unavailability of opportunity that makes forestry problems come to critical phase. Obviously, law enforcement only will not help to overcome it. In other words, what lies ahead is the instant needs and instant fulfillment, while reforestation and the like needs time and has a future dimension.

Controversies truly entails the government efforts to solve deforestation by launching a war against illegal loggers. In one of cabinet meetings, the government has declared war against all forms of smuggling. It means, institutions like the Customs Office will be the vanguard. Forestry Minister Malam Sambat Ka'ban says that his department has a commitment to protect Indonesian forest.

Two years of fighting the illegal loggers has only got Ka'ban be reported to the police for defaming the reputation of a businessman. The operations he leads are also being criticized for their lack of coordination with the National Police Headquarters in determining who the suspects are. There are businessmen the police consider to be illegal loggers, while the Forestry Department regards them as clean.

The Forestry Department is committed to eradicate illegal logging and according to Ka'ban it is all a part of implementing the President's mandate on accelerating the eradication of illegal loggers. The police force as a state organization with the authority to enforce the law should be at the front. The police chief stressed that in 2006 illegal logging must have been overcome.

Now it has been 2007 and illegal logging are still causing many damages: landslides, flood, etc. It is difficult to overcome, and every body knows but it will expectedly be possible to be eradicated by a strong commitment and hard work with a better coordination between the government institutions, because many suspects that a number of government officials are involved in the evil acts as said by the Daily Head of the National Forestry Council, Agus Setyarso.

He alleges that it is the greed of the political and governmental elites that makes the wood cutting is done improperly and the deforestation happen. "They compete to get as much as possible in the name of foreign currency and regional income (PAD)," he says. The greed he adds has prompted the carelessness in looking at the possible impact until it is too late: the deforestation has been too big. Even then, there is still no drastic and systematic steps taken especially by the actors in the field, that is the regional governments, businessmen and the society.⁹

At the central level of government, Agus says that the handling of deforestation politically has made an improvement through some policies like *Gerhan* (the movement of replanting the forests and land), *HTR* (societies' forest cultivation) and other policies on accelerating forest plantation. However, those are incapable of keeping up with the deforestation. The level of deforestation has been too big that how fast would the replanting be it could not keep up with the lost. Consequently, according to Agus, the best way to handle the deforestation is making all sides to be more accountable. He mentions at least four ways could be done:

First, forests are divided into certain territorial and area units, with each unit has its own person who is responsible or accountable for it either in managing, representing local government or a person who is representing the central government. Thus, every step of the forests would have its person who must be responsible either the businessman or local government official, either community's forest or certain custom

⁹ Jan Prince Permata, "Empat Langkah Menanggulangi Deforestasi", jan@jurnas.com

area or forest under the responsibility of the central government through its person in the field. By this, then a regent would in the future not dare to hide under the name of the local government whenever he makes a mistake in the forest management which often happen in many regions.

So far people tend to run from their responsibility. If the mistake comes from a businessman, which businessman, or local administration, it is not clear. To investigate a regent the investigator has to get the letter of permission from the president which could take many years. Such violation cases usually disappear without trace. It must no longer happen in the future.

Second step is increasing public transparency. By doing so the public would know how far deforestation has happened in their territory and they will know who has to be accountable for the tragedy. Conversely, the public will also know which territory that has forest re-planted the forest. Thus, those who make mistakes would be 'hanged' by the people while those who make good deeds will get incentives.

Third step, clarify regulations for the responsible forest managers. The unclear regulation in forest management has made people reluctant to plant trees in forests whereas any tree planted would have good markets. The problem lies in the too long chain of bureaucracy for anyone who wants to plant trees in forests, to seek permission to open an industrial plantation forest, to make a societal forest or even to make people's plantation forest. So those who would make a good deed should be provided enough facilities to make them easier.

Fourth step, standardize the certification for every territorial unit, good or bad, then those certification be announced to all over the world, because the world now is seeking the conservation certificated wood from the forests with a price five or six times higher than wood from unclear sources. For the bad certificated territories which number around 70%, they must be put on moratorium. About the promoters of the illegal loggers, it is actually easy to handle. If regents, governor, generals can be put into jail, why the promoters cannot?¹⁰

Economic empowerment

To help people around the forests out of the poverty circle, the Forestry Department during the departmental tenure of 2004-2009 has formulated program of economic empowerment for people around the forests. It is one of five priority programs of Minister Ka'ban. It is said that from about 48 millions people living around forests, 11 million of them live below the poverty line. Social forestry is the application of the endeavor which its realization is done through the cooperation between the Department with private sectors which have got the permit to open an Industrial Plantation Forest (HTI). The development of social forestry and the social responsibility of the holder of HTI management rights is a form of community development, the essence of which is that societies inside and around forests will not be objects of forest development but subjects of it.¹¹

For the policy side, the Forestry Department open as wide as possible access to the societies to participate in the forestry management, some form of which are Forest

¹⁰ Ibid

¹¹ *Jurnal Nasional*, June 18, 2007.

Management Together with the Communities (PHBM) which has been done by Perum Perhutani in Java, Social Forestry in Central Kalimantan. The last form is the People's Plantation Forests (HTR). The HTR is a program in the form of establishing Public Services named Forest Development Funding Agency (BPPH). According to the Forestry Minister, this is an integral part of the concept of the People's Plantation Forests for which its institution has to be supported and strengthened. HTR business can be developed on areas owned by the Communities or areas burdened with other rights outside of the qualified forests areas for the people's plantation forests activities. The people's forest management development would become a business of managing the forest based on environment conservation.¹²

These activities aims also to improve people's prosperity, to provide industrial materials, to prevent food scarcity and to improve the quality of environment (prevention of erosion, flood and improvement of esthetics). According to the Head of Information Analytical and Presentation of the Forestry Department, Masyhud, for the social forestry policy more embedded to the forest management corporation, there is a condition that for the private businessmen to get the HTI concession it must be put forth officially that they will be involving members of the Communities. The schemes might be different; there will be plasma-nucleus, plant making contract, or it might be that members of the Communities plant the trees in their own areas but their yield will be collected by the industries.

In this case, the Communities' involvement is also the need of the corporations. Corporations working in forestry field must have close relationship with its surroundings or the community living inside or around the forests. Without any involvement of the societies around them they will not be able to work comfortably. In essence people can only work in good environment; get together, sharing and contribute to one another. So, says Masyhud, "it cannot be that they (the corporations) will merely be ivory tower in a place."

Through the social forestry policy then the absorption of manpower, especially local communities in various productive activities could be done. Beside the direct effect on the reduction of unemployment, the income of individuals or group of communities around the forests will increase. The forests can be more comfortable since their biodiversity will be kept intact even can become the eco-tourism activities. Moreover, because it is directly managed by the communities, they will keep their awareness to guard the forests. On the other hand, the group of communities' self reliance in technical work of forest and area management will improve the communities' ability in the area based business. (rah)

¹² Ibid

The Decrease of Operating Performance Companies Post Initial Public Offerings

Background

On April 26, 2007, Jakarta Composite Index (JCI) at Jakarta Stock Exchange (JSX) for the first time in history reached a new 'psychological' level at 2000 point and closed at the end of week at April 27 at 2.019 point. The increasing of JCI shows that the flow of capital from investor, both domestic and foreign, increasing and that was a good news for Indonesian economy. It means that investors trust Indonesia as a market to invest their fund. Some analysts say that to keep JCI's performance at this level, JSX needs supply of new public companies.

To push the supply of new companies, companies should become public companies and register their stock to capital market, or usually we called "going public". On the other hand, the choice to become public companies is an easy task. Many of public companies decide to become a private company again such as Komatsu, Sari Husada, Ades, etc.

Stocks offering process for the first time in capital market could be done by Initial Public Offerings (IPO) mechanism, offering the first stock to public investors. By definition, IPO is an event when a company offers its equity for the first time to public, as one way to fund its operation or to meet its needs of financing.

Life cycle theory explains that at the first phase, a company will be a private company. When the company becomes bigger, its financial needs also grows and cannot be met solely from internal sources. One of the alternative is to change the company from private company to public company and offers its stock to get fresh fund from the investors (Welch and Ritter:2002).

Damodaran said that the main advantage of a company going public is the increase of capital access in capital market to fund its potential projects that will support the company's growth. Other advantage is that the value of the company could be known by investors (Eiteman: 2004). Aside from that, becoming a going public company would add value of the firm and could inspire investors to increase their trust.

On the other hand, the cost that has to be paid by the company to go public is the less control by original investors because of the disperse of ownership. The company also has to meet all the requirements needed by capital market regulator, including disclosure and legal requirements. Thus, IPO would bring an advantage to a company when it has high opportunity to grow and financial needs and exceeds its potential

cost. So, when the fund from its internal source has covered its financial needs, a firm tends to choose to return to be private again.

Anomaly in IPO

Some people think that become a public corporation is a must for the company and would bring it a lot of advantages. The above theory tells us that a company will gain an advantage from IPO greater when the advantages exceeds the cost that has to be paid. But, is it always a good choice for a company to become public corporation? The following review on some empirical facts will show whether doing IPO would improve their operating performances.

The apparent logic is that an IPO should provide an opportunity for the company to grow up. It means that it can use the public's fund to finance its projects and gain profit from those projects. At the end, the funds earned from operational profit will flow back and strengthen the company's capital structure. But, empirical facts sometimes show the wrong direction.

There are three anomalies known in IPO activities. The first is the so called short-term under pricing, a phenomenon when an investor, who buys stock from an IPO and then resell the stock at the first trading day, will get positive initial return. That because the company will turn down its market price at offering below par-value of the stock.

The second anomaly is the long-term underperformance. It occurs when IPO firms undergoes a decrease in its performance in the long term. The decreasing performance could be seen from two sides, first, from stock performance or second, operating performance.

The last anomaly is the hot and cold market, a phenomenon which in some period, return of stock at the first trading day will create a certain pattern, that is, market pattern which has high offering volume and high average initial return (called "hot" market condition), while if it shows a different pattern, it is called "cold" market condition.

Operating Long-Term Underperformance

The early research about the operation of the long-term underperformance was done by Jain and Kini (1994). Jain and Kini tried to investigate the operating performance of 682 IPO firms who made the IPOs in the period 1976-1988 in New York Stock Exchange (NYSX). The result of the research showed that the operating performance of IPO firms decreased in the long-term which were measured by two variables of operating performance: operating return on asset and operating cash flow deflated by total asset. The decrease was not caused by the less sales opportunity or less capital expenditure. The sales and capital expenditure for these IPO firms show higher performance compared to the companies in the same industry. It means that there's something that triggers the decrease.

Other research from Kim, Kitsabunnarat dan Nofsinger (2004) also shows the similar result. Kim *et al.* examined 133 companies in Thailand which had made IPO at period of 1987-1993. From the test, Kim *et al.* found that in general, the operating performance of these IPO firms decreased. They even found that the Thailand decrease was more dramatic than the decrease in the US. They conclude that in developing capital market, the decrease would be very dramatic because of the less asymmetric market compared to developed capital market such as in the US. The

research from Ahmed and Mei (2005) also found significant difference between operating performance before and after IPO by 162 companies from 1996 to 2000 in Malaysia with operating return on assets, total asset turnover, and return on sales variables.

Jain and Kini presumed that there were three explanations on the the decrease of operating performance:

1. The increase in agency cost as explained by the research of Jensen and Meckling (1976) when a company becomes a public firm. Agency cost raises triggered by conflicts of interest between management and new stockholders that may push the management to expend the fund from IPO to buy unprofitable and unproductive assets. The consequence is the operating performance of these IPO firms worsens after the IPO compared to operating performance before IPO.
2. Management tries to window-dress or manipulate the accounting numbers in the financial statement before IPO. After the IPO, monitoring functions from the regulator and financial analyst could make it hard for the managements to do so. It causes the operating performance after IPO decreasing compared to the operating performance before IPO.
3. The entrepreneurs time their IPO to coincide with periods of unusually good operating performance. The original investors know that this good performance could not be maintained in the future. The result is that the operating performance after IPO for these firms decreases compared to operating performance before IPO

The common thread that could be drawn from those three explanations, Jain and Kini says, is that the cause of decrease in operating performance is the asymmetric information and or the conflicts of interest between the original and the new investors.

Conclusion

For some people, the decision to make IPO is a strategic decision for the growth of the company in the future. With the supply of fresh fund generated from IPO to expand their operations, companies expects to raise sales that would make good effect on the company. But, empirical facts show the other directions. IPO firms undergo decreasing operational performance instead of increasing, the decrease is even more dramatic in some developing capital markets such as Thailand. The cause of the decrease in operating performance after IPO compared to operating performance before IPO is agency cost, window dressing and entrepreneurs time to do IPO.

These empirical facts show that the option to do IPO should be the one that must be analyzed carefully by the original entrepreneurs lest it would be inappropriate. There are also other options to meet a company's financial need instead of trying to raise fund from capital market such through the issuance of bonds. The company could also choose its internal source of fund if it is enough for the company to support it growth in the future. And all investors know that raising fund from a capital market is the final option in pecking duck of financing. (dyah)



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