

Thematic Assessment

**Building Sustainable Peace:
Local Economic Development,
Natural Resources and Livelihoods
North Maluku, Maluku and Central Sulawesi**

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This independent report is based on independent assessments by Nick Mawdsley, Gary Swisher, H. Risnarto, Sulaiman Sembiring, Andiko, Robert Oszaer, Muchtar Adam and Suaib and does not necessarily reflect the views of UNDP or BAPPENAS.

Preface

The Crisis Prevention and Recovery Unit (CPRU) of the United Nations Development Programme (UNDP) Indonesia has been working in North Maluku and Maluku over the last three years with a focus on multi-sectoral recovery initiatives to complement the efforts of the Government of Indonesia to support post-conflict recovery, long-term peace-building and sustainable development. UNDP is also developing a three-year programme in Central Sulawesi aimed at supporting the peace process, providing short-term responses to vulnerable communities and working with local government and civil society in the design of the future programme. In all three provinces, UNDP works with provincial and district level partners including Government, UN agencies, international NGOs and civil society organizations.

In 2004, the CPRU commenced a planning process in cooperation with the National Planning and Development Board (BAPPENAS) to identify the key longer-term challenges and opportunities for crisis prevention and sustainable peace in Indonesia's troubled regions. The outcomes of these processes will lead to programme priorities for the next phase of programming in the provinces, as well as a revised strategy and priorities for the Crisis Prevention and Recovery Programme as a whole. These regional analyses have focused on three provinces – North Maluku, Maluku and Central Sulawesi – provinces where CPRU/UNDP has supported programmes since 2001. Each provincial analysis has consisted of three components, specifically (i) a provincial multi-stakeholder workshop, (ii) research consisting of a literature review, local perception surveys and case studies, and (iii) thematic assessment of key aspects of crisis prevention and peace-building that had been identified. The series of provincial level assessments commissioned by UNDP covered the following thematic issues (a) local economic development and natural resource management, (b) local democratic governance, (c) media and information, (d) social cohesion and youth, and (e) women and gender. The main conclusions of these reports are summarized in a synthesis paper, which along with all the thematic reports are available on the UNDP Indonesia website at www.undp.or.id.

This thematic assessment covers the issues of local economic development, natural resources and livelihoods and their relationship with conflict and peace in North Maluku, Maluku and the Poso region, Central Sulawesi. It is largely based on four assessments and reports completed in July 2004. These reports are *Local Economic Development (LED) Assessment - North Maluku* by Gary Swisher, H. Risnarto, Muchtar Adam and Robert Oszaer, *Local Economic Development (LED) Assessment Kabupaten Poso, Central Sulawesi* by Gary Swisher and Suaib, *Local Economic Development (LED) Assessment - Maluku* by Gary Swisher, H. Risnarto and Robert Oszaer, and *Promoting Peace and Sustainable Development: Strengthening Natural Resources Management Policies and Practices* by Sulaiman Sembiring and Andiko. The authors of these reports would like to thank all who assisted with this assessment and gave their time to talk with the teams in North Maluku, Maluku and Central Sulawesi.

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Executive Summary

Conflict in North Maluku, Maluku and Central Sulawesi has had a major effect on the economic prosperity and livelihoods of people in these areas. Virtually no sector or sub-sector of the economy was unaffected by the conflict and it is clear that the economic impacts of these conflicts are still being felt in 2004. Conflict in these three regions occurred soon after the onset of the economic crisis of 1997-98, and while much of the country, especially Java, felt the impacts of the 1997-98 economic crisis, it is clear that conflict has had a much greater impact on their regional economies both in terms of the depth and length of the crisis with the combined economy of Maluku and North Maluku contracting by approximately 30 percent in real terms. By 2002, Maluku and North Maluku had still not shown significant signs of economic recovery in comparison to the rest of the country where regional economies had recovered and grown over 1996 levels.

Overall, the economic performance of Maluku and North Maluku provinces is low in comparison with other provinces. The Gross Regional Domestic Product (GRDP) of North Maluku and Maluku provinces reached Rp. 1,986 billion and Rp. 3,405 billion respectively in 2002, equivalent to per capita GRDP of Rp 2.5 million in each province. In terms of per capita GRDP, Maluku and North Maluku ranked 26th (US\$ 1094 per capita) and 28th (US\$ 950 per capita) respectively out Indonesia's 30 provinces in 2002. In contrast, Poso, a predominately rural district, appears to have a stronger local economy than comparable districts in Maluku and North Maluku with a per capita GRDP of over Rp. 4 million in 2002.

The prosperity of people in North Maluku and Maluku is associated with these relatively low levels of GRDP as well as the impacts of the conflicts. In 2002, one in three people were living below the poverty line in Maluku province, while in North Maluku the official figure for 2002 was around one in seven people. Poverty rates in Poso rose from 29 percent in 1999 to 33 percent in 2002. The distribution of regional poverty and economic activity varies within these provinces. The most apparent is Maluku, which is highly inequitable with over 40 percent of the province's economic activity concentrated in Ambon city.

Prior to the conflict, agriculture was the lead sector in both North Maluku and Maluku provinces. In Maluku and Ambon, fishing was the main agricultural sub-sector, while in North Maluku the leading agricultural sub-sector was estate crops. In Poso, forestry and agriculture is the lead sector (primarily estate crops) followed by wholesale and retail trade, and government and public services

In Maluku, the economic impact of the conflict have mostly been felt in Central Maluku, Buru and Ambon districts, while South-east Maluku, Aru and MTB experienced a relatively limited impact and have shown signs of much faster recovery. Central Maluku and Buru were worse affected economically than Ambon by the conflict. In North Maluku, the agriculture sector declined as farmers evacuated their homes, abandoning the fields and crops. Those who remained could not sell their harvested produce as local buyers and traders had evacuated the areas and transportation to outside markets was considered dangerous. Prices of key commodities fell drastically as local markets collapsed. Conversely, local government services grew during and immediately after the conflict, mirroring the trend in Maluku. The economy of Poso district was the least affected of all conflict regions considered in this assessment. However, the conflict continues to affect the economic and employment situation, particularly in the seven sub-districts where conflict occurred.

The conflict in these three areas has had clear impacts on employment and local industries, especially in urban areas. Unemployment is believed to be a potential risk factor in future conflict and remains an important issue for future economic and social development policies. In North Maluku as a whole, although the conflict has given rise to job losses, official data suggests that the impacts of the conflict on employment were limited, in part due to the importance of the agricultural sector in people's livelihoods. By contrast, open unemployment (the proportion of the labour force seeking employment) in Ambon in 1999 was very high at 21.9 percent and has been cited as a factor contributing to the outbreak of violence. Open unemployment in 2002 was only slightly higher than the national average in North Maluku and Maluku. Rural districts tend to have lower unemployment

rates, while urban Ambon and Ternate had the highest unemployment rates above the national average. Employment in the informal sector was higher than the national average in North Maluku, Maluku and Poso. Its important has grown considerably in Ambon, accounting for almost half the employment in 2002.

As a small province of scattered islands, the North Maluku economy is dominated by small businesses, informal trade, farmers and fishers. Medium to large-scale businesses were few before the conflict, limited to several sawmill and plywood manufacturers, mining companies, copra oil milling, medium-sized fishing companies and several state-owned enterprises. During the conflict, large and medium enterprises ceased operations for several months as employees stayed home or evacuated to safer havens. In the post-conflict period, as security was established, repairs were conducted and, as employees returned to their homes, operations resumed albeit at a reduced level. In Maluku province, the number of companies decreased by over 20 percent and investment fell by almost three-quarters between 1998 and 2002. This led to redundancies with over 30,000 people losing their jobs, more than 40 percent of the workforce employed by these industries. The trading sector had similar impacts. In 1998, Maluku had 15,102 traders with 11,237 of these being small scale traders. Between 1998 and 2002, the total number of traders declined by over 50 percent with large and medium-sized traders showing the greatest declines. Overall, Poso lost roughly one-third of its industries between 1999 and 2003, almost all of which were small-scale or home-based.

The regional economies of North Maluku, Maluku and Poso are dependent on a range of primary commodities. Very little product is consumed locally as local markets absorptive capacity is small in these areas. The primary commodities of North Maluku were all negatively affected during the conflict. For 3 to 6 months, copra, clove, nutmeg could not be sold locally or shipped due to fear, lack of buyers and difficulties in shipping. Many farmers did not even harvest, but focused on food crops and fish for survival only. Other farmers harvested and stored the produce in safe places. The major commodities produced in Maluku province are export commodities and there is some local processing in Ambon, Seram and Buru including wood, fish processing and limited coconut oil refining. The primary domestic destination for Maluku commodities is Surabaya, while export destinations include Japan, Korea, Thailand, China, Saudi Arabia, Bahrain, U.K. and Europe. The major commodities produced in Poso district undergo little local processing as markets are far away and investment and local manpower is limited. In the sub-sector of tree crops, no private medium or large scale plantations exist. All production derives from smallholder managed tree crop farms. Products include coconut/copra, clove, cocoa, coffee, cinnamon, vanilla, cashew nut, and pepper. Of these, cacao is the largest crop by area planted and copra production is the largest commodity by volume.

The natural resource management policies, institutional frameworks and practices of Indonesia's New Order regime (1966-1998) are widely acknowledged as having planted the seeds of conflict in many areas of the country. National policies such as the Forestry Act (1967) and Mining Act (1967) gave central government full authority in these areas. In the forestry sector, this meant over 50 percent of the land area of Indonesia came under the control of one department. Customary institutions that formerly exercised local authority over land and natural resources were disregarded and eventually replaced by formal government structures in the 1979 Law on Village Governance. Natural resource management in Indonesia has been almost solely linked to extractive resource industries without effective policies to support community-based natural resource management that would benefit community livelihoods and poverty reduction.

North Maluku and Central Sulawesi (as well as Maluku) are rich in natural resources (minerals, forests, sea produce, and plantations) and have dynamic populations with much immigration from other provinces. The control of land in Maluku, North Maluku and Central Sulawesi is dominated by State Forest Land. In Maluku, the Department of Forestry controls 92 percent of land, while in Central Sulawesi the figure is 69 percent. In these areas, local policies and practices have little sensitivity to the potential for conflict. The role of long-standing disputes over access and control of natural resources can be seen in the conflict in North Maluku and Central Sulawesi (as well as Maluku). In North Maluku, local disputes in relation to mining, boundary changes and employment in North Halmahera clearly influenced the dynamics of conflict. In all three provinces, the emergence of local violence

between villages can be traced to existing land and other disputes. Displacement has further complicated this with the emergence of secondary disputes over land and property as a result of people moving onto land and into properties owned by other people. These present massive challenges for the future.

Although regional autonomy has generated the possibility to make fundamental changes in governance, natural resource policies in Indonesia remain sectorally-based and centralised. Outside of the nation's forest estate, the management and administration of non-forest land was the responsibility of the National Land Agency (BPN). Following regional autonomy, much of this has been delegated to the districts and the duties of district governments are described in Presidential Decree 34/2003. In a related policy initiative, Bappenas has been tasked by the government to review and formulate a new National Land Policy, which is expected to be completed in 2005, while BPN is reviewing the 1960 National Agrarian Law. The problems of local governance and capacity have meant that local land administrations are not operating effectively. The problems for land administration are even more acute in Maluku, North Maluku and Central Sulawesi, where few people hold title deeds and ownership is difficult to substantiate following conflict and destruction of people's property. The large proportion of land controlled by the Department of Forestry also potentially creates difficulties for rural customary land owners, who have little possibility at present of gaining formal title to their land, with the associated impact this has on livelihoods.

Conflict sensitive local economic development is an integral part of the peace building process. It is also very clear that the post-conflict situation particularly for young men (but also for young women) is a crucial factor in seeking long-term peace, because they are the most susceptible part of society to the frustration and resentment that can lead to violence. Helping them to attain a decent stake in the local economy can be a major factor for peace. Subsequent inequalities and disparities in local economic development that have contributed to conflict in the past need to be addressed as a major pillar of efforts to improve local social integration and cohesion. Donor support is not sufficient to directly engage all of the people who could benefit from local economic development assistance, so its support must be focused to support the role and institutional capacity of service providers to strengthen the livelihoods of vulnerable groups including youth, women and IDPs through improved access to credit, markets and commodity-specific knowledge.

Local administrations recognize the importance of these issues and in some areas have a strong will to move forward. Local policy measures for spatial planning, natural resource management and processing and steps to enhance access to land and related public services are required but will take time to emerge and be consolidated. The issues presently being faced include limited capacity in terms of insight on national policy frameworks, administration and the development of appropriate local policies and reform measures. Difficulties in facing these issues are compounded by the sensitive post-conflict context and the core role that land and property have in people's lives and their livelihood security.

1. Introduction

Communal conflict broke out in Central Sulawesi in 1998 and in Maluku and North Maluku in 1999.¹ These conflicts arose on the heels of a major national economic and political crisis that led to the formation of a new national government with commitments to democratic and economic reforms and the implementation of a far reaching decentralization programme. For the regional governments of Maluku, North Maluku and Central Sulawesi, this entailed coping with the challenges of the introduction of regional autonomy in 2001 as well as the impacts of sectarian conflict. These events had major implications for the local economies of these provinces and the nature of the policies and programmes that could be put in place to support recovery, peaceful development and pro-poor economic growth.

This paper looks at two main issues regarding the conflicts in these three provinces. First, it looks at the economic contexts of each region, assesses the impacts of the conflicts on the local economies and looks for signs of economic recovery. Second, it explores the linkages between natural resources, livelihoods and conflict in these areas and asks to what extent natural resource management policies and practice played a role in the dynamics of conflict and peace. The findings presented here are based on the work conducted by two teams that focused on local economic development and natural resource management respectively.² Field visits were undertaken in May and June 2004 to North Maluku and Central Sulawesi to collect data and interview key respondents to understand the current economic situation in each province, build profiles of the economies of the different provinces and selected districts, and identify key issues regarding natural resource management.³

¹ See Thematic Assessment on Social Cohesion for more details of the conflict context of each province.

² *Local Economic Development Thematic Assessment Team*: Gary Swisher, H. Risnarto, Robert Oszaer, Muchtar Adam and Suaib; *Natural Resources Assessment Team*: Sulaiman Sembiring and Andiko.

³ Unfortunately it was not possible to visit Maluku during the period this study was made, however economic data were collected and a brief report

1.1 Economic Development, Resources and Conflict

Violent conflict has a significant cost to economic growth and the prosperity of people living within conflict areas.⁴ The direct impacts of death, loss of property and assets and displacement are clear, but the indirect impacts on economic production and trade can be pervasive. Stagnant growth rates in post-conflict areas can further increase regional inequalities and the marginalization of areas within countries and regions. There is also strong evidence that low economic growth and unemployment can make post-conflict areas more prone to slipping back into conflict.⁵

Just as conflict affects economic growth, economic resources can be factors driving conflict.⁶ The capture of resources, be they specific natural commodities, land or political resources, is often at the heart of many conflicts. Distributive issues and the equity of access to economic assets, especially land, employment opportunities and public service provision can also have an important impact on real and perceived socio-economic disparities and grievances that fuel conflict. Although this paper focuses on economic and natural resource issues, it does not contend that other factors were and are not important in the

produced on the local economy in Maluku. The conflicts in these provinces affected the collection of data by the local branches of the Central Bureau of Statistics (BPS). This has led to the qualification of BPS published data, especially for the periods of 1999 and 2000. In North Maluku and Maluku, the new districts formed since 2002 have not published annual statistics, so that the district profiles described relate to those of the older district boundaries from 1999-2002 in each province.

⁴ Stewart, F. & V. FitzGerald (2000) War and Underdevelopment. Queen Elizabeth House Series in Development Studies

⁵ Ballentine, K. & H. Nitzschke (2003) Beyond Greed and Grievance: Policy Lessons from Studies in the Political Economy of Armed Conflict. International Peace Academy Policy Report.

⁶ Collier, P. et al. (2003) Breaking the Conflict Trap: Civil War and Development Policy. A co-publication of the World Bank and Oxford University Press; Humphreys, M. (2003) Natural Resource, Conflict and Conflict Resolution.

dynamics of conflict and peace in these three provinces.

Chapter 2 of the report focuses on the local economies in North Maluku, Maluku and Central Sulawesi and presents a macroeconomic overview of these regions, the impacts of conflict on their economies, employment and industries, and primary commodities, and the current status of financial institutions and public expenditures. The economies of all three provinces are largely dependent on primary commodities, and Chapter 3 reviews the issues regarding natural resource management (NRM) in North Maluku and Central Sulawesi including the linkages between NRM and conflict. Chapter 4 presents an overview of a proposed strategic response in support of sustainable local economic development and natural resources management in the context of promoting peaceful development in these provinces.

1.2

1.3 General Features of the Areas

North Maluku

The province of North Maluku lies in the eastern Moluccas archipelago of Indonesia, between Sulawesi and Irian Jaya. Until 1999, North Maluku was part of Maluku province, then the largest province in Indonesia, covering over 850,000km², ninety percent of which is sea. Between them, Maluku and North Maluku consist of almost one thousand islands, of which only a few are larger than 1,000km². The largest island of North Maluku is Halmahera. Smaller, but politically important islands are Ternate and Tidore.

The provincial government of North Maluku was established in 1999 by splitting

the two northern most districts of Maluku, North Maluku and Central Halmahera, off from the Province of Maluku. The new province consisted of one municipality, two districts, 45 sub districts, 86 urban villages and 644 rural villages spread over 33,321 square kilometers of land area. In 2003, North Maluku district was further divided into the new districts of North Halmahera, West Halmahera, South Halmahera, and the Sula Islands, while the new district of East Halmahera and the municipality of the Tidore Islands were split off from Central Halmahera district (see Table 1-1). Caretaker Bupati's and Mayor's were appointed by the Governor, and elections for local DPRD parliament took place in April 2004. Elections for Bupati's and Mayors will take place in 2005.

The total population of North Maluku in 2002 was 794,024 people in 159,025 households, at a population density of 23.8 persons per square kilometer. More than 85 per cent of North Maluku citizens are Muslim; the remaining 15 percent of the population are Protestant, Catholics, and other religions. Migrants from outside North Maluku constitute 7.1 per cent of the population, of whom 51.9 per cent are from Sulawesi and 37.9 per cent from Java.

As a direct result of the conflict, the population of North Maluku declined by nearly 9 percent in 2000, as residents sought safe haven from the conflict in Sulawesi, Java and other provinces. The population declined by 13.7 percent in Ternate city and by 6.4 percent in the former district of North Maluku. While the population of the province has recovered somewhat by 2002, it was still down by 6.8 percent over 1999 levels, as seen in Table 1-2.

Table 1-1: New and Old Administrative Districts, North Maluku province.

Source: UNPCO, Ternate, North Maluku.

2000				2003		
District (Capital)	No. of Sub-Districts	No. of Villages	No.	District (Capital)	No. of Sub-Districts	No. of Villages
North Maluku (Ternate)	18	541	1	West Halmahera (Jailolo)	5	163
			2	North Halmahera (Tobelo)	9	192
			3	South Halmahera (Labuha)	9	188
			4	Sula Islands (Sanana)	6	78
Central Halmahera (Tidore)	12	113	5	Central Halmahera (Weda)	3	31
			6	East Halmahera (Maba)	4	58
			7	Tidore City Islands (Tidore)	5	56
Ternate City (Ternate)	4	60	8	Ternate City (Ternate)	4	60
Total	34	714		Total	45	826

Table 1-2: Population of North Maluku 1998 – 2002.

Source: BPS - Maluku Utara Dalam Angka 2000, 2001 and 2002

District/City	Persons				
	1998	1999	2000	2001	2002
Ternate	-	-	163,467	189,161	143,776
North Maluku	654,295	675,587	468,802	469,168	496,473
Central Halmahera	172,388	176,094	145,234	146,645	153,775
Total Province	826,683	851,681	777,503	804,974	794,024

The Municipality of Ternate was established on November 11, 1999, in the same year as the Province of North Maluku was established by separating the two northern districts from the Province of Maluku. The city actually consists of eight islands, five of which are inhabited (Ternate, Hiri, Moti, Mayau and Tifure), four sub-districts and sixty villages (35 urban villages and 25 rural villages). The total population of the Municipality of Ternate was 120,865 persons in 22,873 households as per the BPS civil registry of 2002. The islands cover 248 square kilometers with a population density of 484 persons/square kilometer.

In 2003, the District of North Maluku, with 18 sub-districts and 541 villages, was divided into four new districts (North Halmahera, West Halmahera, South Halmahera and the Sula Islands). In 2002, the population of North Maluku district reached 496,473 persons and 98,574 households, accounting for almost two-third of North Maluku province's total population.

Maluku

The province of Maluku lies between Sulawesi and Papua and is an archipelagic region consisting of 559 islands. Maluku has a total area 581,376 area square kilometers, consisting of 54,185 sq. km. of land area and

administration of Maluku changed broadly in 1999 with the establishment of the new province of North Maluku. In addition, new districts within Maluku province were established, namely West Southeast Maluku (split from South-east Maluku district), and Buru district split from Central Maluku district. In 2002, the province consisted of four districts and one municipality, consisting of 42 sub-districts (including 13 supporting sub districts), 840 villages (33 urban villages and 807 rural villages) spread over 54,185 square kilometers. In 2003, three new districts were established, namely the Aru Islands, split from Southeast Maluku district, and West Seram and East Seram, split from Central Maluku district. At present there are seven districts and one municipality, consisting of 42 sub districts and 858 villages. Table 1-3 shows the administrative structure of the province.

In general, the population of Maluku from 1998 to 2002 has been in decline, decreasing at a rate of 4.1 percent per year (Table 1-4). In 1998 the population of Maluku (excluding North Maluku) was 1,476,859 persons and 296,372 households. During the conflict period from 1999 to 2000, the population decreased by 11 percent to 1,200,756 persons and then increased during 2001 and 2002 to 1,264,256 persons. The City of Ambon and Southeast Maluku district experienced the largest drop in

population during the conflict period compared with other districts, with decreases ranging from 18-29 percent per year in Ambon, and 25-50 percent per year for Southeast Maluku district. From 1973 to 1999, a total of 16,396 families from Java, Bali, NTB and NTT were transmigrated into Southeast Maluku district, Central Maluku district and Buru Island district.

Table 1-3: Administrative Regions in Maluku (2003).

No	District (Capital)	No. Sub districts	No of villages		
			Urban	Rural	Total
1	West SE Maluku (Saumlaki)	7	1	187	188
2	South-east Maluku (Tual)	5	6	125	131
3	Aru Islands (Dobo)	3	0	119	119
4	Central Maluku (Masohi)	10	6	137	143
5	West Seram (Piru)	4	0	89	89
6	East Seram (Bula)	5	0	76	76
7	Buru Island (Namlea)	5	0	62	62
8	Ambon City	3	20	30	50
Total		42	33	825	858

527,191 square kilometer of sea. The

Table 1-4: Population of Maluku 1998 – 2002.

Source: BPS - Maluku Dalam Angka 2000, 2001 and 2002

District (Capital)	Persons				
	1998	1999	2000	2001	2002
West SE Maluku (Saumlaki)	154,335	158,615	149,790	152,640	154,126
South-east Maluku (Tual)	289,676	192,953	193,772	200,141	289,676
Aru Islands (Dobo)					
Central Maluku (Masohi)	528,062	499,486	526,017	560,624	548,525
West Seram (Piru)					
East Seram (Bula)					
Buru Island (Namlea)	116,768	118,950	125,097	136,232	134,972
Ambon City	314,417	265,830	206,889	220,988	233,319
Total Province	1,403,258	1,235,834	1,201,565	1,270,625	1,360,618

The City of Ambon, with a total area 377 square kilometers, consists of 3 sub districts and 50 villages (20 urban and 30 rural). The city of Ambon is both a municipal government, and the capital of Maluku province government. The sub districts within Ambon include Teluk Ambon Baguala (Passo) with 18 villages, Sirimau (Karang Panjang) with 19 villages, and Nusanive (Amahusu) with 134 villages. In 1998, 21.3 percent of the total population of Maluku province was concentrated in the City of Ambon. This percentage had decreased to 18.4 percent by 2002. Overall, the total population of Ambon in 2002 was still about 9 percent less than it was in 1998.

The District of Buru, with a total area of 12,674 square kilometers, consists of 3 sub districts and 2 supporting sub districts, and 62 villages. The capital of Pulau Buru district is located in Namlea. In 1998, only 7.8 percent of the total population of Maluku Province was concentrated on Buru Island. This percentage increased to 10.6 percent in 2002. From 1998 to 2002, the population of Pulau Buru has risen and declined, mostly due to the impact of the conflict. In 1998, total population was 116,768 persons in 23,354 households, which had increased to 134,972 persons and 28,178 households by 2002. Buru has received a total of 43,661 transmigrants since the 1970s, who have mainly settled in the Airmata Kabu, Sariputi, Bula-Tanjung, Silat and Allang Anaude areas of Buru.

The District of Central Maluku with a total area 19,594 square kilometers was divided into three districts in 2003. Central Maluku was the largest district within Maluku and in 1998 was home to 36 percent of the total population of

Maluku. Between 1998 and 2002, the population of Central Maluku varied from year to year due to displacement and subsequent return as a result of the conflict. By 2002, 43 percent of the province's population was living in Central Maluku.

Central Sulawesi - Poso

The district of Poso is located in the center of Sulawesi, Indonesia's fourth largest island. Central Sulawesi is made up of seven districts and one municipality, the provincial capital city, Palu. In 2002, the district of Poso consisted of 15 sub districts, 210 rural villages, 29 urban villages, and 5 transmigration villages (still under transmigration jurisdiction) spread over 14,434 square kilometers. Previously, in 1999, the district of Morowali was formed from the southeastern portion of Poso. Later, in 2003, a second district, Toja Una-Una was formed from the northeastern part of Poso, including 6 sub districts, 81 rural villages, six urban villages, and three transmigration villages. The total population of Poso was 275,974 people in 68,151 households in 2003 prior to the division of the district.

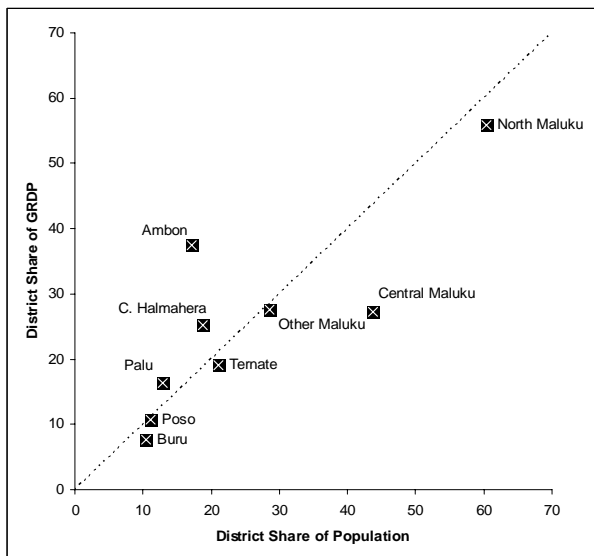
2. Local Economic Development and the Impacts of Conflict

2.1

Overall, the economic performance of Maluku and North Maluku provinces is low in comparison with other provinces. The Gross Regional Domestic Product (GRDP) of North Maluku and Maluku provinces reached Rp. 1,986 billion and Rp. 3,405 billion respectively in 2002 (Table 2-1). Per capita GRDP is relatively low with Maluku ranking twenty-sixth (Rp. 2.5 million) and North Maluku twenty-eighth (Rp. 2.2 million) out of Indonesia's thirty provinces in 2002. In contrast, Poso appears to have a stronger local economy than comparable districts in Maluku and North Maluku with a per capita GRDP of over Rp. 4 million in 2002. Although current economic performance suggests that Maluku and North Maluku can be considered relatively resource poor and underdeveloped regions compared to other provinces, both provinces do have considerable renewable and non-renewable natural resources that have yet to be developed and utilized.⁷

Prior to the conflict, agriculture was the lead sector in North Maluku and Maluku

Figure 2-1: The district share of population plotted against district share of provincial GRDP (current prices, 2002) for selected districts in North Maluku, Maluku and Central Sulawesi. Maluku is marked by the high share of GRDP in Ambon. *Data Source:* BPS.



provinces and Poso district (see also Table 2-1). In Maluku and Ambon, the fisheries sub-sector is the main agricultural sub-sector, while in North Maluku and Poso, the leading agricultural sub-sector is estate crops. Maluku's economy has three dominant sectors: agriculture and forestry, led by fisheries, the trade sector and public services (Table 2-1). North Maluku shows a similar pattern, with agriculture being the lead sector, followed by trade and manufacturing. In Poso, the agricultural sector is followed by public services and trade.

The distribution of economic activity varies within these provinces (Figure 2-1). GRDP is equitably distributed across the districts of North Maluku and Central Sulawesi, being roughly equivalent to the district share of the provincial population (Figure 2-1). Maluku, in contrast, is much more inequitable. Ambon accounts for roughly 40 percent of provincial GRDP but only 17 percent of the province's population in 2002, while Central Maluku has over 40 percent of the province's population but less than 30 percent of its provincial GRDP. Future development policies will need to address these regional inequalities, which in Maluku made Ambon a centre for migration from not only other parts of the province but also from other provinces in the east of Indonesia.

2.2

2.3 The Impacts of Conflict on the Local Economy

Conflict in Maluku, North Maluku and Central Sulawesi has had a major effect on the economic prosperity and livelihoods of people in these areas. Virtually no sector or sub-sector of the economy was unaffected by the conflict and it is clear that the economic impacts of these conflicts are still being felt in 2004.

⁷ Especially minerals in Halmahera; oil, gas and minerals in Central Maluku; fisheries in both provinces. See Chapter 3.

Table 2-1 – Structure of the Regional Economies of North Maluku, Maluku and Poso in 1998/1999 and 2002. *Source: BPS*

Sector (% share GRDP)	Province				District										National 2002
	North Maluku		Maluku		Ambon		Buru		Central Maluku		Poso		North Maluku		
	1999	2002	1998	2002	1998	2002	1998	2002	1998	2002	1998	2002	1998	2002	
Agriculture	-	36.3	31.6	37.1	25.7	22.4	47.3	62.1	34.8	35.5	44.3	45.6	32.3	40.3	17.5
- Food crops	-	10.1	5.6	9.28	1.2	1.92	11.0	21.9	5.4	10.9	14.2	12.9	-	-	-
- Estate Crops	-	16.6	5.4	7.44	0.3	0.37	16.9	27.1	7.3	12.2	20.3	23.5	-	-	-
- Fisheries	-	5.3	15.6	17.5	23.8	19.6	2.1	3.9	3.9	7.2	2.6	2.7	-	-	-
Mining	-	5.1	2.0	1.0	0.7	0.2	0.7	0.7	4.5	2.5	1.4	1.3	0.7	0.1	11.9
Manufacturing	-	15.8	14.0	4.8	8.1	2.0	18.5	3.9	27.5	13.4	10.2	9.7	41.7	24.0	25.0
Electricity, Gas, Water	-	0.8	0.9	0.6	1.5	1.1	0.3	0.4	0.3	0.4	0.6	0.7	0.5	0.5	1.8
Construction	-	1.6	7.2	1.2	4.1	0.7	14.4	1.8	9.4	1.5	7.1	7.3	2.6	0.5	5.7
Trade, Hotel, Restaurant	-	23.0	20.1	25.3	21.4	24.4	12.3	16.0	19.3	25.7	10.4	10.2	13.7	23.7	16.1
Transport/Communication	-	6.9	6.2	7.3	11.1	13.8	1.8	3.2	3.1	5.0	9.3	8.8	2.8	4.7	6.0
Business Support Services	-	3.4	5.7	5.4	9.8	8.8	1.0	2.2	2.6	3.4	2.8	2.6	2.4	2.5	6.6
Public Services	-	7.3	12.4	17.3	17.7	26.7	3.8	9.8	7.8	12.6	13.8	13.7	3.4	3.6	9.4
Total (Current) GRDP (Rp billions)	-	1,986	3,273	3,405	1,390	1,275	287	262	1,051	927		1,116	1,007	1,114	-
Population (2002)	794,024		1,360,618		233,319		134,972		548,525		275,974		496,473		-
GRDP (Rp) / capita (2002)	2,501,620		2,502,902		5,467,879		1,941,366		1,690,924		4,045,222		2,244,029		-
Rank pc GRDP (province out of 30, 2002 data; district out of 336, 2001 data)	26		28		82		332		322		123		240		-

Conflict in these three regions occurred soon after the onset of the economic crisis of 1997-98. While much of the country, especially Java, felt the impacts of the 1997-98 economic crisis, it is clear that conflict in Maluku and North Maluku has had a much greater impact on their regional economies both in terms of the depth and length of the crisis with the combined economy of Maluku and North Maluku contracting by approximately 30 percent (Figure 2-2). By 2002, Maluku and North Maluku had still not shown significant signs of economic recovery in comparison to the rest of the country where regional economies had recovered and grown over 1996 levels.

2.1.1 Maluku

Overall Impacts

The Maluku economy is still feeling the impacts of violent conflict over the past five years and economic activities have yet to recover in the region. During the conflict, various investors in the fisheries, forestry and other sectors moved their business to other provinces, especially Manado, Kendari and Surabaya. As a result, from 1998 to 1999, the nominal GRDP of Maluku decreased by 23.2 percent from Rp. 3,274 billion to Rp. 2,516 billion but by 2002 nominal GRDP had recovered to Rp 3,406 billion. However, the magnitude of this growth in the post-conflict period has not been sufficient to strengthen economic welfare in the region and, in real terms, regional GRDP in Maluku and North Maluku had not shown signs of recovery to pre-conflict levels in 2002 (see Figure 2-2).

The nominal GRDP per capita in Maluku province was Rp 2.24 million in 1998 and grew to Rp 4.42 million in 2002. In real terms, though, GRDP per capita actually fell by 20 percent between 1998 and 2002 in Maluku. The greatest impacts between 1998 and 2002 were in Buru and Central Maluku, which saw real per capita GRDP fall by 45 percent and 36 percent respectively. Although the total GRDP of Ambon fell, this was accompanied by a net emigration and people left Ambon in the wake of the violence, which has caused fluctuations in real annual per capita GRDP.

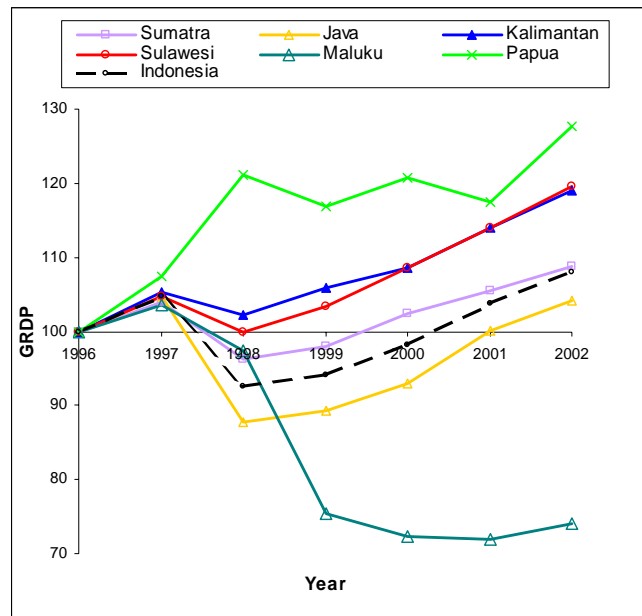


Figure 2-2: Real GRDP (1993 constant prices) from 1996 - 2002 for the main island groups of Indonesia. The dotted line is national GDP. 'Maluku' includes North Maluku province since 1999. Data Source: BPS.

Impacts Across the Sectors

In 1999, the growth rate of all dominant sectors, with the exception of public services, declined with forestry, quarrying, construction and manufacturing and industry being the hardest hit sectors contracting by more than 50 percent (Figure 2-3). Agriculture, which is the lead sector accounting for roughly one-third of the Maluku economy between 1998 and 2002 (see Table 2-1), declined by just 8 percent. The more capital-intensive agricultural sub-sectors such as forestry and fisheries both declined by 59 percent and 11 percent respectively, whereas estate crops and food crops expanded between 1998 and 1999. The greatest overall loss from the Maluku economy due the conflict was caused by the 62 percent decline of the manufacturing and industry sector, equivalent to Rp. 259 billion (or 35 percent of the total decline from 1998-99) closely followed by the 81 percent decline in construction, equivalent to Rp. 209 billion (or 28 percent of the total decline from 1998-99). By 2002, both these sectors remained depressed and only agriculture, trade, hotels & restaurants, and services (dominated by government expenditure) were showing positive growth compared to 1998.

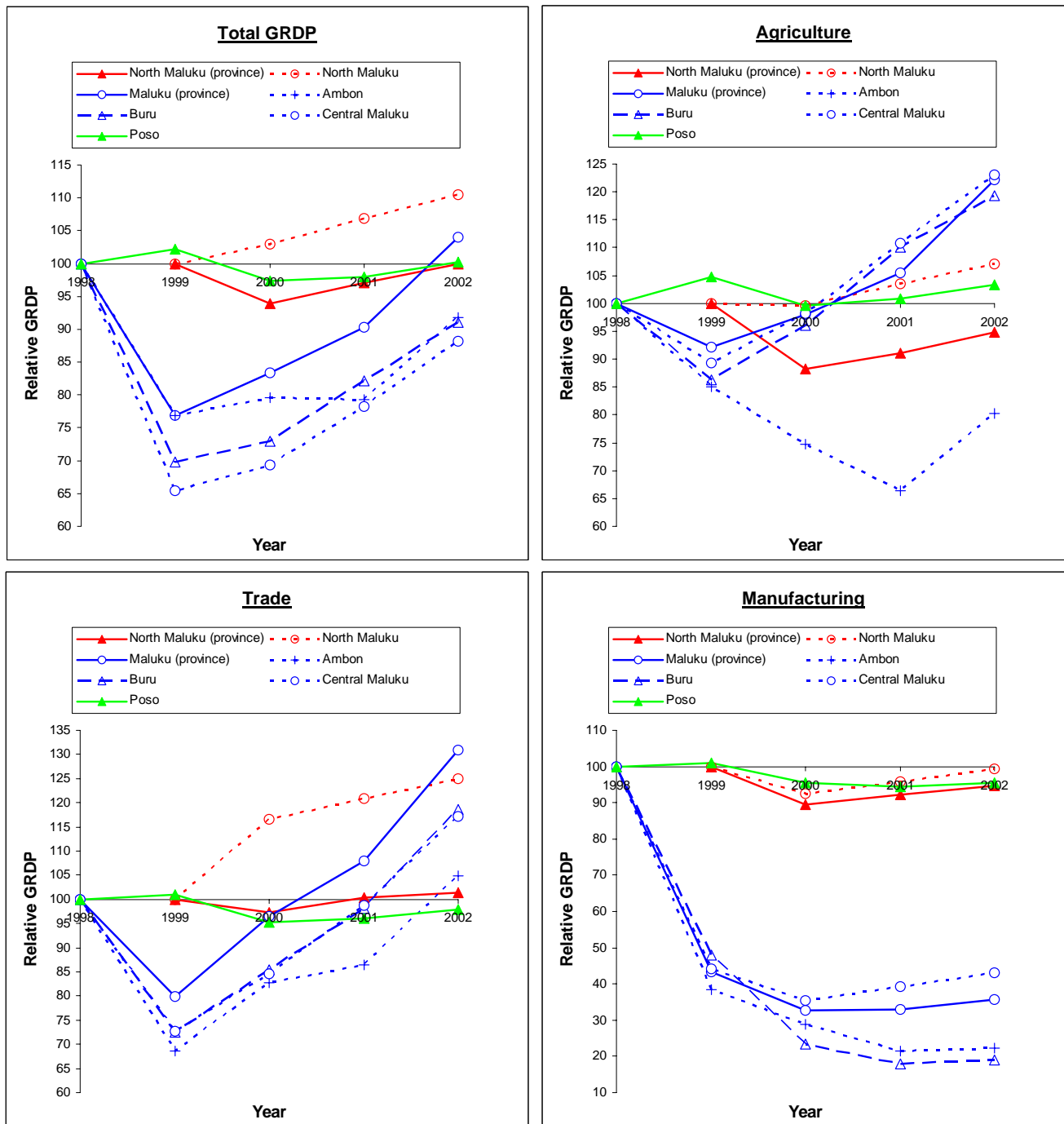


Figure 2-3: Trends in nominal (current prices) GRDP (top left) and GRDP in the agriculture (top right), trade (bottom left) and manufacturing (bottom right) sectors in North Maluku and Maluku provinces and selected districts of Maluku, North Maluku and Poso between 1998 and 2002. GRDP is shown relative to 1998 = 100. Source: BPS.

Impacts Across the Province

The economic impact of the conflict have mostly been felt in Central Maluku, Buru and Ambon districts, while South-east Maluku, Aru and MTB experienced a relatively limited impact and have shown signs of much faster recovery. Both total district GRDP (Figure 2-2) and per capita GRDP show that Central

Maluku and Buru were worse affected economically than Ambon by the conflict. The impacts in Ambon, Central Maluku and Buru districts are highlighted below.

Ambon. In 1999, the first year of conflict, GRDP in Ambon declined by 23 percent in real terms on the previous year. Despite limited growth since then, between 1998 and 2002 the

nominal GRDP of Ambon showed an overall fall of 8 percent from Rp 1,381 billion in 1998 to Rp 1,276 billion in 2002, equivalent to a contraction of 33 percent in real GRDP terms. Four years after the start of the conflict, Ambon's economy had still to show signs of recovery.

In 2002, public services made the largest contribution Ambon's GRDP with 25 percent of total GRDP, followed by wholesale and retail trade at 22 percent, fisheries at 20 percent and transport-communication at 13 percent. The public service sector was also the major employer in 2001, employing a total of 27,502 persons (41 percent of the labor force), which decreased to 23,634 persons (32.9 percent of the labor force) in 2002. The sectors most heavily affected in real terms in Ambon include manufacturing (an 81 percent contraction) and agriculture (a 48 percent contraction).

Central Maluku. The economy of Central Maluku district is the second largest in Maluku after Ambon district, contributing almost one-third to the province's total economic activity. Although the conflict in Maluku has predominantly been in Ambon, the economic impacts have been even greater in Central Maluku. Between 1998 and 2002, nominal GRDP in Central Maluku decreased by 15 percent from Rp 1,091 billion to Rp 928 billion (cf. 8 percent in Ambon). The initial decline in GRDP during the first year of conflict between 1998 and 1999 was 35 percent compared to 23

percent in Ambon, and like Ambon recent growth has not yet made up this loss. In real terms, Central Maluku's economy actually contracted by 40 percent between 1998 and 2002 (33 percent in Ambon).

The dominant sectors of the Central Maluku economy in 2002 included the agricultural sector (contributing 35 percent of GRDP), which was dominated by food crops and estate crops, trade sector (25 percent of GRDP) followed by the manufacturing and industry sector (13 percent of GRDP) and public services (13 percent of GRDP). The biggest impacts were experienced by manufacturing and industry, which contracted by 70 percent at current prices (see Figure 2-3).

Buru Island. Buru, like Central Maluku, experienced a 40 percent fall in real GRDP between 1998 and 2002, and nominal GRDP in the district decreased from Rp 287,813 million in 1998 to Rp 262,030 million in 2002. As the lead sector, agriculture's contribution to the total economy increased from 47 percent in 1998 to 62 percent in 2002, and itself contracted by one-quarter over the four years since the start of the conflict. Manufacturing, once the second most important sector in the district contributing 18 percent to GRDP, all but collapsed contracting by 86 percent between 1998 and 2002. The GRDP per capita for Pulau Buru district, Rp 2.46 million in 1998, fell to Rp 1.94 million in 2002.

Exports

Exports from Maluku (including North Maluku) fell from USD 362 million in 1998 to USD 106 million in 2003 (Figure 2-4). The main commodities exported in 1998 were plywood (US\$ 133 million), tuna (US\$ 100 million), frozen prawn (US\$ 62 million) and nickel (US\$ 22 million). By 2002, all the dominant export commodities had fallen, especially plywood, frozen prawns and to a lesser extent, tuna. In 1998, the main destination for exports from Maluku was Japan (US\$ 97 million), followed by China (US\$ 88 million), Thailand (US\$ 43 million), USA (US\$ 24 million), Taiwan (US\$ 22 million) and Hongkong (US\$ 17 million). In 2001, most exports went to Thailand (US\$ 53.74 million), while the main export market in 2002 was USA (US\$ 40.62 million).

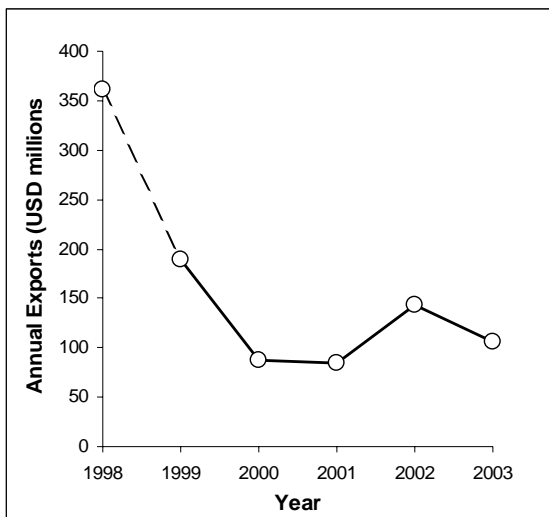


Figure 2-4: Total exports from Maluku 1998-2003. Data for 1998 includes North Maluku, which explains much of the fall between 1998 and 1999. *Source:* BPS.

Before the conflict, Ambon was the main port with 87 percent (US\$ 315 million) of Maluku's exports leaving the Port of Ambon in 1998. Two years later in 2000, this had plummeted by over 90 percent to US\$ 24 million, representing just 27 percent of total exports from Maluku. Exports from Ambon more than doubled in 2001 to US\$ 49 million. Buru district also saw a similar pattern in export activity. For example, timber exports, mostly to Japan and China, from Wai Putih Port by the forestry company PT Wahana Potensi Nusa fell from US\$ 2,147,298 in 1998 to US\$ 1,330,469 in 1999 and US\$ 393,377 in 2000.

2.1.2 North Maluku

Overall Impacts

Prior to 1999, North Maluku was still a part of the province of Maluku. In 1998, the year of the national economic crisis, all key sectors in Maluku maintained positive economic growth. In 1999, North Maluku province was formed with an economy of total value of Rp. 1,988 billion. Conflict erupted in the second half of 1999 and lasted into early 2000, a much shorter period than Maluku. The real GRDP of North Maluku fell by 30 percent between 1998 and 1999, but then began to grow again in 2000 once the violence has stopped. Real GRDP in 2002 was still 12 percent down on that of 1998. Overall, the initial impact of conflict on the economy was greater in North Maluku than Maluku as a province, but with the period of violence being limited to less than one year in North Maluku, its economy was able to recover faster than Maluku's, so that by 2002 the GRDP of North Maluku was closer to 1998 levels than Maluku.

By 2002, the nominal GRDP of North Maluku had returned to its approximate size of 1999 (Rp. 1,986 billion) and was growing at 2.9 percent per annum. In 1997, before the conflict of 1999-2000 and the economic crisis of 1998, the district of North Maluku (now districts of North Halmahera, West Halmahera, South Halmahera, the Sula islands and Kota Ternate, five of the eight districts of current North Maluku Province) registered an economic growth rate of 10.1 percent. So while North Maluku's economy has returned to the size of the 1999 economy, its growth rate of

2.9 percent was significantly lower than pre-conflict, pre-crisis levels.

Impacts Across the Sectors

Agriculture is the lead sector in North Maluku accounting for 36 percent of GRDP followed by trade, hotels & restaurants (23 percent) and manufacturing (16 percent) (see Table 2-1). In 2000, the year following the peak of the conflict, the agriculture sector fell by 12 percent as farmers evacuated their homes, abandoning the fields and crops. Those who remained could not sell their harvested produce as local buyers and traders had evacuated the areas and transportation to outside markets was considered dangerous. Prices of key commodities fell drastically, for example, the price of copra plummeted from Rp. 2,000/kg to Rp. 650/kg as local markets collapsed. The forestry sub-sector contracted by 33 percent, food crops by 16 percent and fisheries fell by 8 percent. Similarly, the trade sector declined by 3 percent as buyers and traders evacuated to safe locations and stopped their trading activities. Manufacturing fell by 10.5 percent, as factories closed and business support services (banks, finance and rental services) fell by 7.6 percent. Mining was essentially dormant with a 1.3 percent growth rate.

By 2001, open conflict had ceased and reconciliation and reconstruction efforts were underway. The economy grew at a rate of 3.4 percent during 2001, and was led by the construction sector growing at 25.6 percent due to the reconstruction effort. Agriculture returned to positive growth of 3.3 percent, led by solid growth in the food crop sub-sector of 2.8 percent, the fisheries sub-sector, 6.2 percent, and the livestock sub-sector, with growth of 11.7 percent. Trade also returned to positive growth at 3.2 percent, as some evacuated traders returned to old markets, while other evacuees established new, temporary market places.

Conversely, local government services grew during and immediately after the conflict by 7.5 percent, mirroring the trend in Maluku. The construction sector grew by 12.9 percent in 2000 as a result of the end of violence and the beginning of return, rehabilitation and reconstruction. Overall, the change in the structure of the economy as a result of the