BALI

BEYOND THE TRAGEDY

Impact and Challenges for Tourism-led Development in Indonesia

UNDP Indonesia

USAID

BANK DUNIA | THE WORLD BANK

ABBREVIATIONS AND ACRONYMS

APBD	Provincial/District/Local Budget
APBN	National Budget
ASITA	Association of Indonesian Travel Agents
Babinkamtibmas	Village level police present
Balitbangda	Provincial Government, Research and development office
Banjar	Balinese village
BAPPEDA tingkat I	Provincial Planning Agency
BAPPEDA tingkat II	District Planning Agency
BAPPENAS	National Planning Agency
Bendesa adat	Traditional village leader
Biro Perjalanan Pariwisata	Travel Agent
BPR	Village Bank
BPS	Central Bureau of Statistics
BRI	Indonesian state owned bank focusing largely on the microfinance
Camat	Sub-district heads
Casa Grande	Association of 35 four and five star hotels in Bali
DAU	General block grant
Departemen Budaya Pariwisata Seni dan Budaya	Department of Culture and Tourism
Desa adat	Village system under traditional values
Dinas Koperasi dan UKM	Provincial Government Office Department of Cooperative and SMEs
Dinas Pariwisata Bali	Bali Provincial Government Tourism Office
Forum Dialog Pariwisata	Tourism Dialogue Forum
Forum Kepala Desa	Forums of village heads
Forum Kerjasama Antar Umat Beragama	Inter-faith forums
HIPMI	Association of Indonesian Young Entrepreneurs
Hotel Melati	Non Starred Hotel
IWAPI	Association of Indonesian Women's Entrepreneurs
Kabupaten	District
KADIN	Indonesian Chamber of Commerce
KAPOLDA	Regional Police Chief
Kecamatan	Sub-district
Kepala desa adat	Traditional village heads
KIPEM	Temporary residency card
Kota	City
KUKM	Credit for Small and Medium Enterprise
LPD	Village Credit Institution
MAP	Business start-up capital
MENKO EKUIN	Coordinating Minister for Economic Affairs
MENKO KESRA	Coordinating Minister for Social Welfare
MENKO POLKAM	Coordinating Minister for Political and Security
MENPARSENIBUD	Minister of Culture and Tourism
PAD	Local revenue sources
Pecalang	Traditional village security personnel
Pemarisuda Karipubaya	Cleansing ceremony
PHR	Taxes for Hotel and Restaurant
POLDA	Provincial Police
POLSEK	Sub-district police station
Pondok Wisata	Guest House and Homestay
PUSKOWANJATI	East Java Center for Women"s Cooperatives
Rwa bineda	Balance between opposing forces
Sembayangan	Prayer
SUSENAS	National Socio-Economic Survey
TKI	Indonesian migrant workers

PREFACE

On 12 October 2002, two bombs went off in the tourist resort of Kuta, Bali leaving more than 200 people dead. With many of the victims being holidaymakers enjoying Indonesia's premier tourist destination, this was an international tragedy that affected people all over the world. Less well appreciated is the way in which this event, followed by the war in Iraq and the outbreak of SARS in East Asia, affected Bali's tourism-dependent economy.

This report is the outcome of more than four months work by the UNDP and World Bank. It assesses the socio-economic impacts of the impact of the bombings on Bali's economy and people, and the associated impacts that have been felt in the nearby areas of East Java and Lombok. The report aims to provide: (i) an independent assessment of the current condition of the tourism and tourist-related business sectors and how the crisis is affecting social welfare, (ii) an overview and analysis of government and international donor responses, and (iii) recommendations for short-term recovery and longer-term sustainable development in Bali and beyond. We hope that these findings will be used by government, donors and other stakeholders in understanding the nature of the current problems faced by Bali and associated areas and in promoting a more prosperous future for all those affected by events since October 2002. The study is complimented by ongoing work to facilitate the interface between research and policy development and to enhance to the consultative nature of the study and its findings in order to engage stakeholders in developing responses.

This study was made possible through the contributions of a wide range of organizations and people. The report was written by the UNDP-World Bank assessment team of Nick Mawdsley (UNDP), Eugenia Piza-Lopez (UNDP) and Kai Kaiser (World Bank). Monica Tanuhandaru (UNDP) led the assessment in East Java, I Putu Widhiantara Sri Bangun (UNDP) contributed greatly to the Bali assessment, and Michael Bak (USAID), Ketty Kadarwati (USAID), Sofyan Lubis (USAID), Laurie Pierce (USAID) provided valuable assistance during the preparation of the assessment, as did Jennica Larrison. Much of the information is based on primary surveys and studies conducted by the University of Udayana (Bali), Yayasan Manikaya Kauci (Bali), East Java Women's Cooperative Centre / Pusat Koperasi Wanita Jawa Timur (East Java), University of Mataram (Lombok), ISAI and Gravitasi (Lombok). Significant contributions to these studies were provided by DR. IGW. Murjana Yasa (Assessment Coordinator), Dra. Aain. Marhaeni (Schools survey), Drs. Made Suyana Utama (Key Respondents survey) and Drs. Ketut Djayastra (Traders survey) from the Faculty of Economics at Udayana University; the team at Yayasan Manikaya Kauci; Ibu Hj. Joos Lutfi and Shahputra Waworuntu and the team at East Java Women's Cooperative Centre; Pak Hj. Busaini and the team at the University of Mataram; Bimo Nugroho and Agus Sudibyo at ISAI; Munzirin and the team at Gravitasi. Menno Pradhan and Melanie Moechtar provided invaluable assistance in the finalization of the survey instruments. George Soraya and Bert Hofman (World Bank) and Paul Hulshoff (UNDP) provided helpful comments on early drafts of the report. Nina Herawati and Christina Sukmawati (World Bank) processed the report for printing, under guidance of Mohamad Al-Arief (World Bank). The team extends its gratitude to those mentioned above and the numerous other people who made this study possible through collection and processing of the data presented, and the many people in Bali, East Java and Lombok who committed time to participate in the assessment.

This report builds on a series of updates completed in the context of the Consultative Group Indonesia (CGI) process in the wake of the Bali bombings, including Vulnerabilities of Bali's Tourism Economy: A preliminary Assessment (Informal World Bank Staff Paper, Interim CGI, 1st November 2002) and Confronting Crisis: Impacts & Response to the Bali Tragedy (Brief to the CGI in Bali, January 2003 based on joint UNDP/USAID/WB assessment).

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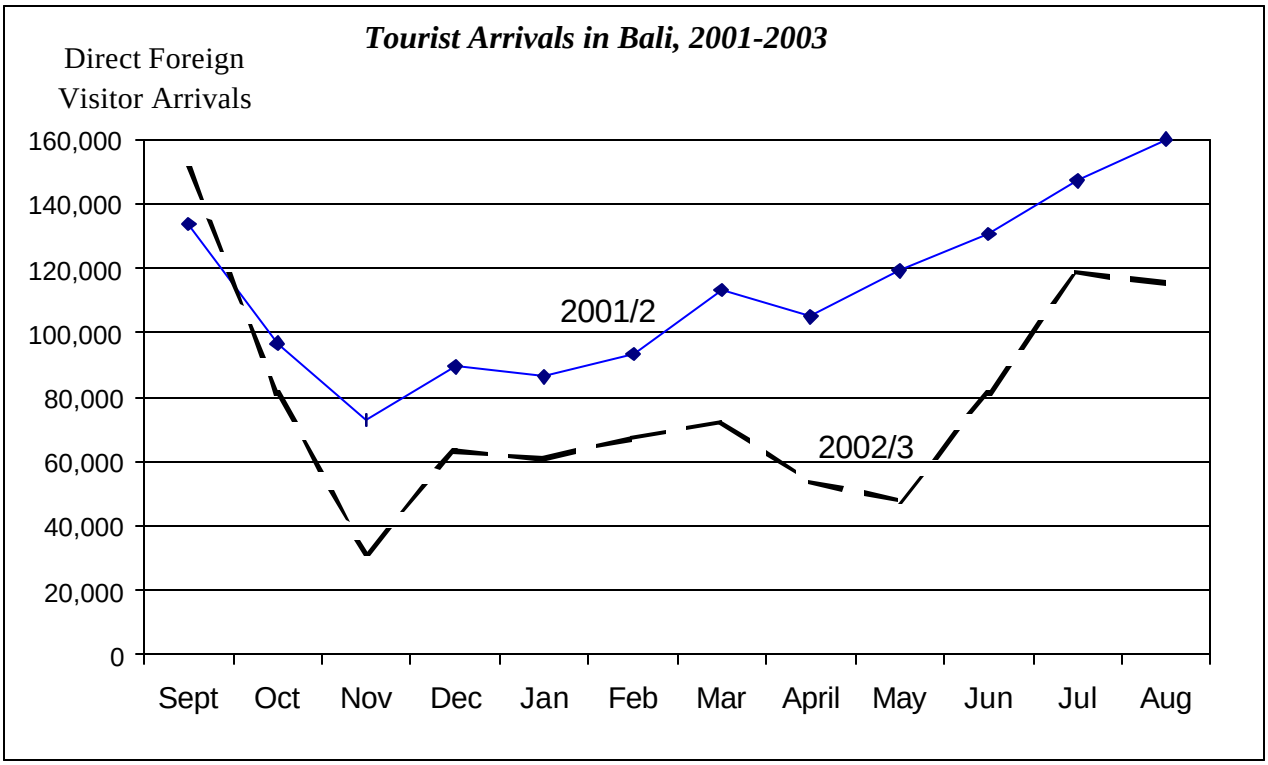
** The front cover pictures of Bali courtesy of Ross A. Taylor.*

The October 2002 terrorist attack in Bali came as a terrible shock to Indonesia and the international community, while shattering the image of a peaceful, innocent Bali. Beyond the tragic loss of life, the bombings adversely affected the livelihoods of many on and off Bali, hitting the poor and vulnerable especially hard. The war in Iraq and the SARS epidemic preempted what appeared to be a nascent recovery and by mid-2003, income losses of over 40 percent were reported in affected areas, major cut-backs in employment in tourist related industry occurred, and school drop-outs, especially in poor districts on Bali, were on the rise. The Government's security response to the Bali bombings was commendable, and assistance to the victims was quick to emerge. However, safety net operations faced considerably more challenges in planning and implementation.

Now, one year after the bombings the worst of the impact may have passed, but is unlikely to be over. While tourist arrivals are recovering, revenues are still lagging, as deep discounts were needed to attract new visitors, and those new visitors spend less than traditional ones. Moreover, the recent Marriott bombing highlights the continued vulnerability of Indonesia's tourist industry and economy to terrorist attacks. Targeted interventions are therefore needed. In the short term, it will remain necessary to: (i) be vigilant in implementing measures to ensure security, (ii) focus on implementing existing and committed programs, (iii) improve coordination among levels of government in implementing the programs, and (iv) continue to monitor the economic impact of the crisis, and use the information to target interventions at the sub-district level. In the medium term, beyond restoring Indonesia's and Bali's image as a tourist destination, the Government should facilitate an inclusive debate among stakeholders on how to shape sustainable tourism-led development that benefits all. Finally, the Government should formulate a strategy on how emergency responses should work in a newly decentralized Indonesia, in order to be better prepared in the future. Donors can assist in all of these efforts. They should continue implementing the programs initiated in the aftermath of the bombings, maximize targeting of these programs to vulnerable groups, support a continuation of impact monitoring, and consider technical assistance to regional governments in enhancing strategic planning for tourism-led development, and to central government to help design emergency response strategies.

The Impact of the Bali Bombings

Tourism is Indonesia's second largest foreign exchange earner after oil and gas. Bali's tourism industry has grown rapidly during the past two decades, and has been the island's main engine for growth. As a result, Bali's poverty rate before the tragedy was only 4 percent in 2002 compared to 16% for Indonesia as a whole. Tourism in Indonesia had already been affected by the 1998 riots, and by the slump in the global travel industry in the aftermath of September 11, 2001, but in the run-up to the bombings had shown a recovering trend.



The overall socio-economic impact of the October 2002 bombings has been significant and deepened during the first half of 2003. Beyond the sharp initial decline in tourist arrivals and the impact on the hotel and travel industry, there was an immediate shrinking in demand for industries that directly cater for tourism, such as taxis drivers and local handicrafts producers. Smaller enterprises appear to be the hardest hit. Especially the poorer districts on Bali, and interlinked regions elsewhere, felt the strong impact on income and employment.

Tourism. The Bali bombings cut sharply into direct international tourist arrivals. Right after the crisis, these were barely a third of normal levels, and after a brief recovery early 2003 on the back of special deals and discounts, fell again to less than half of normal levels in May/June. After a brief recovery in tourism early 2003, the effects of the bombings were compounded by the effects of the Iraq war and the outbreak of SARS, which affected tourism throughout the region. A year after the bombings, international arrivals remain well below past levels, but have recently been recovering to some 70-80 percent of normal levels. But the quality of these visitors has changed from before the bombings. High discounts were needed to attract the current tourists, and spending per tourist is likely significantly less than that of tourists in the past. Moreover, much of the 2003 peak season was lost before visitor numbers recovered. Thus, tourism revenues, and therefore incomes, are likely to lag the tourist numbers significantly.

Income. Vulnerabilities on and beyond Bali soon became apparent as tourism demand slumped. In Bali, 94% of *kecamatan* level key respondents observed income declines in their communities between October 2002 and May 2003, with an average income decline of 43% across the island. Highest average declines were recorded in Karangasem (49%) and Gianyar (47%) districts, and lowest in Buleleng (39.6%) and Denpasar (40.7%). The sustained failure of demand over the last 8 months has led to reported declines in turnover of over 60% in some occupations. Market traders, beach vendors and taxi drivers reported a

drop in sales revenues between 32% (Pasar Badung) up to 71% in (Pasar Ubud) with profit falling in line.

Employment. Overall, key respondents across all sub-districts in Bali estimated that 29% of workers were affected by job losses between January and the end of April 2003. Throughout the economy employment impacts are more generally expressed in terms of reduced incomes and underemployment, rather than formal unemployment and total loss of livelihood. Official statistics of formal sector job losses show that by May 2003 out of roughly 50,000 people employed in the hotel sector, around 1,400 hotel workers had been made redundant. Anecdotal evidence suggests that up to three-quarters of those employed in the hotel sector were either working on reduced shifts or had been made temporarily redundant. Of those losing employment in the tourist areas of the south of Bali, many have migrated back to their home villages. Over one-half of respondents recorded people returning to the villages.

Small and medium enterprises Surveys suggested that SMEs adjusted by shedding of workers, 52% reduced staff with a total reduction of almost 60% in the overall numbers in some industries. Many firms were reporting increased strains in servicing financial obligations, and many small and family run businesses reported resorting to asset sales.

School dropouts. The adverse impact on incomes and employment has also had ramifications in the education sector, with potentially significant disruptions in children's education. Thirty one percent of schools reported students dropping out of school during this year. These reported rates varied significantly by district, with the highest levels reported in the poorest North Eastern belt of Bali, with Buleleng (60%) and Karangasem (55%) reporting the highest rates. In terms of number of students, however, actual reported numbers were less than 1 percent. However, some uncertainty remains about the enrollment of children into the new school year that started in July 2003.

Social Tensions. Contrary to initial fears, social tension has remained limited. Generally, social cohesion has even improved during 2003, although tensions remained high in a few sub-districts with particularly severe economic pressures, social issues, and youth and unemployment. The majority of social disturbances in the past had occurred in the north and east (Buleleng, Karangasem), and there has been no noticeable increase in social disturbances reported by respondents in May 2003. Importantly, only a small proportion of past disputes involve Balinese and migrants, with most incidents between different Balinese community groups. Village heads, traditional (adat) leaders, and the police were identified as the main actors for managing social tensions, highlighting the need to combine socio-economic and security approaches in vulnerable sub-districts.

Impact Off-Bali. Impacts off Bali were far more diffuse. In Lombok, three-quarters of respondents in the most affected sub-districts reported average in come declines of around 50%. The reduction in demand for handicrafts in Bali as well as the reduction in employment opportunities for migrant workers from Lombok in Bali is compounding these impacts.

In East Java, there was little impact at the provincial level in macroeconomic terms, but impacts were more severe in certain villages and districts that have strong economic linkages to Bali including trade and migrant labor silver and wood industries in Pasuruan, granite and metal producers in Tulungagung, and wood and bamboo producers in Banyuwangi all experienced more than 50% reductions in turnover. However, comprehensive information on these trading patterns and the importance of

Bali to producers in East Java and elsewhere is not available.

Response to the Crisis

Government, donors, and the Bali community all responded in the wake of the Bali bombings. Initial efforts focused successfully improving security, and some initial relief for the direct victims was mobilized. Initiatives to address the socioeconomic impact were slower to take off, in part because of administrative delays and required lead times.

Community level organizations, most notably Bali's strong traditional (*adat*) institutions, responded swiftly to the crisis. Communities clearly recognized that they had a stake in the recovery of tourism. Initial fears of rising social tensions were dispelled as communities actively mobilized to dissipate potential local level conflict and strengthen security. Almost all schools in Bali (97%) had school committees, which brought parents and educators together. Over two thirds (70%) came together to address the impacts of the crisis, frequently mobilizing cash resources.

Emergency Response. Emergency support to the victims, and assistance to police investigations was quickly available, and measures to improve public security on the island were implemented early on. The assistance to the victims, including medical and financial support in excess of $10 million was disbursed. Early on, donors and Government also agreed to set up a monitoring system for the socio-economic impact of the bombings, and first results of this effort were available in January 2003. To the extent possible, efforts focused on making existing programs more responsive to the context of the bombings. For example, USAID and AusAID provided key assistance in immediate post-bombing recovery efforts, while UNDP supported short term needs of the most affected communities.

Socio-economic response. From the onset of the response, there was little question that the slump in tourism would have a broader fall-out on social welfare, and possibly social tensions. But there was a significant degree of uncertainty about the scope and incidence of these impacts. This led to an early recognition that the strategy for recovery would not only need to be sensitive to ameliorating economic impacts but restoring the underpinnings of Bali as a safe and attractive, culturally diverse tourist destination.

Governments at central, provincial, and local level focused their response in three areas: (i) promotion of tourism recovery, (ii) social welfare protection, and (iii) promotion of alternatives to tourism. Governments at all levels quickly established so-called *Recovery Teams* covering six areas of attention: (i) security, (ii) tourism promotions and events, (iii) infrastructure development, (iv) transportation, (v) budgetary incentives, and (vi) socio-economic recovery. Central government allocated Rp 100 billion (est. USD 12 million) for the efforts. As of June 2003 over half of this amount had been allotted to programs for rescue efforts, tourism campaigns, and security improvement, while some 20 percent of this amount has been disbursed.

Provincial and district governments have implemented a number of programmes aimed at supporting those affected by the bombings, including ensuring access to health care and education. However, regional government lacked the finance to take forwards a comprehensive recovery programme. The Bali Provincial Government also developed a plan for a Bali Recovery Programme, focusing on community-level support, income generating activities and maintaining access to social services, but resources were not available for implementation. The teething pains of

government response stemmed from the unprecedented nature of this crisis as well as the new realities of a decentralized Indonesia, which gives greater prominence to district and provincial governments. Coordination among levels of government in implementing programs proved particularly challenging.

Donor responses have focused on social welfare protection and supporting non-tourism income generation, livelihoods and community development. Prior to the bombings, Bali had not been a focal province for donor financed poverty programs due to its relative prosperity. The specter of prolonged adverse impacts on Bali therefore had to be put in the context of pressing social development challenges throughout the archipelago. The main donor programmes focused on socio-economic issues active in Bali included: (i) AusAID's Bali Rehabilitation Fund, (ii) World Bank Kecamatan Development Program (iii) USAID Bali Response, (iv) UNDP/Community Recovery Programme (v) World Bank Bali Urban Infrastructure Project and (vi) World Bank-Dutch Trust Fund, USD 2-3 million to support grants to schools, a program which is not yet implemented.

In light of the uncertainty surrounding the impacts of the bombings on Bali and relative prosperity of the island, donors agreed to continually assess the situation should additional assistance be needed. The Netherlands government, through the World Bank, earmarked potential school grants to stem dropouts. While dropout did appear to increase, conditions in Bali were still far better than the national average, meaning that the grants were not utilized during the 2002/3 school year. Beyond monitoring, few donor programs were developed off-Bali to ameliorate the fall-out of the bombings.

Many donor country governments issued travel advisories in the aftermath of the bombings. These highlighted the vital role played by security perceptions in the recovery of the tourism industry. Whereas foreign governments needed to stress potential continued risks to their citizens, the Indonesian government was concerned with the countervailing effects of these advisories on tourism and local livelihoods. Ultimately, however, neither foreign nor domestic governments could impose on the decisions of tourists to come to Indonesia. The travel warnings further highlight that while Bali may be the world's main gateway to Indonesia, security and political stability elsewhere in the archipelago will affect recovery efforts in Bali.

Beyond the Tragedy

One year after the terrorist attack, targeted interventions are still needed to support Bali's on-going recovery and improve the islands future prospects. At this stage, the priority is the effective implementation and disbursement of existing government and donor commitments, although some key interventions suggested here remain to be funded. As circumstances are continuously evolving, monitoring remains important, and programs should stand by to respond creatively and flexibly. In the short run, continued vigilance on security, implementation of existing programs, and monitoring of impact are the priority.

Promoting a safe environment. Bali and the tourism industry in Indonesia require continued efforts to address the treat of terrorism and violence and create a safe environment for Indonesians and tourists alike. Such an environment will serve as the precondition for efforts to revitalize the private sector and support sustainable community efforts. This would require:

- At national level, the government to continue its efforts to prevent further attacks.

- Support for efforts by the Government of Indonesia to strengthen dialogue and effective collaboration between the private sector, communities, and the police to ensure a say of all stakeholders in creating a safe environment.
- Support for efforts at ensuring professionalization of the police and develop targeted, area based, community policing pilot projects in vulnerable areas aimed at ensuring strengthened police-community relations and the design of tension and violence prevention initiatives.

Implementing existing programs. The focus for programs to alleviate the impact should be on existing ones, not new commitments. To achieve results on the ground,

- Ensure effective targeted disbursement of governmental grants to most affected areas and groups to avoid further declines in social welfare.
- Ensure health and education agencies remain vigilant regarding access, especially on the part of the poor.
- Review programs providing community grants (KDP, BUIP and CRP) to ensure effective targeting in line with findings in the assessment and improve coordination of inputs with local government.

Impact Monitoring. While tourism has embarked on a recovery, on-going monitoring of vulnerabilities and those getting left behind in the recovery is necessary. To do so, the Government should:

- Consolidate and enhance the collection and management of data and information relating to domestic and international tourism in Bali to provide a better foundation for policy-making (e.g., to BPS Bali and the tourism agencies and organizations).
- Repeat school facilities surveys to assess on-going impacts on access and quality to education.
- Consider targeted household surveys to assess coping strategies, in advance of the 2004 SUSENAS.
- Undertake a rapid labor market, job seekers and SMEs needs assessment in cooperation with respective provincial and district authorities to design a medium term strategy for labor intensive work programs and support to medium and small size enterprises.
- Evaluate the current debt situation of enterprises hit by the crisis, especially small and medium enterprises.

In the medium run, the Government should shift attention from the crisis to more sustainable and diversified development in Bali and beyond. And drawing from the lessons of the Bali bombings, it should revamp its mechanisms for crisis response in a decentralized Indonesia.

Promoting sustainable tourism-led development. Until Bali emerges from the economic slump, a short-term agenda of tourism-led recovery that mitigates the impacts of the crisis and focuses on access to key social services and alternative employment opportunities remains crucial. Ultimately however, Bali's tourism-based economy needs to be more sustainable and sensitive to shocks through promoting innovation and participation by local communities. Current trends in global tourism and future uncertainty may imply a repositioning and renovation of Bali as a destination and building a more diverse and sustainable economy less prone to shocks.

The history of Bali's tourism development suggests that top-down planning is not always effective. Despite planning, the tourist industry in Bali took on a dynamic on its own, progressing at a rate that created

intense vulnerabilities in the economic structure of the island. This legacy should underscore that top down plans will prove increasingly ineffectual in managing the complex process of tourism-led development in Indonesia, starting with its focal point Bali. A range of stakeholders – including central, provincial, local government, communities, and the private sector – will each have to play their part.

Sustainability requires a better understanding of how tourism can benefit communities, both directly and in directly. There is no doubt that tourism will remain the lead sector in Bali, and effective partnerships and linkages between communities, businesses and other local economic actors need to be developed so that the benefits of Bali's economy can be more fairly distributed. This vision requires:

- Enhancing dialogue between regional governments and tourism stakeholders in Bali, NTB and other destinations through broad multi-stakeholder Tourism Recovery Groups (government, police, industry, community representatives) for taking forwards a comprehensive tourism recovery strategy that effectively coordinates between the National Tourism Recovery working group and provincial actors.
- Encouraging stakeholders to produce strategy documents with clear timelines, milestones and resources for implementation, and with communities identify possible revitalization projects of tourism sites that can be undertaken by local communities with government or donor funding as part of a community-based approach to tourism that will also provide much needed job opportunities.
- Exploring options to diversify Bali's economy, leveraging on linkages to the tourism sector, for instance by strengthening export channels that build on existing tourist oriented industries.
- Developing a market and development plan for tourism related SMEs for Bali, Lombok and East Java focusing on strengthening market analysis and product research, delivery of support services, building skills and capacity and enhancing trade links and information management.
- Considering pilot projects on community based tourism and tourism revitalization sites in Bali and Lombok to draw lessons and best practice for future replication elsewhere. This could be developed by provincial and district governments with participation from relevant stakeholders including communities and support from donors.

Redesigning crisis response mechanisms. One clear lesson from the Bali bombings aftermath is that crisis coordination and implementation issues will have to be more squarely addressed in the post-decentralization era. The Government should therefore review the mechanisms for crisis response and post crisis recovery in a decentralized environment, and agree on efficient instruments for disbursements of resources, means of coordination and effective cooperation among levels of government.

Donors can support in all of these efforts. First, they should continue implementing the programs initiated in the aftermath of the bombings. Key to the success of the programs focused on social welfare relief will be the targeting of the truly vulnerable groups. Given the highly differential impact of the crisis, targeting at the sub-district level is appropriate, making use of the information generated by the monitoring efforts reported upon in this report. Second, donors should consider continued support for these monitoring exercises. A further round of monitoring surveys could shed light on whether the apparently emerging

recovery in tourism is trickling down terms of improved livelihoods of those affected. Third, donors should consider supporting technical assistance to governments at all levels. This assistance could support planning and implementation for already committed programs, and a longer-term effort in planning and budgeting. Assistance to provincial and local governments to facilitate strategic planning for a longer-term recovery and diversification strategy is needed as well. Finally, donors can assist in developing a strategy for coordinated responses to possible future crises.

CHAPTER 1: INTRODUCTION

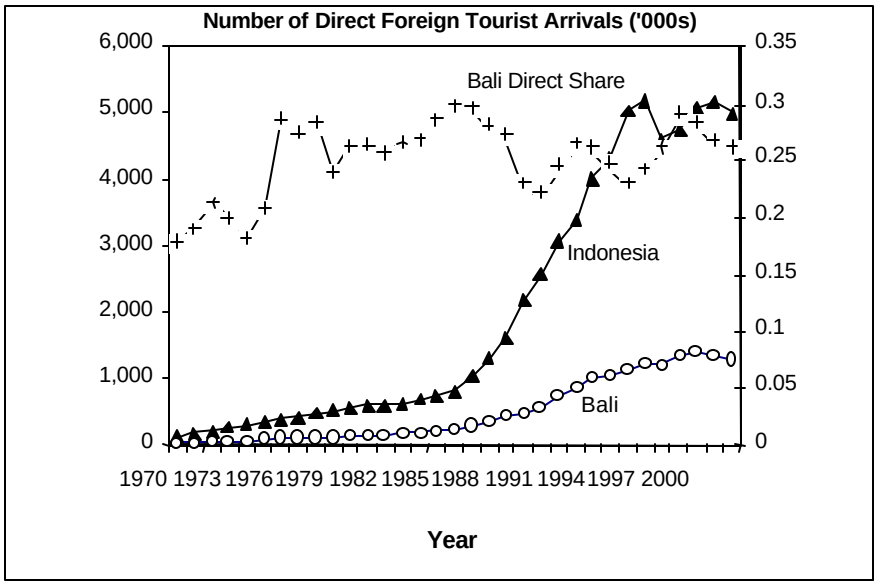
Tourism has emerged as one of the most dynamic sectors in the Indonesian economy, Bali acting as its locomotive. The sector is now second only to oil and gas in terms of Indonesia's foreign exchange earnings. The tourism industry in Bali remains concentrated in the south of the island, having gained impetus in the seventies and eighties with large-scale developments such as the Nusa Dua peninsula. Although planners initially sought to shield Bali's perceived cultural vulnerability to international tourism through such developments, growth in accommodations and tourism-related industries mushroomed in a number of locations, most notably Kuta, the epicenter of the October 2002 blasts. Tourism now impacts the livelihoods of the whole island, including the poorer North and East, through such linkages as migration, remittances, and general spending across all sectors. These linkages reach further to Lombok, which supplies Bali, as well as having developed its own tourism industry.

1.1 Indonesia's Tourism Boom

1. The island of Bali has developed as one of the world's premier tourist destinations with over one million foreign visitors flying directly to Bali each year since 1994 (Figure 1). Since the mid-eighties, visitor numbers to Indonesia as a whole as well as Bali have increased by more than six-fold, doubling in the 1990s, with around one-quarter of tourist arrivals to Indonesia being direct arrivals into Bali. Despite the turbulent times of Indonesian economic upheavals and political transition after 1998, visitors continued to come, in part due to a cheaper Rupiah.

2. While Bali's 3.4 million inhabitants account for just 1.6 percent of Indonesia's

Figure 1. Direct Tourist Arrivals in Indonesia and Bali



population, almost all foreigners coming to Indonesia are exposed to the island. The international image of Indonesia indeed appears inextricably tied to Bali. Actual visitors to Bali far exceed those arriving directly in Denpasar, with an estimated one-half of international visitors to Bali coming via other ports such as Jakarta, often combining their visit with other destinations such as Yogyakarta.[1] In addition, many Indonesians, as well as foreigners based in Indonesia, choose Bali for their domestic holiday. Visitors to Bali therefore include three types: foreign direct arrivals, indirect foreign arrivals and domestic visitors.

3. Tourism has also become increasingly important for the neighboring island of Lombok, although it is less than a tenth the size of that in Bali. The tourist areas of Sengiggi, Gili Islands (West Lombok), and Kuta (Central Lombok) cater for a mix of domestic and foreign visitors, many of whom come via Bali. Mataram focuses principally on the domestic market. Limited development of tourism facilities outside of these areas exists, but the local government is promoting the development of other areas as more remote destinations. Lombok has many producers of ceramics, textiles and other handicraft products that are sold to the local tourist market as well as being exported to Bali and beyond. Traders sell both locally produced and imported goods directly to the local tourist market as well as exporting local products to Bali.

4. East Java, with a population of more than 38 million and a workforce of over 18 million, is Indonesia's second most populous province. It has significant linkages to Bali based largely upon trade and migration. The province has increasingly provided for the needs of the growth of the Bali tourist industry including handicrafts, furniture, silver, and food as well as migrant labor. Major commodities traded with Bali include wood, rattan, silver, metal, stone and gemstones, bamboo, leather, clay and ceramics, garments, food and fresh produce.

5. The tragic events of 12 October 2002 followed by the war in Iraq and the outbreak of SARS have all contributed to a major crisis in Bali's and Indonesia's tourism-related economy, which has had repercussions in other parts of the country, notably Lombok, East Java, Central Java, Yogyakarta and beyond.

6. In January 2003, UNDP, USAID and World Bank presented a summary of the socio-economic impacts of the Bali bombings to the CGI Annual Meeting three months after the bombing. It was clear at that time that recovery had not yet begun, and that it was important to keep monitoring the crisis and review responses to promote recovery and mitigate adverse impacts. This report focuses on the impacts and responses some seven months after the October bombings in three provinces, Bali, Lombok and East Java, affected by these and subsequent events with a focus on Bali, given the island's high dependence on tourism. Chapter 1 of this report details the background to tourism in Bali and Lombok, and analyses the likely impacts based on knowledge and published data of Bali's tourism sector. Chapter 2 presents an updated review of the socio-economic situation in Bali, Lombok, and East Java based on primary field data collected in May 2003. Chapter 3 reviews the various responses of the Government of Indonesia and donors to the crisis. Conclusions and recommendations are provided in Chapter 4.

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[1] PROPEDA Bali 2000-2004.

1.2 Tourism Development in Bali

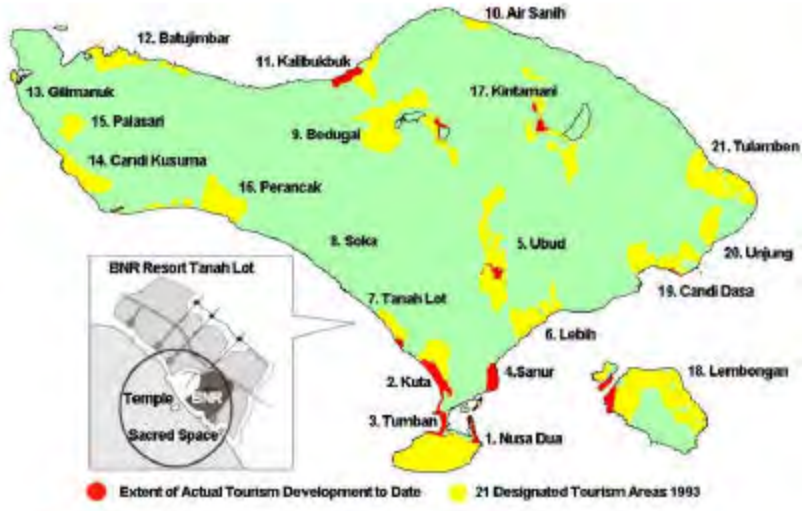
7. While tourism to Bali dates back to the past century, mass tourism only gained early momentum in the mid-to-late eighties long after Bali had been discovered and made home by groups of aficionados ranging from artists to surfers. Development was initially focused most notably on the southern peninsula of Nusa Dua, in addition to the existing concentrations of Sanur (the site of the Bali Beach Hotel, built by the Soekarno government in the fifties with Japanese war reparations), Kuta, and Legian (Figure 2).

8. The first Bali Tourism Development Master plan was funded by UNDP with the World Bank as executing agency. Development began in April 1970 by the French firm Societe Centrale pour l'Equipement Touristique Outre-Mer (SCETO). The concept of 'cultural tourism' was thought to minimize the impacts of tourism on the island's cultural life. First, the involvement of the Balinese in developing the plan was minimal. The provincial government's role was limited to consultations with the team, none of the SCETO team had previous experience of Indonesia, and there was no process of consultation with broader Balinese stakeholders. Second, the focus of the study was clearly the development of international tourism without sufficient priority being given to either the broad development of Bali or the social, cultural, and environmental impacts of mass international tourism on the island. Picard (1996) highlights the fact that the SCETO team recognized the dilemma that developing Bali for mass tourism presented:

> "*What happens is that the visitors arrive as individuals with a high standard of living who are more or less frustrated in their own culture and then attempt to idealize a civilization they can appreciate only superficially, identifying it with a Lost Paradise they hope to see preserved. Their hosts, on the other hand, only see the exterior trappings of a foreign way of life and are tempted to think of the countries from which these tourists arrive as a sort of Promised Land they must make all efforts to emulate.*" (SCETO 1971: Vol.2, p.97, cite in Picard (1996)

9. In 1983, the Indonesian government took

Figure 2. Tourism Areas (Kawasan Wisata) in Bali



further measures to promote Indonesia and Bali as tourist destinations. Measures included through the formation of the Department of Tourism, Post and Telecommunications, the exemption of visas for tourists (which has become a contemporary issue), the opening of new ports of entry into the country (i.e., not just Jakarta), and facilities to attract foreign investment. Liberalization measures to promote trade and foreign capital investment in 1988 also spurred on the tourism industry in Bali, and during the 1980's and 1990s, new international hotels opened in Nusa Dua and other areas.

10. In 1988, the first Bali Master Plan for Tourism expired, and the Bali provincial government adopted a new General Development Plan. The new plan promoted tourism as the mainstay of the Balinese economy across the island as opposed to the previous concentrated model. The Bali provincial government established 15 centers of tourism, expanding this to 21 centers (Figure 2) that covered 178,470 ha or 24.7% of Bali's land area. The Balinese were expected to benefit more widely from employment, trade, cultural performances and the provision of services in the tourism centers.

11. *Present Accommodation Stock in Bali*. The focus on the south of the island has contributed to the inequalities between the economies of Bali's districts, with the direct employment opportunities of tourism, as well as local revenues from hotels and restaurants, being concentrated in the districts of Badung and Denpasar (Table 1). By 2000, Bali had 113 starred hotels (forty-eight 4 and 5 star), with more than 80% of these in Badung and Denpasar. With over thirty six thousand rooms, Bali now had over five times as many rooms as the ambitious targets initially set by the SCETO planners. The majority of these rooms were attributable to the non-starred sector, which according to the Central Bureau of Statistics encompassed more than one thousand two hundred establishments and almost twenty thousand rooms.

12. The Bali Provincial Government's Tourism Office (*Dinas Pariwisata*) also maintains an inventory of licensed accommodations in Bali (Table 2). While their estimates of the starred hotel sector are quite similar to those of BPS, there are larger unexplained discrepancies regarding the non-starred sector. Their inventory of rooms suggests that only fourteen thousand rooms were presented in the non-starred sector in 2001, compared to a figure of almost twenty thousand in the BPS statistics (i.e. 40 percent more). The data confirm the concentration of all types of hotels in the southern district of

Table 1 - Distribution of Hotels in Bali

District	GRDP per capita (Rp) (2000)	Number hotels			Number hotel rooms		
		Starred	*Non-starred*	*Total*	*Starred*	*Non-starred*	*Total*
Jembrana	4.8 million	0	22	22	0	263	263
Tabanan	3.9 million	2	38	40	317	441	758
Badung	10.1 million	71	317	388	12,933	8,221	21,154
Gianyar	5.1 million	7	407	414	291	3,059	3,350
Klungkung	5.1 million	0	26	26	0	231	231
Bangli	3.8 million	0	24	24	0	184	184
Karangasem	3.1 million	7	121	128	250	1,550	1,800
Buleleng	3.6 million	4	132	136	297	1,909	2,206
Denpasar	6.1 million	22	168	190	2,939	3,670	6,609
Total (2001)		113	1,255	1,368	17,027	19,528	36,555

Source: BPS 2001, Bali dalam Angka

Table 2 - Dinas Pariwista's View on Accomodations

District	Pondok *Wisata*		Hotel *Melati*		Hotel (Starred) *Bintang*	
	Units	Rooms	Units	Rooms	Units	Rooms
Denpasar	44	204	140	3,185	23	3,034
Badung	81	377	274	6,589	86	14,954
Bangli	5	23	15	185		
Buleleng	26	125	63	1,095	5	225
Gianyar	123	563	87	1,269	9	422
Jembrana	14	70	23	314		
Klungkung	9	40	3	30	3	36
Karangasem	43	195	63	1,130	7	293
Tabanan	27	124	23	425	2	305
Total (2002)	372	1,721	691	14,222	135	19, 269
2001	330	1,411	613	12,721	128	18,464
2000	322	1,474	598	12,357	117	17,933
1999	305	1,371	594	12,476	112	17,713
1998	289	1,291	555	11,766	106	16,697

Source: Dinas Pariwisata, 2002, Directory of Licensed Establishments (*Direktori Berijin Usaha: Hotel, Pondok Wisata, Rumah Makan/Restaurant Bar, Biro Perjalanan Wisata).*

Badung. For example, 78 percent of starred rooms were reported concentrated in Badung. Non-starred hotels (Pondok Wisata and Hotel Melati) were far more disbursed throughout the island. However, accommodations in a number of districts (e.g., Bangli, Buleleng, Jembrana, and Klunkung) remain quite limited.

13. *Overnight Stays and Visitors to Bali*. The exact number and type of tourists that come to Bali per year is subject to some debate. Beyond the numbers for direct international tourism arrivals to Bali, we must rely on hotel occupancy statistics and other indirect information on tourist arrivals to Indonesia for a more complete picture of the number of indirect foreign and domestic visitors to Bali.[2] The accommodations data from the Central Bureau of Statistics (BPS), the only comprehensive and regular source of data on the topic, suggests that total foreign visitors to Bali were somewhere in the range of 4.3 to 5.1 million visitors in 2001/2 (Table 3). Even accounting for repeat visitors, these numbers appear to be implausibly high. They would suggest that nearly every foreign visitor to Indonesia came to Bali. This raises some concerns about the quality of both the annual and monthly update data.[3]

[2] BPS collects accommodation data on the number of overnight guests per month and annually in starred (*bintang*) and non-starred (*melati*) hotels (see below), while the Bali Office of Tourism collects data on non-starred (*melati*) hotels. The former provincial office of the Department of Culture and Tourism (ex-Kanwil) used to collect data on the starred hotels in Bali, but this function has not yet been taken on by the Bali Tourism Office (Dinas) since regional autonomy.

[3] Our understanding is that BPS collects accommodations data on the basis of two forms. Once a year it fields the VHT-L questionnaire, which is sixteen pages. In addition to asking about the total number of visitors in the previous years, including domestic versus individual foreign nationalities, the questionnaire also asks about facilities (e.g., rooms) and employment. Once a month, BPS then also fields a short questionnaire (VHT-S) to all starred hotels and a sample (about 15%) of the non-starred hotels. These are used to estimate the monthly occupancy figures. Since not all establishments report, the figures have to be adjusted to reflect those establishments that did not report in a given month.

Table 3. BPS Estimates of Total Visitors to Bali

	Starred	Rooms	Foreign Guests	Domestic Guests	Total Guests	Non-Starred	Rooms	Foreign	Domestic	Total
2002										
2001	126	-	2,009,221	500,661	2,509,882	-	-	-	-	-
2000	113	17,027	1,155,129	253,120	1,408,249	1,255	19,529	3,169,999	1,146,053	4,316,052
1999	104	22,254	1,333,233	210,739	1,543,973	1,240	18,529	-	-	-
1998	102	16,371	1,177,074	202,346	1,379,420	1,189	18,379	-	-	-
1997	90	14,626	1,283,157	241,232	1,524, 389	1,157	19,022	-	-	-
1996	-	13,938	-	-	-	1,127	17,410	-	-	-

Source: Bali Dalam Angka, *Table 8.7 ff Bali Dalam Angka*.

14. The weaknesses in the overall accommodations data lie with the non-starred accommodation sector. Since the published data on starred hotels, especially in the luxury category, has been timelier, the non-starred sector may have received less attention due to the absence of commensurate data. Their reporting is far better, so while numbering just over a hundred, it is always their latest occupancy numbers that make the headlines. The over 1,000 non-starred establishments are a heterogeneous lot. The non-starred hotels tend to be more geographically dispersed than other types of accommodation. They may therefore be especially important for direct tourism employment outside of the Southern tourism agglomeration areas.

Table 4. The Structure of the Balinese Economy

	Employment (2002, %)	RGDP (2000, %) (Rp. T.)	Growth (1997-2000, %)	National Employment (%)	National RGDP (%) (Rp. T.)	National Growth (1997-2000, %)
Agriculture	32.2	20.6	0.5	44.9	16.0	5.4
Mining & Quarrying	0.5	0.7	-1.6	0.9	8.7	5.5
Manufacturing	14.5	9.6	-3.5	12.6	20.9	-11.1
Utilities	0.1	1.3	30.9	0.1	1.0	23
Construction	7.9	4.2	-9.6	4.4	4.6	-33.7
Trade, Restaurants, & Hotels	24.2	33.2	1.1	18.3	15.4	-6.8
- *Wholesale and Retail*	20.2	12.1	-12.2	17.3	12.7	-7.4
- *Hotels*	2.9	12.9	9.1	0.2	0.5	-6.1
- *Restaurants*	1.1	8.14	7.1	0.7	2.23	2.7
Transport and Communications	5.1	11.3	-2.8	5.6	5.2	4.6
Financial Services	1.2	6.0	0.6	0.62	5.4	-17.22
Public Administration and Services	14.3	13.2	-0.9	12.61	7.13	-2.45
TOTAL	1.71 million	1.65	-0.5	87.29 million	1,291	-6.48

Source: National Socio-Economic Survey (SUSENAS) 2002 and BPS Regional Accounts. National figures include oil and gas processing, which accrues to mining and manufacturing. These differ somewhat from the national accounts. Figures for 2001 were not yet available.

Table 5. Bali's Employment by Sector

	Bali					Average Wages Levels (PC Rp./month)	
	Formal		Informal		Total	National	Bali
	Number	*%*	*Number*	*%*			
Agriculture	18,045	3.27	534,021	96.73	552,066	347,520	474,377
Mining	2,591	33.74	5,088	66.26	7,679	1,143,482	631,243
Manufacturing	113,052	45.50	135,402	54.50	248,454	607,078	433,783
Electricity	2,149	100.00	0	0.00	2,149	1,021,943	1,214,801
Construction	88,868	65.91	45,968	34.09	134,836	618,986	635,380
Services:							
- Transportation	33,780	50.90	32,584	49.10	66,364	755,868	778,099
- Wholesale trade	20,232	61.43	12,703	38.57	32,935	848,263	627,272
- Retail trade	73,568	23.45	240,218	76.55	313,786	500,717	500,337
- Hotel	49,014	97.50	1,255	2.50	50,269	830,224	821,900
- Restaurant	14,277	78.22	3,976	21.78	18,253	483,994	585,765
- Travel agent	11,201	81.80	2,492	18.20	13,693	1,195,428	892,326
- Telecommunication	6,511	91.89	575	8.11	7,086	1,071,142	895,409
- Financial service	21,196	100.00	0	0.00	21,196	1,331,869	744,330
- Housing	0	0.00	373	100.00	373	986,970	-
- Busines service	7,655	74.59	2,608	25.41	10,263	1,183,879	998,955
- Government service	143,840	97.61	3,521	2.39	147,361	979,160	1,096,319
- Other services	46,747	53.32	40,919	46.68	87,666	368,922	390,519
TOTAL	652,726	38.07	1,061,703	61.93	1,714,429	670,104	701,583

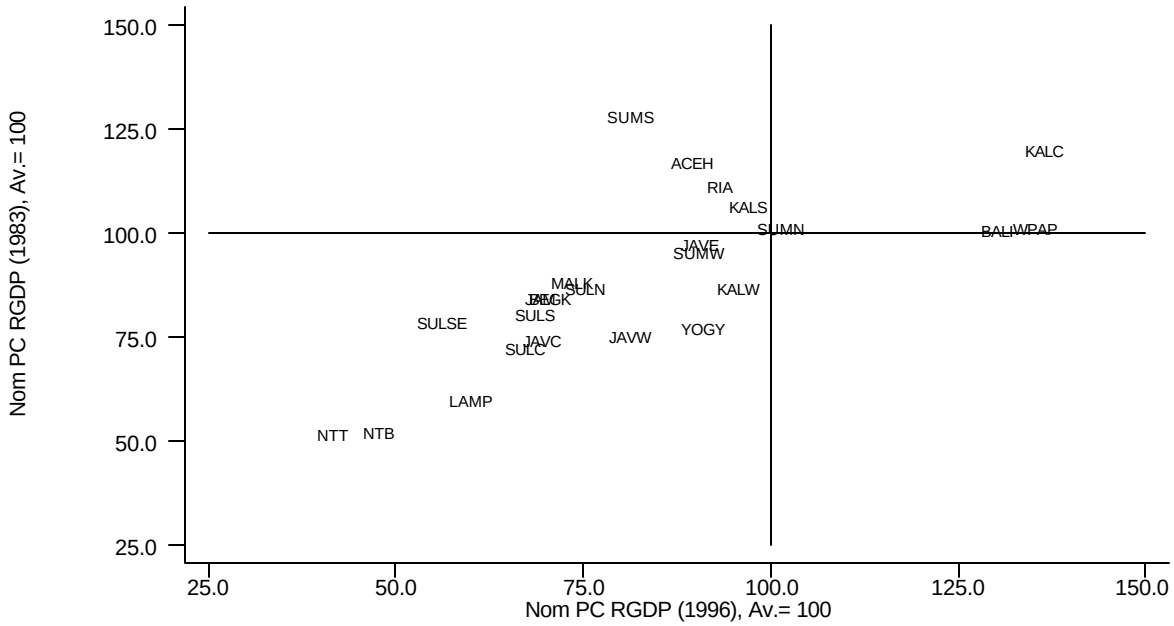
Source: SUSENAS 2002.

15. Annual variations in Table 3, however, suggest that even the data for starred hotels requires some degree of caution. For example, data for 1999 suggests an implausibly large increase in the number of starred rooms, whereas the data for 2001 suggests a steep increase in both the foreign and domestic visitor numbers of starred hotels. More bewildering are the figures for non-starred hotels. With a similar room capacity, visitor numbers are almost three times as high in 2000 as in starred hotels. The inconsistencies in these figures are especially worrying, as they provide one of the few insights into the relative importance of domestic visitors, as well as the performance of the non-starred sector.

16. *Employment and the Balinese Economy.* Despite the rapid growth of the hotel sector, its direct employment effects in Bali account for less than 3 percent of the total workforce (about 50 thousand workers). The majority of the population is spread throughout agriculture, trade, and manufacturing, many of which have direct and in-direct linkages to the tourism economy. Table 4 suggests that while Bali was still suffering from the impacts of the Asian Economic Crisis in 2000, overall regional income (RGRP) was only down by 0.5 percent.

17. Bali is fortunate that its poverty rate was only 4 percent in 2002 (compared to 15.9 percent in Indonesia as a whole). The data suggests that the poor will not initially be the most vulnerable to a downturn in the tourism industry. Evidence from SUSENAS 2002 suggests that 71 percent of the poor in Bali depend on agriculture, which may not be

Figure 3. Relative RGDP Growth of Bali (1983-1996)



Note: Excluding Jakarta and E. Kalimantan

directly impacted by the bombing. Only to the extent the poor in agriculture supply the tourist industry, or their incomes have diversified to an increased reliance on off-farm tourism related incomes, will they suffer. Workers in hotels were almost exclusively formal wage earners (97.5 %) in 2002, as are those in the restaurant sector (78.2%) (Table 5). Almost two-thirds of construction workers were wage earners. In contrast, those in the retail trade were predominantly informal (75.5%).

18. The prosperity of Bali is underscored by the fact that between 1987 and 1996, Bali managed to increase its standing of just below the national per capita non-oil and gas RGDP to 30 percent above the national average (see Figure 3). While on the eve of the Bali bombings, tourism had brought a high level of prosperity to Bali, it also made the island extremely vulnerable to a change in fortunes of its mainstay sector.

1.3 Tourism Development in Lombok

19. The development of tourism in Lombok lagged well behind that in Bali and grew as a result of the success of Bali's tourism industry. Even at its highpoint in 1996, foreign visitor levels to Lombok were less than a tenth of those to Bali (Table 7). Despite rapid growth in the early 1990s and the interest shown by the regional government and private sector in tourism, foreign tourist visitors to NTB have been dropping since 1997. Instability in Indonesia since 1998, an increase in crime and outbreaks of violence in Lombok, notably the riots of 17 January 2000, have been the major factors in the decrease in the number of tourists visiting Lombok (Figure 4).

Table 6. Distribution of Hotels in Lombok

District	GRDP per capita (Rp.) 2000	Number hotels			Number hotel rooms		
		Starred	*Non-starred*	*Total*	*Starred*	*Non-starred*	*Total*
West Lombok	2.3 million	16	142	158	1,161	1,068	2,229
Central Lombok	1.8 million	1	10	11	108	156	264
Mataram	4.1 million	9	45	54	476	933	1,409
Total		26	197	223	1,745	2,157	3,902

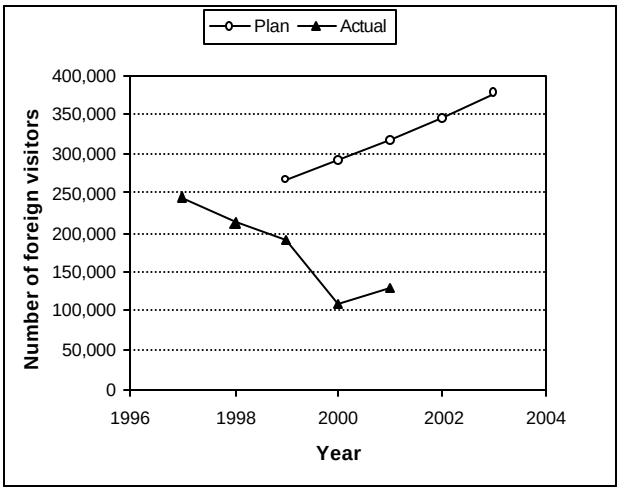
Source: BPS

20. Nevertheless, there is interest amongst Lombok based travel agents to promote ecotourism and Lombok's Sasak culture, which to date has not been a main part of Lombok's tourism image. This may help promote the development of tourism in Lombok and the sharing of benefits with local communities, but given the constraints on transportation and infrastructure in Lombok coupled with relatively high levels of crime compared to Bali, the future development of Lombok's tourism industry looked fragile even before October 2002.

21. A Master Plan for Tourism Development in Lombok has never been produced, and the provincial parliament is content for the private sector to take the initiative as long as it does not contravene the national tourism development policy guidelines.[4] A significant step for the formal development of tourism in Lombok was the classification of nine areas in Lombok as tourist areas (*kawasan wisata*), covering 27,630 ha or roughly 6% of the land area of Lombok (cf. 25% in Bali).[5] The most significant of these areas are:

- Gili Islands and Senggigi in West Lombok (1,805ha)
- Kuta in Central Lombok (2,590ha)
- Mount Rinjani covering parts of West, Central and East Lombok (17,100ha)

Figure 4: Tourism Arrivals to Lombok



22. Lombok promotes an image of "Bali twenty years ago", which has helped it attract visitors to Bali who are looking for something different. In general, there has been significant investment from the private sector in the Senggigi area (West Lombok) and, to a lesser extent, Kuta (Central Lombok), where the local government is working closely with the Lombok Development Tourism Consortium.[6] The experience of Kuta, where the community has been involved in a long running land

[4] Syahreza, A. (1999) Where to Lombok? Bali Echo No. 41/VIII.

[5] Provincial Parliament through Regional Regulation No 9/1989, Dinas Kebudayaan dan Pariwisata NTB (2002) Pariwisata NTB Dalam Angka 2001.

[6] See Dinas Kebudayaan dan Pariwisata NTB (2002) Pariwsiata NTB Dalam Angka 2001 for summary of private-public partnerships in tourism development in Lombok; for article on LTDC see Kompas (4 August 2001) Pariwisata Kute, Lombok Tengah: Lunturnya Sebuah Cita-cita.

dispute, illustrates the risks of putting tourism development in the hands of the private sector without any strategic plan, resulting in the loss of local community voice in the process of land acquisition and development.

1.4 Tourism Expenditures and Multiplier Effects

23. Prior to turning to a more detailed evaulation of the impacts of the Bali bombings in Chapter 2, average tourism expenditures for foreign and dometic vistors provide some indication of the relative economic incidence of a loss of these visitors in the wake of the bombings.

24. Tourism expenditures are not solely concentrated on hotels. Visitors spend on a variety of other goods that feed through the economy. Different nationalities spend at different levels (*wisman)*, and in turn spend differently than domestic visitors (*wisnus).* Survey evidence suggests that foreign tourists spend significantly more than domestic tourists (Table 7).

25. Predicting the aggregate effects of the fall-out of the Bali bombing on the island's and nation's incomes and employment relied on very imperfect assumptions about decreases in tourism and how these would reverberate through the economy. Terrorism impacts on tourist dependent regions have not been infrequent (Pizam and Smith 2001). Yet international experience offers only a very imperfect yardstick. Incidents involving direct attacks on tourists, like in Bali, have been less frequent. The most comparable event was in Luxor, Egypt where the killing of 58 tourists in November 1997 at the temple of Queen Hatshepsut followed a 20% annual expansion in Egypt's tourism industry since 1994. The immediate impact of the attack was marginal growth in 1997, and a decline in arrivals of 13 percent in the next year. However, growth returned to 30 percent in 1999 (ILO 2001). Evidence from Israel and Greece, also suggests that the impact of shocks is temporary (Aly and Strazicih 2000). The international evidence that terrorist shocks on tourism are temporary, rather than permanent, is heartening. However, they do not detract from the fact that destinations that suffer declines may suffer a loss of several years of growth before returning to trend, and will for a long time not achieve the levels of tourism activity they would have achieved in the absence of the terrorist shock (ILO 2001).

26. Estimates drawing on input-output tables provide one means of projecting potential macro-economic impacts. Simulation using a national input-output table suggested that reductions in national GDP could range from 0.25 to 0.56 percent of GDP (Yoshioka 2003).

Table 7. Visitor Expenditures by Type, Bali

Expenditure Type	Foreign		Domestic	
	Daily (USD)	Total (USD)	Daily (USD)	Total (USD)
Accommodation	29.60	324.71	7.38	32.77
Food & drink	11.82	129.67	4.11	18.25
Transport	2.11	23.15	0.64	2.84
Attractions	1.54	16.89	0.97	4.31
Trips	2.81	30.83	0.98	4.35
Souvenirs	9.81	107.62	6.02	26.73
Guides	3.63	39.82	0.26	1.15
Other	0.92	10.09	0.32	1.42
Total (Daily versus Overall Stay)	62.24	682.77	20.68	91.82

Source: Dinas Pariwisata Bali. The total is a result of daily expenditures and length of stay. National data is also prepared by the Ministry of Tourism (www.depbudpar.go,id).

Owing to the concentration of the tourism economy, the predicted impacts on Bali would be larger. Simulations with the 2000 Bali Input-Output suggest that an annual decline of tourists expenditures – invariably driven by foreign tourists -- ranging from 10, 30, to 50 percent would be associated far more significant impacts on employment and regional income than at the national level. While indicative, these figures would not capture adjustments (e.g., in employment) or actual coping strategies in response to the economic shock.

CHAPTER 2: IMPACTS

The impacts of the Bali bombings, the war in Iraq, and SARS have reverberated throughout Bali, Lombok, and, to a lesser extent, East Java. While the hotel sector has been most directly impacted, tourism related industries as well as regions linked through trade, migration, and remittances have seen significant impacts. Direct impacts have been highest where the tourism industry is concentrated: in the South of Bali (Badung and Denpasar) and other smaller tourism centers, and among such groups as hotel workers and beach vendors. However, relative vulnerability to the impacts has been equal, if not greater, in poorer areas of North and East Bali. While communities, households, and businesses have shown a variety of coping strategies, the prolonged nature of the crisis has put these under significant pressure. Lombok has also seen pronounced impacts, but more in the context of a longer run slump that predates the Bali bombings. Impacts in East Java, ten times the size of Bali in terms of population, are also significant but far more diffuse, with our assessments finding regional pockets of vulnerability.

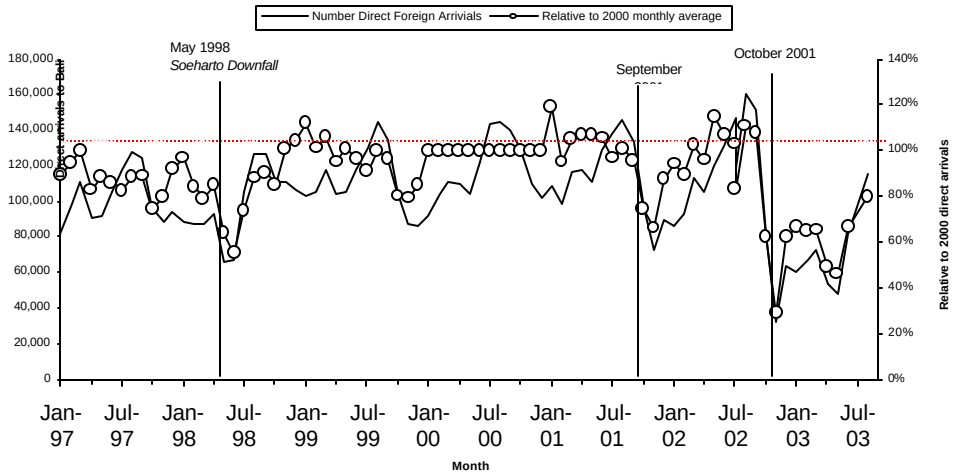
27. The Bali bombings, the Iraq war, and SARS all stood have adverse impacts throughout the Indonesian economy. Fortunately, the national impacts proved to be more limited than initially feared. While tourism brought prosperity to Bali, as well as neighboring regions, its very success also made is especially vulnerable to the exodus of tourists in the wake of the bombings. Owing to the significant regional contribution of tourism to Bali, Lombok, and linked areas in East Java, a specialized rapid regional assessment was completed in January 2003. The more protracted nature of the tourism slump reinforced initial plans for a repeat assessment, which was completed in July 2003. The objective of these rapid appraisals was to provide timely and comprehensive information on actual and anticipated impacts to assist policy making by national and regional government and donors.

28. The impact assessment relied on a range of quantitative surveys, as well as qualitative assessments, in addition to a variety of secondary information. After the October 2002 bombing, a first round of assessments was placed in the field by January 2003. A second round of assessments was fielded in May and June 2003. Given the wide scope of anticipated impacts both on and off-Bali, the instruments were designed in such a way as to provide both broad geographic and sectoral coverage, while at the same time honing in on those localities and sectors that were perceived to be most vulnerable. Rather than a traditional reliance on household surveys to measure socio-economic impacts, which was not possible given the constraints of time and resources, the assessment drew heavily of structured key respondent and establishment surveys.

29. Core instruments included a survey of seventeen key respondents in each of the islands fifty three sub-districts (*kecamatans*), a survey of over four hundred schools across the island, and targeted surveys of traders, beach vendors, taxi drivers, and tourism related industries. [7] A similar structure of assessments

[7] On Bali, the *Key Respondent Sample* covered 901 key respondents across Bali, seventeen key respondents in each of Bali's 53 kecamatans. In addition to the kecamatan head (*camat)*, the survey randomly selected two villages/neighborhoods. In each community, we

Figure 5. Foreign Visitor Arrivals in Bali 1997-2003



was adopted in Lombok, although coverage was only extended to those sub-districts that were perceived to be most vulnerable. Given the vast size of East Java's economy, the assessment there focused on identifying the most vulnerable localities and sectors. Consequently, the assessment completed rapid appraisals in just under one-third of the provinces districts.

2.1 Tourism

30. *Tourist Arrivals*. Tourism flows to Indonesia, and Bali especially, remain well below normal levels in the wake of the October 12th tragedy. The first few months of 2003 showed a rebound of visitors to about two-thirds the levels of 2000, a relatively normal year. But the subsequent SARS outbreak and the Iraq war proved a setback for recovery (Figure 5). The impact of the recent events on tourism is much more severe than that of the May 1998 riots and the September 11, 2001 events that also affected tourism to Indonesia. While numbers showed some evidence of firming up in June and July, these do not yet confirm a full-fledged recovery.

31. *Regional trends.* The whole region felt the impact of the Bali bombing and the subsequent security concerns, although Indonesia was hit hardest. Malaysia, Thailand, Viet Nam and China all saw a slowdown in tourism after October 12, 2002. In contrast, the Iraq war and SARS affected the region more than Indonesia in terms of tourism decline (Figure 6).

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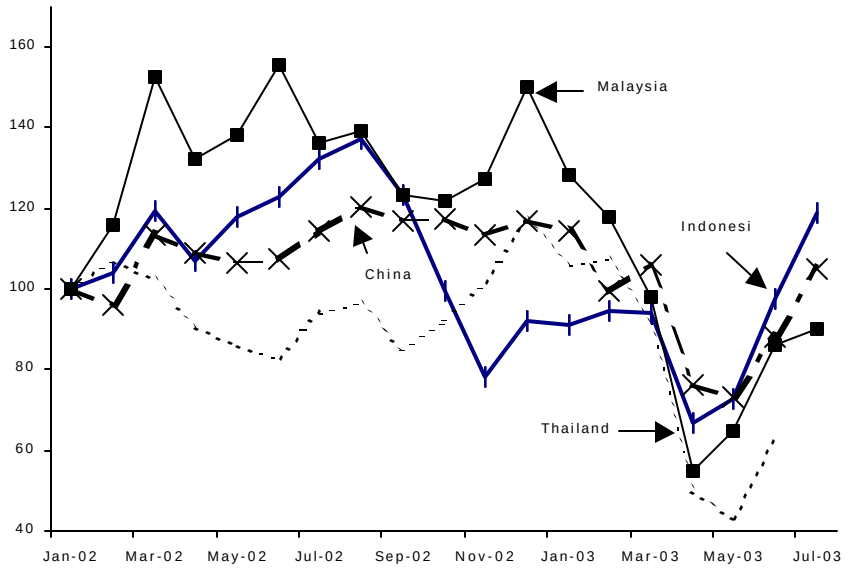
surveyed the village/neighborhood head, the traditional (*adat)* leader, the village cooperative, the head of the village credit agency (LPD), the head of the village welfare movement (PKK), the village midwife, a village youth group representative (*sekaa taruna)*, and a non-Balinese community leader. *The* School Survey revisited 425 schools across Bali, eight schools in each of Bali's 53 districts. These were initially surveyed in January 2003 for the first CGI. The eight schools included five public primary schools, two public secondary schools, and one private secondary school. *Tourism Related Industry* surveyed six hundred beach vendors, traders, and taxi drivers selected in main centers of commercial activity (Kuta Beach, Markets in Badung, Sukawati, Ubud, and Amlapura), as well as 140 producers in ten local industry clusters.

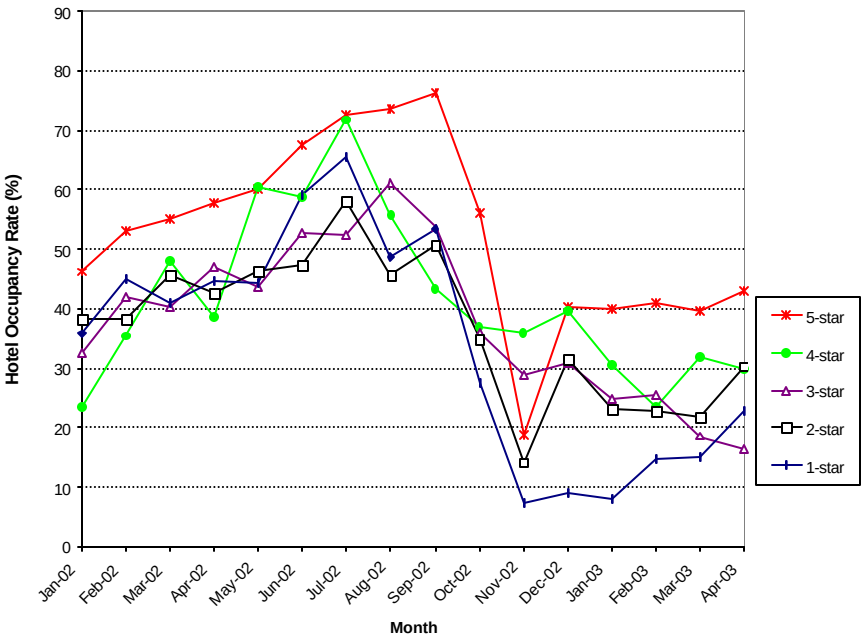
Figure 6 - Regional Trends in Tourism



32. *Hotel Occupancy*. As noted in Chapter 1, the direct international tourism arrivals provide only a partial picture of tourism flows to Bali. A comprehensive view of all foreign and domestic visitors must rely on hotel occupancy data. Whereas the data on the one hundred and thirty or so starred hotels is relatively timely, the situation in the over one thousand non-starred sector establishments is less readily assessable. However, there are some indications that the latter sector has been especially hard hit and possesses fewer response mechanisms. Those that depend for their livelihoods on these non-starred establishments may therefore be more vulnerable.

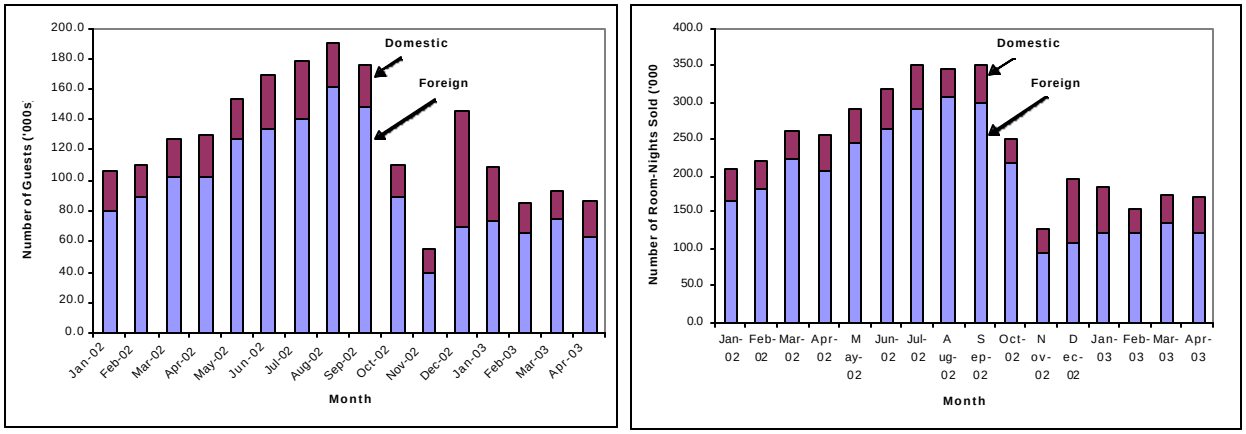
33. Figure 7 plots reported occupancy rates by starred establishment. Capacity utilization in five star hotels has typically been highest, and just before the bomb had climbed to over 75 percent. From this peak, the bombings saw occupancies collapse below 20%. These hotels managed to stabilize their occupancy rates to 40 percent between December 2002 and March 2003, presumably in part due to competitive offerings. In contrast, the 1-3 star category has not been able to match these levels, possibly because the more luxurious hotels are wooing away their demand. 1-3 star hotels, however, only represent about one quarter of reported rooms sold per night of starred hotels. In the first quarter of 2003 this average was 17 percent.

Figure 7. Bali: Occupancy Rates by Levels of Stars 2002-3



34. Luxury hotels may not only be in a position to weather the crisis for longer, they may also have more effective individual coping mechanisms to address the overall slump in demand. Indications are that five star hotels managed to stabilize their occupancy rates at 40%. Such a strategy worked in part because of aggressive price-cutting and promotions. Visitors who would otherwise have stayed in other segments of the market migrated to luxury. Unlike hotels with less stars, or non-starred hotels, the international luxury hotels have access to marketing networks abroad. These can in part work to

Figure 8. Domestic Tourists No Substitute



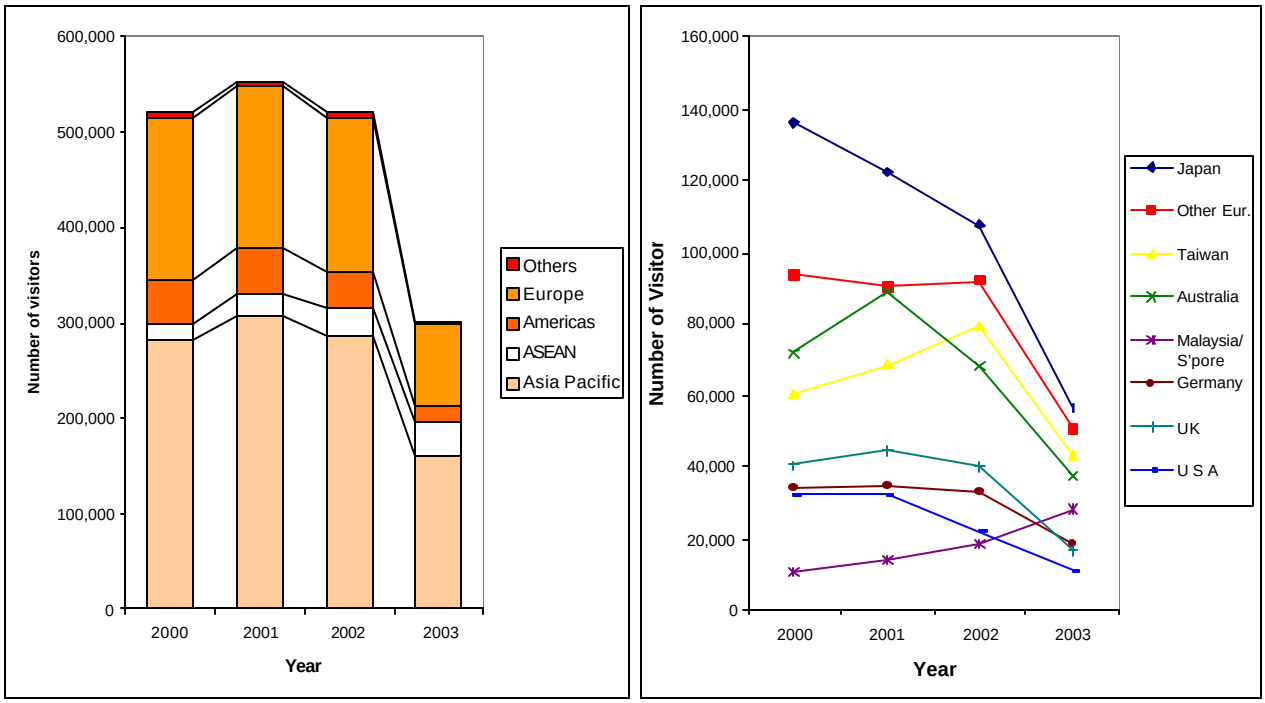
Source: BPS VHT-S hotel survey

offset the bruised public international image of Bali. The stabilization in the visitor numbers and occupancy levels to starred hotels are encouraging. However, there is some reason to suspect that lags in the recovery of the non-starred sector may be significant. We were unable to examine hotels by sub-district. Anecdotal evidence suggests that demand was concentrated in such conurbations as Kuta beach, which were attracting visitors that would otherwise have gone farther a field. Accommodations "off the beaten track" may therefore have proved more susceptible, especially in such poorer areas such as Karangasem.

35. *Domestic substitution.* Although domestic tourism has increased since late 2002, the number of tourists and their spending levels did not substitute for those of foreign tourists. Foreign visitors continue to be the mainstay of Bali's tourism economy. This is true for most segments of accommodations, not just luxury hotels: occupancy rates dropped across the spectrum of accommodations. While the share of domestic tourists in the total number of guests at starred hotels increased, notably in December 2002, foreign tourism remains dominant (Figure 8). This is the case for both total stay overs, and to a greater degree room nights. While domestic tourists did increase their share of demand in luxury four and five star hotels, they remain in the minority with respect to foreigners. Domestic tourism only a partial substitute.

36. *Composition of Foreign Visitors*. The crisis has also witnessed some changes in the composition of foreign tourists (Figure 9). The biggest losses were initially due to Australians and visitors from Europe ceasing travel to the region. While the diversification of visitor patterns is welcome, these have not compensated in terms of overall absolute numbers of visitors. Moreover, like domestic visitors, regional visitors may be spending less than other international visitors. However, it is unclear whether this demand is concentrated

Figure 9. Composition of Foreign Visitors to Bali (2000-2003)



in hotels that are more labor intensive. Clearly, it will be important for the government to continue monitoring the actual economic impacts of not only the number of visitors to Bali, but also their impact on the overall recovery in local employment and livelihoods.

37. In May 2003, there was little optimism in Bali's tourism industry and most operators were focused on surviving the crisis. Casa Grande, the association of 35 four and five star hotels in Bali, asked members about future bookings, and found bookings for June-October 2003 to be considerably down on last year. A total of 878 staff had been made officially redundant in Bandung and around 600 in Denpasar (including Sanur) making a total of about 1,400 redundancies. Hotels closed include Bali Grand Mirage, and Le Meridien Nirwana Resort (Tabanan) making 90 people redundant through a voluntary redundancy scheme for which 150 staff applied.

38. *Hotels in Lombok*. The hotel sector in Lombok continues to reel from a prolonged slump prior to the Asian economic crisis. Hotel occupancy rates (Table 8), estimated through a survey of 17 hotels in this assessment, were about 50% before the Kuta tragedy, falling to 18% in November 2002 and rebounding over the Christmas holiday before settling at a level of around 20% through to April. Occupancy rates of this sample of hotels remain well below their break-even points of 38% and 47% respectively.

39. In January 2003, none of the 16 hotels visited in Lombok had reduced operational expenditures, but 88% had done so in May 2003 with two-thirds reporting an inability to cover operational expenditure. Non-starred hotels were affected greater than starred hotels. 58% of hotels indicated that they had problems with debt repayments. Two in five hotels reported that current conditions were worse than after the January 2001 riots. In response, hotels had begun to discount room rates (76% of hotels visited), reduce staff salaries (29%), and reduce working hours (35%). By May 2003, a few non-starred hotels had made staff redundant, but more hotels are now unsure about the possibility of staff redundancies in the future compared to January.

40. Most hotels had reviewed their marketing strategies and many now look to the domestic and Asian market. However, it appears that in April the predominant trend was a reduction of both foreign and domestic visitors. The respondents in the hotel survey are now less optimistic about future prospects for recovery than they were in January 2003. In January, most starred hotels thought it would take 6-12 months for occupancy rates to increase – in May 2003, three out of the five were unsure of

Table 8. Lombok Tourist Arrivals

Month	**Tourist Arrivals ***	**Hotel Occupancy ****	
		Starred	*Non-starred*
September 2002	31,425	47.6%	52.3%
October 2002	29,738	30.4%	14.1%
November 2002	21,075	18.4%	18.6%
December 2002	34,497	46.4%	30.5%
January 2003	7,450	22.0%	18.8%
February 2003	6,223	21.4%	17.7%
March 2003	11,659	22.2%	19.6%
April 2003	-	23.0%	20.2%

* Data from Unram Report (BPS/Disparda)
** Data from Lombok Hotel Survey (University of Mataram, January & May 2003)

Table 9. Income Decline for Beach Vendors and Traders

Trading Location	District	Market Type	N	Average Daily Sales:		Reduction in Sales (%)	Average Daily Profit:		Reduction in Profit (%)
				Before Tragedy Kuta (Rp)	*Six months after (Rp)*		*Before Tragedy Kuta (Rp)*	*Six months after (Rp)*	
Pantai Kuta	Badung	Tourist	102	151,716	60,735	60%	48,284	18,578	62%
Pasar Badung	Badung	General	48	294,167	200,313	32%	83,854	68,021	19%
Pasar Sukawati	Gianyar	Tourist	50	561,000	176,400	69%	177,000	35,900	80%
Pasar Ubud	Gianyar	Tourist	30	398,333	116,667	71%	148,333	43,500	71%
Pasar Amlapura	K'asem	General	30	734,000	275,833	62%	101,333	34,167	66%

Source: Universitas Udayana (Denpasar), Traders Survey, May 2003.

when recovery would come. Most non-starred hotels in May thought it would be at least 1-2 years for occupancy rates to increase.

2.2 Tourism-Related Industries

41. The January 2003 assessment captured the immediate shrinking in demand for industries and traders that catered directly to tourist. Taxi drivers, traders, and local handicrafts producers all saw turn over collapse. While significant, the decrease in demand had at that time been of far shorter duration. The sustained failure of demand to return after almost nine months has significantly tested the coping mechanisms of these sectors, evidenced for example by the emergence of significant layoffs.

42. *Sales and Impacts in Bali.* Traders have experienced a dramatic average decrease in turnover and profits. Beach vendors and traders in most markets reported declines in turnover of over sixty percent (Table 9). A survey among market traders, beach vendors,

Table 10. Tourism Related Industry Survey

Sub-district	District	Product	N	Labor Force		Profitability		Future Outlook
				% reducing staff	*% reduction in staff*	*Break even*	*Loss*	*% not confident business will survive to end of year*
Sth Denpasar	Denpasar	Textiles	14	42.9	39.2	35.7	7.1	0.0
Kuta/Nth Kuta	Badung	Silver/metal	14	92.9	35.8	64.3	7.1	7.1
Kuta/Nth Kuta	Badung	Textiles	14	7.1	5.0	21.4	21.4	7.7
Sukawati	Gianyar	Furniture/wood	14	84.6	57.0	64.3	28.6	0.0
Blahbatuh	Gianyar	Furniture	14	69.2	69.4	7.1	7.1	7.1
Sukawati	Gianyar	Wood	14	71.4	57.0	21.4	28.6	0.0
Ubud	Gianyar	Wood	14	71.4	51.8	21.4	42.9	7.1
Sukawati	Gianyar	Silver/metal	14	57.1	60.0	42.9	7.1	7.1
Selat/Be'dem/Abang	Karangasem	Wood	14	78.6	57.0	7.1	7.1	7.1
Rendang	Karangasem	Wood	14	21.4	33.8	7.1	0.0	0.0
All		-	***140***	***59.4***	***51.6***	***29.3***	***15.7***	***4.3***

and taxis reveals a sharp drop in sales revenues and profits, up to 70 percent in some cases (Table 10). Reported profit declines are in the same order of magnitude. Income losses were reported throughout the island, not just the tourist areas, in part because of reduced transfers from the tourist areas to other parts of the island.

43. A survey of 140 tourism related producers in 10 clusters in June 2003 also suggested very high impacts. The data indicated significant levels of adjustment in terms of production levels (average declines of 55%), pricing (22%), and financing difficulties (71%). The majority of establishments did not report making a loss, but appeared to be adjusting in terms of significant shedding of workers (52% reduced staff, with a total reduction of almost sixty percent in the overall numbers of staff in the sample).[8] Smaller enterprises evidenced the highest shedding of staff (61.4% versus 29.2%, Table 11). Impacts in terms of production and sales exceed those of larger establishments. These establishments appear to have more limited coping, for example through a smaller reliance on exports.

Table 11. Micro and Small Businesses Are Hit Harder

Business Indicator	Micro *1-4 staff*	Small *5-20 staff*	Medium *20+ staff*
% production outside of Bali	25.0	39.4	35.0
% reduction in staff	61.4	51.0	29.2
% reduction in production	66.6	54.9	38.6
% reduction in price	21.2	23.3	23.3
% export	18.7	24.5	33.8
% reduction in sales	65.1	55.8	41.4

44. *Local Finance in Bali*. The main local finance institutions in Bali are the state-owned *Bank Rakyat Indonesia* (BRI), the private *Bank Perkreditan Rakyat* (BPR) and the *Lembaga Perkreditan Desa* (LPD), which is owned by the *desa adat* in which it is situated. The LPD network now has the greatest coverage of local finance institutions with

Table 12. Summary of Bank and Village Credit Institutions in Bali

District	No. of Offices			No. of Borrowers			Average Sum Borrowed (Rp million)			% of Total LPD System Loans	LPD Credit (*Diragukan / Macet*)		LPD Insitutional Health
	BRI	*BPR*	*LPD*	*BRI*	*BPR*	*LPD*	*BRI*	*BPR*	*LPD*		*Funds*	*No. Clients*	*Tidak Sehat/ Macet*
Denpasar	14	9	31	19,237	48,631	61,995	5.7	5.3	5.1	49.6%	4.5%	9.6%	0.0%
Badung	13	57	103								1.6%	4.2%	0.0%
Buleleng	12	9	159	6,593	6,249	33,068	4.4	3.4	1.1	5.7%	2.6%	7.9%	10.7%
Jembrana	8	1	56	10,533	2,841	10,828	3.6	0.3	1.3	2.2%	3.7%	14.2%	12.5%
Tabanan	14	25	225	9,203	12,957	44,100	4.7	4.3	1.7	11.8%	3.4%	8.0%	8.9%
Gianyar	11	31	225	9,188	24,522	58,457	4.8	5.1	2.0	18.4%	2.6%	25.0%	0.0%
Bangli	4	3	123	2,313	2,029	24,131	6.4	4.9	1.2	4.5%	1.8%	5.0%	4.1%
Klungkung	9	6	84	6,164	1,609	13,754	3.8	4.3	1.8	3.9%	4.2%	10.3%	4.8%
K'asem	10	5	146	5,992	1,992	22,370	4.6	4.0	1.1	3.9%	4.2%	11.2%	13.7%
Total Bali	95	146	1,152	69,223	100,830	268,703	-	-	-	100%	2.6%	11.5%	6.3%

Source: Data from BI and BPD Bali, December 2002.

[8] Udayana, *Hasil Survai: Eksistensi Industri Yang Terkait Dengan Pariwisata Bali Pasca "Tragedi Kuta" Putaran Kedua, July 2003, pp. 22.*

more than 1,100 branches in the 1,392 *desa adat* in Bali (Table 12).[9] There have been increasing concerns that small and medium-sized businesses as well as hard hit families are entering a debt crisis, with people selling assets to meet debt repayments.

45. The total amount of credit, as of December 2002, provided by BRI, BPRs and LPD was Rp. 329 billion, Rp. 485 billion and Rp. 636 billion respectively. The majority of loans within the LPD system are in Badung and Denpasar, reflecting higher borrowings on average in these districts. In the sample of 140 businesses visited in May 2003, roughly one-quarter of businesses in Gianyar had taken loans from their local LPD, while business in other districts, like those in Gianyar, relied on their own, as well as bank capital. As of December 2002, 2.6% of the credits provided by the LPD were rated as *diragukan* or *macet*, involving 11.5% of borrowers. Although the system retains high liquidity, these data suggest a high number of small borrowers are facing difficulties repaying their debts, especially in Gianyar where one-quarter of debtors were rated as *diragukan* or *macet*. As institutions, a higher proportion of LPDs in Karangasem (14%), Jembrana (13%), and Buleleng (11%) were rated as *tidak sehat* or *macet*. Taken together, these data indicate that problems of microfinance provision may be greatest in the poorer areas of Bali, while Gianyar stands out as having a high proportion of borrowers facing difficulties in repaying loans.

46. *Tourist-Related Industries in Lombok*. Lombok's tourist-related industries produce a variety of handicrafts including ceramics, wood sculpture, baskets, and woven fabrics that are sold directly in Lombok, Bali, and other parts of Indonesia, as well as exported overseas. The May 2003 assessment in Lombok interviewed traders, producers (small and household industries), and cooperatives to find out how their businesses were coping with the situation seven months after the Bali bombings. Lombok's tourism and handicrafts industries have been as badly affected as those in Bali by events since October 2002, impacting social welfare in those areas most closely linked to these sectors. The reduction in demand for handicrafts in Bali, as well as the reduction in employment opportunities for migrant workers from Lombok in Bali, is compounding social welfare impacts. Unlike Bali, the impacts in Lombok are more localized, with impacts in East Lombok and Mataram believed to be less than in West Lombok. As tourism and handicrafts are not such a dominant part of Lombok's local economy, the reduction in these sectors has not led to a general reduction in consumer spending as in Bali, and those working in agriculture do not appear to have been affected badly in Lombok. There are no significant residual impacts from the Bali bombing on social tensions in Lombok, but local internal issues require addressing to ensure that future events, such as the upcoming elections, do not unnecessarily escalate social tensions.

[9] LPDs were first established in Bali in the 1980s to fight exploitative forms of credit relations, increase the living standards of the village population and strengthen village finance, particularly microfinance. In terms of borrowers, the LPD system provides credit to more than 250,000 people, typically providing smaller loans than BRI or BPR. Oversight of the LPD network is provided by BPD Bali and technical guidance is given by 16 PLPDK under the auspices of district governments.

Table 13. Crisis Impacts for Lombok Small Industries

SMALL INDUSTRY ECONOMIC INDICATOR	*All Products (n=23)*	*Wood Products (n=10)*	*Metal Products (n =5)*
Mean number of permanent staff	9.6	9.1	16.4
Mean number of temporary staff	13.7	7.8	8.0
Percentage of businesses reducing staff (%)	67%	60.0%	60.0%
Of those, average reduction in staff (%)	58.9%	67.7%	46.7%
Production per month (Rp million)	41.2	10.1	219.0
Percentage of businesses with reduced production (%)	82%	80%	60%
Of those, reduction in production (%)	57.8%	62.5%	41.7%

47. The sample of 23 traders surveyed showed that monthly turnover was down by roughly two-thirds in May 2003 compared to before the Kuta tragedy. This has led to a reduction in both temporary and permanent staff by 50%. Wood traders appear to have been more heavily hit than ceramic traders, with wood traders experiencing on average an 80% reduction in monthly turnover. Sixty percent of traders stated market information as their main need. As in Bali, there are indications that overseas exports of products are still continuing to provide some buffering to the reduction in local demand for handicraft products.[10]

48. *Small Producers, Cooperatives and Household Industries*. More than 80% of the small handicraft (wood, textiles, gold, and silver) producers surveyed reported that they had reduced production by 58% on average, and a similar number had reduced staff (Table 13). Overall, 9% of small producers said that they were losing money in May 2003, with just over half still making profit. All of the 17 cooperatives (wood, woven textiles, gold, and silver) visited were also experiencing reduction in turnover by more than 50% on average. Household industries producing handicrafts had been affected to a similar extent with 60% reporting reduction in turnover by an average of 70%. All groups expressed the reduction in visitors/buyers as the main problem and generally, more than 85% stated that they were experiencing marketing problems. There is clearly a need for support to these industries through trade promotion and the development of market linkages.

2.3 Socio-Economic Impacts

49. The impact of the bombing on employment and income was much more severe in May 2003 than in January 2003. On Bali, 94 percent of the key respondents reported a drop in income and 70 percent a drop in employment.[11] Average incomes were estimated to have dropped by 40 percent, whereas 20 percent of people were reported to have lost their job as a result of the bombing (though some found new jobs).

Key Respondent Survey

50. *Bali Community Incomes.* Ninety-four percent of respondents observed income declines in their communities since the bombings. The island wide average decline in the reported level of income was 43.4%. The highest averages were in Karangasem (48.6 %) and Gianyar (47.4 %), and lower in the northern district of Buleleng (3 9.6 %) and the capital Denpasar (40.7%). Household survey

[10] Bali Post, 10 February 2002, *Di Mataram, Pemasaran Kerajinan di Arshop Anjlok.*

[11] Key Respondent Survey. Note that these are not *actually* measured drops in income and employment, but those *perceived* by key respondents for their community.

BOX 1: Evidence from the Balinese Economic and Social Transitions Study
A Longitudinal Survey of Individuals and Households

Policies intended to mitigate the consequences of the Bali bombing will be more likely to succeed to the extent that they are based on a clear understanding of how the bombing affected the well-being of individuals and households. The Economic and Social Transition Study (EST-B), a unique longitudinal household survey of Bali, provides such information.

In February 2002, as part of the broader National Social and Economic Survey, the Central Bureau of Statistics (BPS) interviewed a representative sample of 7,500 individuals living in 2,000 households on the island of Bali. BPS graciously gave us permission to re-interview the same individuals after the bombing and, in early 2003, we successfully interviewed 92% of them as part of EST-B. Taken together, these surveys provide unique information on how the lives of the Balinese were affected by the bombings. Specifically, because multiple indicators of well-being of individuals and their households were measured before the bombing, and we measured the same indicators for the same individuals after the bombing, we can pin down the effects of the bombing. Moreover, because the data provide information on the entire household, we are able to identify some of the coping mechanisms that individuals and households have adopted in response to the bombing as well as determine how the effects of the bombing have been shared within and between households.

The results provide many new insights into the consequences of the bombing for economic and family life of the Balinese population. First, contrary to the expectations of many, unemployment did not increase substantially after the bombing. Declines in employment for prime age men are small, and a compensating increase in employment occurs for prime age women. Instead, the drama of the Bali bombing lies in the collapse of real earnings–and not only in the market wage sector. Earnings fell even more for those who were in the self-employed sector prior to the bombing. On average, total household income declined by fully 25%.

Apparently, however, households were able to protect their day-to-day spending levels from the full impact of lower earnings. Total household expenditures declined by 14%--and while this is a large decline, it is substantially less than the fall in household income. In addition, households re-allocated their spending in ways that likely mitigated the immediate reduction in spending power. For example, they cut back on purchases of food prepared away from home (spending on this category fell by 50%) and reduced outlays for clothing and personal care, semi durables and festivities all of which could presumably be delayed with little impact on current well-being. Households also reacted to reduced earnings by adjusting their living arrangements and, specifically, by combining households so that they could take more advantage of shared resources like housing and food preparation.

Despite these coping mechanisms, the health consequences of the bombing have been substantial. At a time when total expenditures fell, per capita expenditures on health doubled in 2003 relative to the previous year. The surveys provide evidence of a concomitant rise in use of health care services in the month before the interview for both adults and children, increasing by 50% between 2002 and 2003. Reports of limitations of daily activities because of poor health rose by about 50% as well, as did the proportion of respondents experiencing fevers, coughs, or headaches in the four weeks before the interview. For example, the percentage experiencing a fever increased from 30% to 60% among children and from 35% to 58% among adults. It is very likely that this reflects a worsening of psycho-social health status.

Questions asked in 2003 confirmed this interpretation. Over two-thirds of adults reported feeling upset when something reminded them of the Bali bombing and 10% reported having recurring memories of the bombing. Moreover, about 7% of adult males and 13% of adult females reported their emotional well-being was worse after the bombing than before.

The findings from the study show that the negative impacts of the Bali bombing are pervasive, affecting individuals and households across the socioeconomic spectrum. But poor households were especially hard hit. Among households whose income placed them at the 25th percentile of the distribution in 2002, income in 2003 fell by nearly 75%. In contrast, the decline for households at the 75th percentile in 2002 was 25%. The economic costs have been especially great for the poorest households. These statistics, along with the fact that health status worsened, and that spending on health care rose significantly during a period when total expenditures shrank, suggest that efforts to strengthen the social safety net might focus on the poorest households first.

The 2003 data reveal a lot about the consequences of the bombing for well-being. The study documents that people's health suffered but that they have been able to protect expenditure levels in the face of declining income. Households coped by reallocating expenditures and drawing down savings. These mechanisms may not be sustainable in the medium term, particularly if the tourism industry does not regain some of its strength, and economic well-being may fall further than it has already. On the other hand, health may actually improve again as time passes after the bombing.

The only way to document the medium term effects of the bombing and the behavioral responses to it is through continuing to follow the same individuals and households over time. This information will provide unparalleled opportunities to measure the dynamics of adaptation to an event that has had far-reaching economic and health consequences for individual and households throughout Bali.

The next round of Est-B is planned for the first quarter of 2004. The survey will re-interview the same individuals and households that were interviewed in 2002 and 2003, tracking them to new locations if they have moved. The 2004 questionnaire will repeat questions asked in 2002 and 2003 while enhancing the survey instruments to capture a fuller picture of the lives of the Balinese today.

Source: EST-B, Wayan Suriastini at wayan@chaka.sscnet.ucla.edu

Table 14. Crisis Impacts for Lombok Traders

Trader Economic indicator		All Traders (n=23)	Wood Product Traders (n=6)	Pottery Traders (n =6)
Mean number of permanent staff	*before* Kuta tragedy	6.0	8.7	5.0
	May 2003	2.8	3.0	3.3
Mean number of temporary staff	*before* Kuta tragedy	9.0	7.8	21.2
	May 2003	4.4	1.7	13.5
Mean monthly turnover	*before* Kuta tragedy (Rp millions)	30.8	28.2	24.1
	May 2003 (Rp millions)	11.8	5.9	12.2
Source: University of Mataram Survey, May 2003				

impacts earlier in the year found declines in household incomes of one quarter (see Box 1).

52. *Bali Unemployment.* Seventy-one percent of respondents felt unemployment had increased or increased significantly during 2003. On average, respondents estimated that 20 % of workers were affected by job losses in the last quarter of 2003, and 29 % were affected by job losses between January and the end of April 2003.

53. *Bali Handicrafts.* Seventy percent of community respondents suggested that handicrafts were of importance in their communities. Of these respondents, 84 % responded that fortunes had decreased or severely decreased this year. Only 2 percent suggested that things had gotten better.

54. *Bali Migration.* Over half of community respondents (54%) observed return migration to their communities. Eight percent did not know, whereas the remainder observed no return migration.

Table 15. Coping Mechanisms in the Community

		Yes	**No**	**Don't Know**	**(%)**
(1)	Decreased Expenditures	827	41	16	93.6%
(2)	Loans for Daily Consumption	405	435	43	45.9%
(3)	Delay Debt Repayments	612	235	36	69.3%
(4)	Sale of Assets	431	403	50	48.8%
(5)	Pawning of Assets	528	311	45	59.7%
(6)	Change of Business	311	514	48	35.6%
(7)	Putting Other Family Members to Work	349	474	58	39.6%
(8)	Changing Professions	395	411	46	46.4%
(9)	Decrease Arisan Participation	228	592	63	25.8%
(10)	Decrease Village Contributions	222	616	45	25.1%
(11)	Change Staple Diet	213	617	53	24.1%
(12)	Reduce Number of Meals	46	791	45	5.2%
(13)	Postpone/Decrease Religious Practices	48	809	25	5.4%
(14)	Postpone/Decrease Facilities/Infrastructure Maintenance	527	317	31	60.2%
Source: Udayana University Key Respondent Survey					

Table 16. Socio-Economic Impacts on Lombok

Socio-economic Indicator	Time Period / Destination	West Lombok	Central Lombok	East Lombok	Mataram	Total
% respondents reporting reduction in incomes in village	Oct 2002 - May 2003	96%	93%	59%	61%	76%
If yes, average reduction in incomes in village	Oct 2002 - May 2003	51%	59%	51%	58%	54%
Agriculture (most impacted sector)	Oct 2002 - May 2003	21.4%	13.3%	18.8%	0.0%	14.3%
Industry (most impacted sector)	Oct 2002 - May 2003	51.6%	78.6%	92.0%	54.2%	68.5%
Hotel / restaurants (most impacted sector)	Oct 2002 - May 2003	77.8%	50.0%	0.0%	38.5%	58.5%
Traders (most impacted sector)	Oct 2002 - May 2003	31.0%	0.0%	13.0%	31.8%	20.7%
Transport (most impacted sector)	Oct 2002 - May 2003	4.3%	0.0%	0.0%	8.3%	2.7%
% respondents reporting job losses in village	Oct 2002 - May 2003	83%	100%	55%	83%	78%
If yes, average percentage of people losing work	Oct-Dec 2002 Jan-April 2003	38% 26%	34% 28%	39% 25%	28% 25%	34% 26%
% respondents reporting people returning	Oct 2002 - May 2003	35%	61%	25%	37%	37%
Number of people returning to the village	July-Sept 2002 Oct-Dec 2002 Jan-March 2003	25 20 13	6 19 15	4 6 3	1 4 3	6 13 9
% respondents reporting people leaving	Oct 2002 - May 2003	57%	11%	9%	34%	30%
Number of people leaving the village:	July-Sept 2002 Oct-Dec 2002 Jan-March 2003	2 10 29	19 14 17	16 24 21	1 3 1	12 14 17
Ranked destination of those leaving village:	Within NTB Java Bali Other	1 3 4 2	3 4 2 1	2 3 1	4 2 1 3	3 4 2 1

Source: University of Mataram Survey, May 2003. *Note:* Respondents represent up to eight village-level key respondents. West Lombok n= 46; Central Lombok n=29; East Lombok n= 44; West Lombok n= 42.

55. *Bali Response and Coping Mechanisms.* Respondents reported a variety of coping mechanisms in their communities (Table 15), ranging from decreasing expenditures (93.6%) to taking out loans (45.9%). Almost one quarter (24.1%) did report changes in staple diets in their communities. Actual reductions in meals (5.2%) and religious practices expenditures (5.4%) were the least frequent. It must be noted that these responses were highly concentrated in a number of kecamatan. In only about one quarter of kecamatans did more than one of the 17 key respondents report reduction in the number of meals as one of the coping mechanisms. Responses were higher in known poor areas like Karangasem (e.g., Manggis), suggesting that further work needs to be done to identify specific pockets of impacts.

56. Community social safety net programs proved important. In a kecamatan development project survey fielded in Bali in May 2003, 76% of respondents claimed that the family would be the first group to help in a crisis, with 66% of respondents citing a friend in the neighborhood as the second most likely candidate for aid.[12]

[12] The Kecamatan Development Project (KDP) fielded a survey in Bali in May 2003 to ascertain the perceived

Table 17: Lombok Coping Mechanisms in the Community

	Coping Mechanism	*Yes*	*No*	*Don't Know*	*(%)*
(1)	Decreased Expenditures	123	43	3	72.8%
(2)	Loans for Daily Consumption	72	93	4	42.6%
(3)	Delay Debt Repayments	115	47	7	68.0%
(4)	Sale of Assets	104	63	1	61.5%
(5)	Pawning of Assets	133	33	3	78.7%
(6)	Change of Business	27	137	5	16.0%
(7)	Putting Other Family Members to Work	71	97	1	42.0%
(8)	Changing Professions	69	93	7	40.8%
(9)	Decrease Arisan Participation	34	116	19	20.1%
(10)	Decrease Village Contributions	52	102	15	30.8%
(11)	Change Staple Diet	51	113	5	30.2%
(12)	Reduce Number of Meals	17	149	3	10.1%
(13)	Postpone/Decrease Religious Practices	10	155	4	5.9%
(14)	Postpone/Decrease Facilities/Infrastructure Maintenance	61	96	12	36.1%

Source: UMRAM Key Respondent Survey

57. *Lombok Income Reduction*. Three-quarters of respondents in Lombok reported that people in their villages were experiencing reduced income of roughly 50% after the Bali bombing (Table 16) and that those most heavily impacted were the poor. These impacts were greatest in West and Central Lombok. Overall, respondents thought that (small) industry, hotels, and restaurants were the most heavily impacted sectors, with few highlighting agriculture, unlike in Bali. Not surprisingly, in West Lombok, where most hotels on the island are found, the hotel and restaurant sector was reported as the most impacted.

58. *Lombok Job Losses and Social Impacts.* Three-quarters of respondents also reported job losses in their villages, especially in Central Lombok and to a much lesser extent in East Lombok. Job losses were greater between October and December 2002 than between January and April 2003. The two main social welfare impacts mentioned were people unable to go to the hospital for treatment (35%) and school dropouts (25%). Almost half of the respondents reported worrying about the future and 43% highlighted the use of alcohol and drunkenness.

impacts of the bombing. 79 KDP facilitators queried residents of Bali to determine the perceptions of individuals on the island. The results from the May KDP Crisis Assessment Survey fielded correspond greatly to the results obtained from the key respondents surveys, demonstrating the accuracy and usefulness of having the KDP facilitators on the ground. The KDP has facilitators in the bulk of kecamatans in Indonesia. This network of facilitators can be readily used to access impacts of crises in the country. Bali was not added to the KDP until early this year, and was not present for the first round of key respondent surveys in Bali.

Table 18. Lombok Community Preferences for Assistance

		1st Choice (%)	2nd Choice (%)	3rd Choice (%)	Mentioned Additional Choice
(1)	Health Assistance (Puskesmas)	20.3%	15.3%	10.4%	492
(2)	Health Assistance (Hospitals)	3.1%	10.4%	6.8%	714
(3)	Education (Schools)	18.8%	21.2%	21.6%	366
(4)	Grants for Traditional Villages	7.7%	4.5%	8.2%	713
(5)	Grants for Subak	2.2%	3.4%	4.2%	803
(6)	Revolving SME Credit (UKM)	18.3%	15.0%	14.0%	483
(7)	Non-Credit Assistance (e.g., Training)	2.8%	5.3%	4.5%	778
(8)	Livestock Assistance	2.6%	3.6%	5.4%	788
(9)	Farmer Credit/Revolving Funds	12.5%	11.3%	10.0%	598
(10)	Non-Credit Assistance for Farmers	2.6%	4.3%	4.7%	787
(11)	Facilities/Infrastructure Rehabilitation	5.4%	4.6%	9.0%	726
(12)	Others	3.7%	1.2%	1.3%	831

59. *Lombok Migration*. Roughly one-third of respondents reported people returning or leaving the village between October 2002 and May 2003. The main reasons for return reported were insufficient incomes (83%), job losses (59%), security (56%) and residency regulation (33%). The pattern of results indicates increased migration out of West Lombok after the bombing and more people returning to villages sampled in Central Lombok. Of those leaving East and Central Lombok, it is believed that many were going to work overseas. Lombok has roughly 30,000 TKI working overseas, particularly in Malaysia. In 2002, NTB contributed 24,685 overseas workers, 99% migrated to Malaysia.[13] The numbers sent between January and May 2003 were reduced by 27% from the same period in 2003, possibly as a result of SARS.

60. *Lombok Coping Strategies*. The coping mechanisms most prominently mentioned in Lombok include the pawning of assets, reduction in expenditures, delay of debt repayments, selling of assets, borrowing for daily consumption, and putting other family members to work (Table 17). In comparison with Bali, more respondents reported selling and pawning of assets in Lombok, while fewer reported the decrease of expenditures, changing businesses, or postponing the maintenance of facilities and infrastructure.

61. *Lombok Community Response Priorities and Main Agents for Help*. Respondents were asked what the main priorities for assistance were in their own views. The highest first priority given by respondents was community health clinics (20.3%), followed by education (18.8%). Credit or revolving funds for SMEs (18.3%) and farmers (12.5%) together account for almost a third of first choices.

[13] Data from BP2TKI PROP NTB

Table 19. Main Perceived Agent for Assistance

	Actor	1st Choice (%)	2nd Choice (%)	3rd Choice (%)
(1)	Village Head	20.9%	31.7%	10.5%
(2)	Traditional Village/Banjar	40.0%	20.2%	10.6%
(3)	Head of Sub-District (Camat)	1.8%	14.8%	45.6%
(4)	Local Government	21.1%	15.1%	16.4%
(5)	Provincial Government	10.2%	12.9%	7.0%
(6)	NGO	3.8%	4.3%	8.7%
(7)	Other	2.3%	1.0%	1.2%

62. The traditional village is still viewed by respondents as the principal means of assistance (40.0%, Table 19), followed by the local government (21.1%). However the village head ranks as one of the main second choices (31.7%). Overall, Lombok has experienced knock-on effects of the Bali bombing and is attempting to employ coping mechanisms.

Bali Schools Level Impacts

63. The adverse impacts on incomes and employment also had ramifications in the education sector. These effects potentially range from difficulties in the payment of school fees (in turn creating strains for schools to meet their needs and provide a quality education) to full-fledged dropouts during the school year or failure to embark on a new school year. In many circumstances, children might be forced to migrate to other schools, often in poorer home regions of their extended families. Other coping mechanisms include children working before or after school and a decrease in child food consumption, which could further erode the quality of education. If children are working or receiving less nutrition, adverse side effects in the school include lack of energy, concentration, and interest.

64. *Assessment Approach.* A school facilities survey sought to assess the impact of the crisis on schools in Bali. As an assessment instrument, a facilities survey presents a rough illustration of the surveyed area at any given moment.[14] In terms of a rapid appraisal of localized effects (e.g., by *kecamatan)*, the approach proved more timely and implement-able than a household survey with similar levels of representation, despite some drawbacks.

65. *Impacts.* Thirty one percent of schools reported students dropping out of school during this year (Table 20). These reported rates varied significantly by district, with the greatest levels reported in the poorest North Eastern belt of Bali, with Buleleng (60%) and Karangasem (55%) reporting the highest rates. The areas with schools least affected by dropouts were Tabanan and Badung with 12.5% and 14.6% of schools reporting children leaving (see Figure 10). Approximately one quarter of respondents (25.9%) felt that further dropouts would occur. In Buleleng (47.9%) and Karangasem (46.9), almost one-half of the respondents felt that further dropouts were

[14] The alternative to a facilities survey is a household survey, such as SUSENAS. A household approach enables one to track children from year to year, creating a more accurate picture than a facilities survey. The sample size to produce a valid result is cost-preventative and timely outside the SUSENAS survey conducted in February of each year. The core typically on offers representative general welfare indicators at the district level.

likely. Twenty-three percent of respondents students quitting school out of 113,096

Table 20. School Dropouts Indicators

	Population (000s)	Poverty Rate (%)	Poverty Depth (%)	Dropouts as coping mechanism through December 2002 (%)	Schools Observe Drop-Outs through April 2003
10-Denpasar	382	1	0.23	0	20.8%
20-Badung	312	3.2	0.56	6	14.6%
30-Gianyar	337	6.4	1.08	0	19.6%
40-Klungkung	164	13.1	3.91	4	28.1%
50-Bangli	198	13.2	2.42	0	34.4%
60-Karangasem	379	19.5	5.43	0	54.7%
70-Tabanan	387	4.2	0.69	4	12.5%
80-Jembrana	195	7.4	1.62	4	15.6%
90-Buleleng	576	12.1	2.04	0	59.7%
All	2,900	8.9	2.0		31.6%

Source: Bali Schools Surveys, Ministry of Finance DAU database

suggested that these dropouts involved out-migration.[15]

66. *"Normal" level of attrition versus crisis related dropouts.* The results of examining drop-outs on a per school basis is very disconcerting, painting a picture of high drop-out rates, assumed to be crisis related. In order to determine the ultimate impact of the crisis on schools, benchmarking is important. Usefully this would focus on what "normal" levels of during year dropout are, and typically, rates of student attrition between school years.

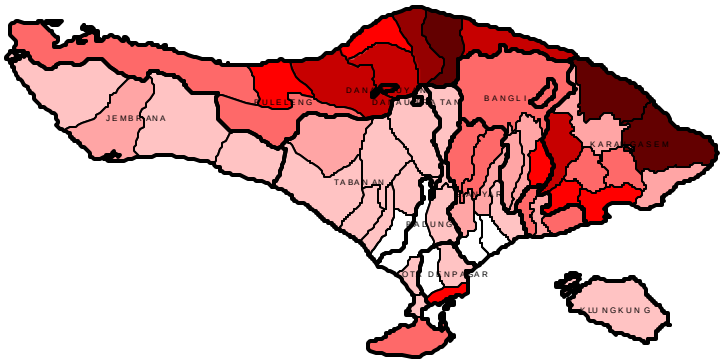
67. *The figures in perspective.* Although dropout rates appear to be alarming, in actuality, schools surveyed reported 805 students. This is a less than 1% dropout rate in these schools combined. Comparable to the school level data, areas possessing a high percentage of dropouts included Karangasem and Buleleng, with schools reaching levels of 16% and 8% respectively.[16]

68. Our information presently allows us to say little about the students who enrolled in the 2002/2003 school year, but failed to enroll for the 2003/2004 school year. The start of the school year typically involves larger upfront fees, causing parents to defer the enrollment of their children in periods of crisis. Regrettably, a comprehensive insight will only be available when the 2004 SUSENAS household survey is fielded in February of 2004. But other forms of continued monitoring – including field based and school level assessments – should provide additional insight into attrition from

[15] The picture presented by the migration data requires further analysis. The story most often told is that the crisis has seen parents working in the south send kids back to home villages in the North and East (e.g., Buleleng and Karangasem). At first blush the rates of migration incidence across these regions are quite similar.

[16] These figures are not necessarily representative of a regions overall school aged population, as they are un-weighted for the number of students actually covered.

Figure 10. Bali: Reported School Dropouts



the last school year to this school year, and potential responses.

69. The SUSENAS household survey allows for some comparison, but not a full picture. While the facilities survey does not account for year-to-year attrition, SUSENAS does not currently account for attrition rates during the school year. In Indonesia overall, an estimated 4% of primary students dropped out of school from the 2000/2001 school year to the 2001/2002 school year. Twelve percent of 1st graders in 2000 did not return to 2nd grade in 2001, illustrating that maintaining attendance from the first year to the second year is critical. In contrast, the primary school drop out rate for Bali from the 2000/2001 school year to the 2001/2002 school year was less than 1%, approximately .3%, according to SUSENAS. The attrition rate for NTB was 8%, while the attrition rate for East Java was 9% from the 2000/2001 to 2001/2002 school year. When examined in this light, the percentage of dropouts in Bali during the 2002/2003 school year, while troublesome, look to be occurring in the context of relatively high retention rates. Therefore, the use of school grants to stem dropouts needs to be viewed in the context of the marginal impact of interventions in regions with higher levels of "normal" dropouts.

70. The quality of education often suffers from such a crisis as well. Teachers often teach private lessons outside of the classroom for extra income. Twenty percent of schools reported a decrease in children taking private lessons, negatively impacting the learning of children and the ability of teachers to earn more income. Thirty-one percent of schools noted that teachers began moonlighting after the bombing. If teachers are forced to work a second job to subsist, they are less motivated and tired in the classroom. Thus, not only is the quantity of education affected, but the quality diminishes as well.

71. A number of factors could be established to offset these impacts. Grants or scholarships for education expenses provided by the government or private donors would help abate further dropouts and reduce the strain on schools. Social safety net programs within the community, such as school committees, could respond with aid for the affected schools and children. The actual impacts of and responses to the crisis in Bali vary greatly.

72. *Community Response*. The school survey allowed for linkages between issues of governance and school financing. Schools who possess active school committees are thought to be better equipped, financially and technically, to cope with matters as issues arise. Furthermore, the department of education (DINAS *Pendidikan*) can readily consult with school committees to determine the needs of individual schools.

73. In Bali, 97% of the 425 schools surveyed possess a school committee. School committees in Bali acted quickly and efficiently in the aftermath of the Bali bombing, as 70% of school committees provided assistance to the schools, most often in the form of cash (83%).[17] The crisis in Bali demonstrated that, although school committees do not meet frequently, committees unite and respond effectively in a time of need.

74. *Government Assistance*. Over half (54.2%) of schools reported receiving assistance from the government since the bombings. Only a fraction (6.5%) reported that this was in the form of cash. Grants and scholarships, while comprising a relatively small percentage of school revenue, would be highly useful in a time of crisis to lessen the stress placed upon schools. As discussed in this report, the majority of governmental funding has yet to be released. Thus, the importance of community response and resilience must be stressed. By the time many areas are eligible for aid from the government, well over a year will have passed since the bombing. Communities must start by looking within to mitigate the effects of the crisis. On going qualitative and quantitative monitoring of the impacts experienced by the education sector are necessary to ensure that children and schools do not suffer further.

2.4 Social Tensions Impacts and Local Security

75. The Bali bombings were followed by fears of ethnic strife as a result of a predicted increase in Balinese-migrant social tensions. The Bali update in January 2002 found that although there were widespread fears of social unrest, community and religious leaders, along with the community in general, effectively managed these fears through calls for calm and reflection in the aftermath of the attacks and a series of cleansing ceremonies in Bali. Nevertheless, a minority reported that ethnic relations in Bali had deteriorated, and that actions to maintain community relations and social cohesion were still needed.

76. Since January 2003, the economic impacts of the crisis have deepened, leading to concerns that social tensions as a result of social and economic pressures could result in increased disturbances and unrest. Furthermore, the trials of the Bali bombing suspects, continued enforcement of restrictions on residency for migrants, and increased mobilization in the run up to the elections in 2004 may exacerbate social tensions in the community. Any social unrest in Bali would reflect negatively on Bali's image and recovery.

[17] 83% of school committees represented in the survey provided cash assistance after the bombing, 25% offered assistance in goods, and 34% offered assistance through building renovations.

77. In order to assess these issues and the factors contributing to social tensions in Bali, the assessment conducted qualitative research in 26 sub-districts and included a social tensions component in the key respondents survey in all 53 sub-districts. The social tensions assessment focused on past and present incidents of social disturbances and unrest, the nature and intensity of past incidents, current concerns of social unrest, the management of social tensions, and local security arrangements. Overall, the assessment found that social tensions in Bali are now lower than in January 2003, although tensions remain high in a small number of sub-districts with particular concerns relating to economic pressures, social issues, youth, and unemployment. Importantly, only a small proportion of past disputes involve Balinese and migrants, with most incidents involving different Balinese community groups.

Social Disturbances in Bali between 1998 and 2003

78. *Occurrence of Social Disturbances.*[18] Bali has experienced isolated incidents of social disturbances over the past few years. The BPS PODES 2003 survey records 7.8% of villages in Bali reporting conflict at the end of 2002, with Bali ranked 11th of the 30 provinces in terms of the occurrence of local conflict. Information from key respondents from all 53 sub-districts in Bali recorded only fourteen sub-districts *without* reports of social conflict or disturbances since 1998 (Figure 11). The incidents reported in the key respondents survey include disturbances that have mostly led to the destruction of property, however in two districts, notably Gianyar and Buleleng, this has led to casualties and, in Buleleng, to a number of deaths. The majority of past disturbances reported occurred in Buleleng (34 incidents, Figure 12)) followed by Karangasem (18 incidents), Badung (14), Klungkung (10), Gianyar (8), Bangli (6),

Figure 11. Reported Incidents of Social Disturbances in Bali since 1998

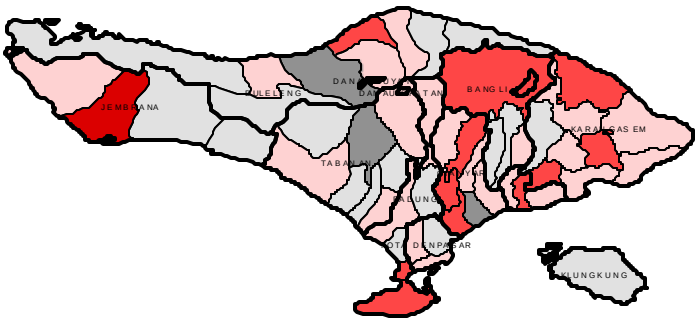


Table 21. Perceptions about Causes of Social Disturbances in Bali since 1998

District	Poor community relations	Economic pressure	Social problems	Religion and adat	Politics	Illegal activities	Problems between youths	Revenge	Other
Denpasar	**25%**	13%	13%	**19%**	6%	6%	0%	13%	6%
Badung	3%	13%	**21%**	8%	8%	0%	**37%**	3%	8%
Gianyar	5%	7%	9%	14%	7%	5%	**34%**	**16%**	5%
Klungkung	5%	0%	10%	0%	5%	5%	**38%**	**24%**	14%
Bangli	0%	**33%**	**25%**	8%	8%	8%	17%	0%	0%
Karangasem	13%	**23%**	17%	7%	0%	3%	**23%**	3%	10%
Tabanan	0%	0%	10%	0%	**50%**	0%	**20%**	10%	10%
Negara	0%	0%	17%	0%	**50%**	0%	0%	0%	**33%**
Buleleng	9%	11%	**18%**	5%	**35%**	2%	17%	2%	2%
All Bali	7%	12%	16%	7%	17%	3%	24%	7%	7%

Note: Figures in bold are the top two factors in each district. **(**Data represents percentage of respondents).

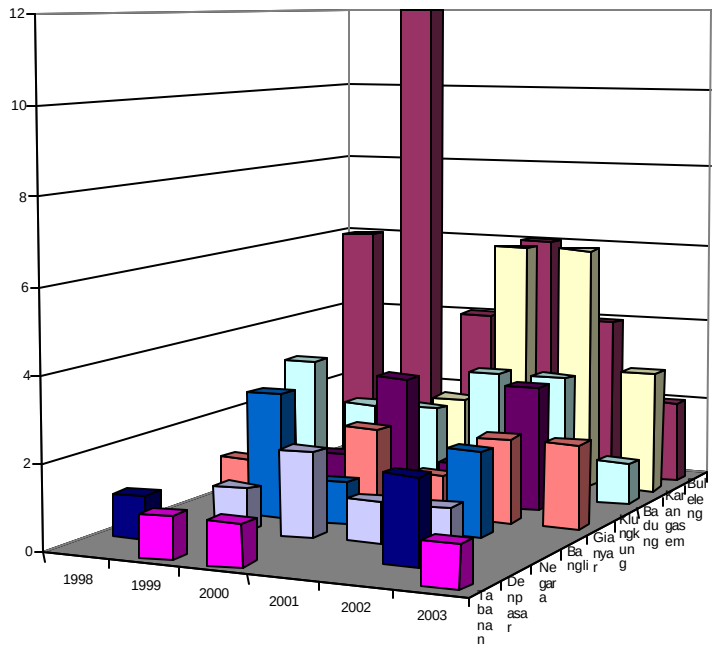
Negara (5), Denpasar (3) and Tabanan (3).

79. The occurrence of social disturbances by district in Bali shows no noticeable increase in 2003. A possible exception to this is in Gianyar, which was found to have experienced the same number of disturbances in previous years by May 2003.[19] The villages visited in Karangasem and Buleleng experienced a similar level of 2-3 disturbances in the first five months of this year. In terms of incidents, these data suggest no major increase in social disturbances following the Bali bombings occurred.

80. The most commonly reported causes of past social tensions were problems between youths, followed by politics, social problems, and economic pressure (Table 21). Poor community relations were generally not an important factor identified by the respondents; only in Denpasar was it the most commonly mentioned factor, although the number of incidents are few in the city. Economic pressures were the most commonly identified factor in Bangli and Karangasem, which may be significant given that these areas are experiencing economic hardships as a result of the downturn in tourism. Politics was the most common factor in Tabanan, Negara, and Buleleng, although the number of incidents was few in Tabanan and Negara. Incidents peaked in 1999 in Buleleng, mainly due to disturbances as a result of Megawati losing the Presidential election in October 1999. Overall, the most important factors in the other three districts (Badung, Gianyar, Klungkung) and in Karangasem were disputes between youths from different *banjars* and villages that result in confrontation and sometimes violence. These are compounded by social problems such as drunkenness with youths being identified as a key vulnerable group.

[19] In June and July 2003, disturbances have further occurred in Batubulan and Sukawati relating to a misunderstanding between youths about land. See Bali Post, 11 July 2003, 'Lagi, Warga Tengkulak Tengah – Tengkulak Mas Bentrok'.

Figure 12. Reported Social Disturbances by Districts (1998-2003)



81. *Disputes in Bali since 1998*. In contrast to disturbances, the survey of key respondents showed that land disputes are the most frequent form of dispute recorded (71 out of 124 reported disputes) in 106 villages, with most occurring between (56%) or within (31%) *adat* villages. Some of these land disputes have led to confrontation, violence, and damage to property, which could be important post-12 October given an increase in land use and/or sale of land as a coping strategy. Any increase in future social tensions

Table 22. Possible causes of future social unrest by District

District	Responses to Factors as Possible Causes of Future Social Tensions									
	Poor community relations	*Economic pressure*	*Business competition*	*Social issues*	*Migration*	*Religion and adat*	*Politics*	*Illegal activities*	*Provocateur*	*Other*
Denpasar	**54.9**	**82.4**	29.4	**58.8**	15.7	23.5	31.4	35.3	29.4	6.3
Badung	43.5	**78.7**	30.0	**74.6**	10.3	38.0	**79.2**	**50.0**	**57.4**	
Gianyar	**54.9**	**74.6**	47.3	**88.6**	45.5	**50.9**	**67.0**	**61.9**	**75.2**	20.0
Klungkung	38.5	**63.1**	43.1	**67.7**	12.3	29.2	**55.4**	49.2	**68.8**	6.7
Bangli	31.6	**71.4**	**50.0**	**81.6**	4.2	37.8	**79.2**	46.9	**61.5**	7.1
Karangasem	33.3	**69.9**	22.8	47.8	7.9	6.4	37.4	29.1	37.0	8.6
Tabanan	30.6	40.0	12.0	48.0	1.6	4.8	**69.8**	20.0	43.7	7.7
Negara	**56.3**	**79.7**	**51.6**	**73.4**	12.5	23.4	**59.4**	**60.9**	**57.8**	
Buleleng	21.3	**53.5**	15.7	**52.3**	6.3	9.4	49.6	18.0	28.1	6.9
All Bali	38.8	**65.3**	30.3	**63.7**	14.0	22.4	**59.0**	38.1	49.3	6.8

Note: Data represent the percentage of key respondents per district identifying a particular factor as a possible cause of future social tensions. Figures in bold signify >50percent of respondents)

in Bali is likely to be through existing fault lines, which have been shown in the past five years to relate to youth and social issues, politics, land, and community relations both within the Balinese and, to a lesser extent, between Balinese and migrant communities. Disputes between Balinese and non-Balinese accounted for just 10% of disputes, mostly over socio-cultural issues.

82. *Future Concerns over Social Tensions in 2003*. Concerns about Social Unrest over Next Six Months. Overall, 34 percent of respondents in May 2003 expressed concerns over social unrest compared to 65 percent in December 2002. This downward trend was recorded in all districts except Klungkung, and was especially pronounced in Denpasar and Jembrana, both of which have a high proportion of non-Balinese residents. Thirteen sub-districts had more than 50 percent of respondents expressing concern about future social unrest over the next six months in Buleleng (7 sub-districts), Tabanan (2), Gianyar (2), Karanagasem (1) and Badung (1) (Figure 10). In seven of these sub-districts [Kuta Utara (Badung), Payangan (Gianyar), Manggis (Karangasem), Kubutambahan, Sukasada, Seirit, Busungbiu (Buleleng)], there was a greater proportion of respondents expressing concern in May 2003 than in December 2002. Bangli, Klungkung and Jembrana were the districts with the lowest social tensions, with less than one-quarter of respondents being concerned over the next six months.

83. *Factors Influencing Current Social Tensions*. The survey of key respondents in May 2003 identified three main factors believed by respondents to be causes of current and future social tensions, namely economic pressure (65%), social problems (64%) and political tensions (59%) (Table 22). The action of provocateurs (49%), poor community relations (39%) and the impacts of illegal activities (38%) were considered less important. Within districts, a similar pattern was observed, although the emphasis varied from district to district. In Buleleng, which has the highest proportion of respondents worried about social tensions, the main factors identified were economic pressures, social problems, and politics, while in Gianyar, social issues were the most important possible cause with community relations being mentioned by more than half of the respondents.[20]

84. *Impact of the Trials on Social Tensions*. The trials relating to the Bali bombings began on 12 May 2003, just before this survey was conducted. The provincial police (*Polda*) were proactive in ensuring and demonstrating to the public that adequate security arrangements were in place for the trials.[21] The trials had long been anticipated in Bali and were being broadcast live on local television (Bali TV). One in five respondents in the survey thought that the trials could increase social tensions. Not surprisingly, this was high in South Denpasar (50%) where the trials were taking place, but not in Central Kuta (25%). Of the twelve sub-districts with more than one in three respondents anticipating increased social tensions as a result of the trials, four of these were sub-districts in Buleleng (Grogkak, Sukasada, Banjar) and Karangasem (Manggis) where respondents were also concerned about social tensions over the next six months.

85. *Residency Administration*. In the report presented to the CGI in January 2003, the implementation of residency permits for migrants outside of a particular district was highlighted as causing some concerns, notably

[20] The KDP survey fielded in May found similar results with 92% of respondents believing that the economic downturn could potentially provoke social tensions and 87% believing political differences could cause social tension.

[21] Bali Post, 10 May 2003, Dari Gelar Pasukan Polda Bali - Dari Jihandak sampai Anjing Pelacak.

in Denpasar and Badung.[22] Since then, the provincial and district governments in Bali have agreed to a standardized procedure in which the cost for a KIPEM for three months is Rp. 50,000 for migrants from outside of Bali and Rp. 5,000 for migrants who are residents of other districts within Bali.[23] In May 2003, most of the key respondents thought that residency administration services had either improved (25%) or were the same (37%) as December 2002. Both the key respondents and traders surveys illustrated that more than 70 percent of people supported the residency administration policy as a security measure, although it is clear from qualitative studies that there is a need for care in the definition of 'local resident' and 'migrant', and for the implementation of the policy not to be over-excessive. Encouragingly, in May 2003 people's place of birth (Bali vs. outside of Bali) had no relation to their attitudes regarding residency administration, suggesting that the policy was now being seen as an important security measure by all people in Bali. Of fifty non-Balinese traders interviewed in May 2003, roughly three-quarters possessed a temporary residency card (KIPEM), with the cost of the permit being the main reason given by those not possessing a KIPEM permit.

86. *Elections*. National elections in April 2004 may increase social tensions between political parties. In May 2003, recent clashes between supporters of different parties were most commonly mentioned in Badung (3.2%), Tabanan (2.3%), Denpasar (2.0%) and Buleleng (1.5%), and it is likely that political tensions will increase into 2004. In some areas, 'Forums of Political Parties' have been formed with the goal of ensuring that the elections occur peacefully and smoothly. Interviews with respondents in many sub-districts revealed increasing apathy toward political parties and elections, with concerns that the parties are not focusing on issues and political education, but rather on mobilizing supporters in a show of strength that only creates security concerns within the community. In certain areas, apprehension that political parties may cause divisions in the community if support is based on *adat* or family ties exists.

2.5 Local Security

87. Bali has taken forward measures to improve security in tourist areas, key strategic facilities (such as the airport), and the local neighborhood security system following the Kuta tragedy. The provincial police have identified ten main security threats including terrorism, violent crime, narcotics, small arms trade, women trafficking, people smuggling, money laundering, fraud and deception, fights between *banjars* and conflict between political parties.[24] Crime rates, in general, were reported to be declining by almost one-quarter of respondents, about half thought they had not changed, while almost 10 percent thought crime rates were increasing. More than one-in-five people thought crime rates were increasing in Blahbatuh (58%), Kubutambahan (33%), Denpasar Barat (28%), Sawan (25%) and Sukasada (21%). *Premanism* is also becoming an increasing security concern for 44 percent of respondents in Bali, more so in

[22] World Bank, UNDP, USAID (2003) Confronting Crisis: Impacts and Response to the Bali Tragedy. January 2003

[23] Kesepakatan Bersama Gubernur Bali dengan Bupati/Walikota SeBali No. 153 Tahun 2003 tentang Pelaksanaan Tertib Administrasi Kependudukan di Propinsi Bali.
See http://www.bali.go.id/terkini/berita/100203.htm.

[24] Irjen Pol Drs Made Mangku Pastika (2003) Efforts towards Tourism Recovery from a Police Perspective. Paper presented at the workshop on 'Tourism Recovery in Bali', 8 July 2003 (Centre for Research and Development in Tourism and Culture, University of Udayana with support from Bali Tourism Office, USAID and UNDP).

Table 23. Attitudes to Security Providers in Bali

District	*Community*	*Pecalang*	*Police*	*Hansip*
Denpasar	2.30	2.35	1.96	2.97
Badung	1.93	2.23	1.99	3.18
Gianyar	2.14	2.13	2.24	2.60
Klungkung	1.80	2.45	2.21	3.00
Bangli	1.74	2.04	2.65	3.40
Karangasem	1.52	2.04	2.23	3.20
Tabanan	1.26	2.13	2.92	2.93
Jembrana	1.52	1.94	3.09	2.98
Buleleng	1.85	1.92	2.41	2.92
All Bali	**1.68**	**2.10**	**2.34**	**3.00**

Note: Figures represent the average rank given to each actor (lower number = greater importance).

urban (63%) than rural (36%) areas.[25] More than three-quarters of respondents highlighted this in the following sub-districts Kuta Selatan (100%), Negara (100%), Kuta Tengah (88%), Sawan (88%), Pupuan (83%), Mengwi (82%), Denpasar Selatan (77%), Tabanan (77%), Ubud (75%) and Tembuku (75%).

88. Key respondents have relatively high confidence in the police in Badung and Denpasar, and they are the most trusted security provider in Denpasar (Table 23). The picture is somewhat different in other districts, where generally key respondents gave a higher importance to the community and *pecalang*. Bali police chief Irjen Pol Drs Made Mangku Pastika plans to upgrade security in Bali to meet international standards, highlighting the need for professional community policing approaches.

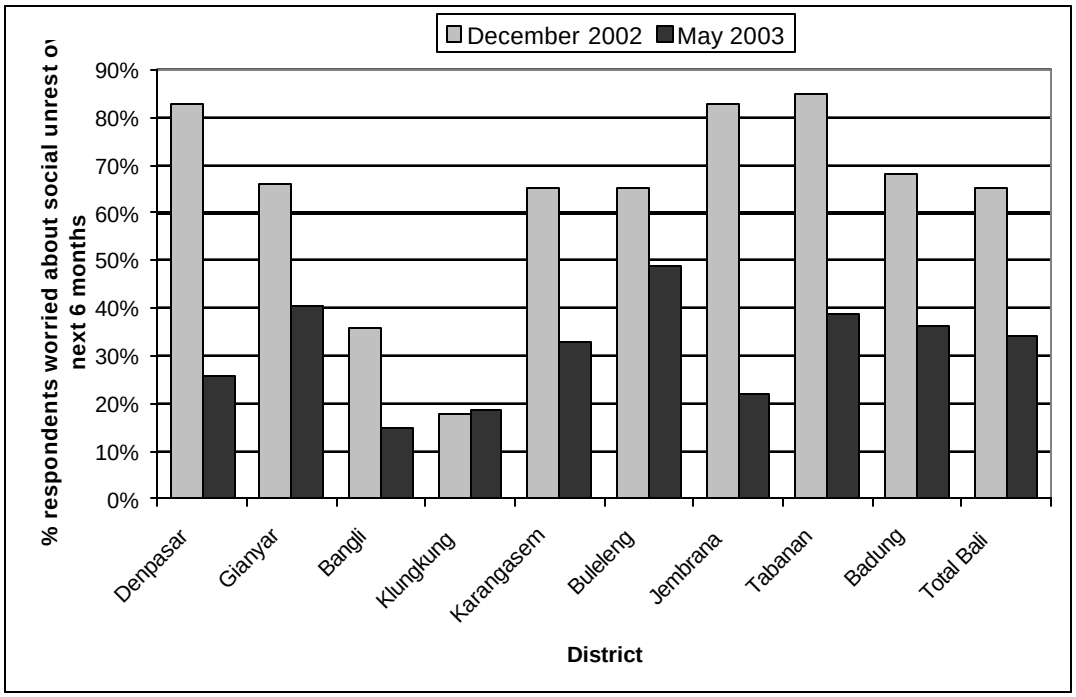
2.6 Local Management of Social Tensions

89. Social tensions in Bali have generally been managed effectively, but there remains a need for support in specific targeted areas to address underlying causes of tensions. The strong social ties in Bali coupled with the Balinese view of the world as a balance between opposing forces (*rwa bineda*), where daily conduct (*karma*) aims to ensure that this balance is maintained, were undoubtedly of great importance. The bombings have hugely disrupted this balance in Bali, and a response based on violence would be at odds with the needs of the Balinese for more order in their world. It is not surprising, therefore, that one of the main responses has been introspection and prayer (*sembayangan*), highlighted by the cleansing ceremony (*Pemarisuda Karipubaya*) of 15 November 2002. In many interviews conducted, the view presented is that the bombing represented a sign that something must be out of balance in Bali, which has led to an increase in critical reflection on some aspects of the nature of present-day tourism in Bali.

90. Village heads, traditional (*adat*) community leaders and the police, along with sub-district heads (*camat*) and other community leaders, were the most important actors in terms of local players who managed past social conflicts mentioned in the key respondents survey conducted in January 2003. Overall, the resolving conflict, although greater emphasis was placed on the role of traditional (*adat*) community leaders, reflecting the increasing importance of the *desa adat* under regional autonomy.

[25] *Premanism* refers to the semi-criminal and criminal actions undertaken by gangs whose members include disenfranchised, unemployed youth and others from the informal labor sector. See Phillip King, Securing the 1999 Indonesian Election: Satgas Parpol and the State. CAPSTRANS Working Paper.

Figure 13. Concerns about Social Tensions, December 2002 and May 2003



Note: Figures represent the percentage of respondents in the survey of sub-district (*kecamatan*) key respondents reporting concerns in each district. Data for December 2002 are from University of Udayana (January 2003) and data for May 2003 are from University of Udayana (June 2003).

Community and religious leaders at all levels in Bali have been active in maintaining calm and good community relations, including inter-faith forums at provincial and district levels (*Forum Kerjasama Antar Umat Beragama*), that have had a positive impact. Of concern is how these structures reach out to those most susceptible to becoming involved in confrontation and violence, especially the sections of the unemployed and youth. In terms of targeting institutional support, these results suggest that appropriate measures to support actors involved in reducing social highest ranked actor was the village head, with 39 percent of respondents ranking the village head as the most important actor, far in excess of other actors. In terms of future conflicts and social tensions, more than half (54%) of the key respondents ranked the village head as the most important actor for tensions and conflict should focus on the role of village heads, traditional (*adat*) community leaders, and police. At the district and sub-district levels, forums of village heads (*Forum Kepala Desa*), traditional leaders (*Forum Bendesa Adat*), and police (*Polres*, *Polsek*) could be supported in dealing with the underlying causes of tensions and those potentially vulnerable to becoming involved in violence acts.

91. Bali, like many other societies, has a recent history of social tensions that were clearly exacerbated after the Kuta bombings. The immediate tensions in the weeks and months following 12 October were managed effectively by community leaders, and Bali proved its reputation as a peace-loving island in the face of a monumental tragedy. Nevertheless, the persistence of the economic crisis in Bali has placed new stresses on the society as mounting socio-economic pressures including reduced incomes, unemployment,

and school dropouts begin to affect people's ability to cope and sense of future. With increases in criminality and continuing local security concerns in certain areas, the inter-dependence of human prosperity and security are clearly seen and demand responses that link traditional welfare and security approaches. Indeed, the police chief, Irjen Pol Drs. Made Mangku Pastika, states that Bali potentially faces an even greater disaster than 12 October if there is no successful response to the socio-economic situation.[26]

92. These problems faced in Bali are not uniformly spread across the island. Rather, Bali has a number of 'tense' sub-districts where social welfare and other social issues, security, political tensions, and community relations factors are interacting and tending to increase overall social tensions. Of particular concern are the broad problems associated with youth and unemployment. This report has provided a first step in assessing the extent and level of concerns over social tensions and their underlying causes in Bali. In the short-term, government, the police, community leaders, and other actors should build on this and work together to ensure that these underlying causes are addressed and that social cohesion in the most conflict-prone areas of Bali is maintained.

2.7 Off-Bali Impacts: East Java

93. The sheer size of East Java and its economic structure means that the impacts of the Bali bombings on the province's economy have been both far more diffuse and localized than in Bali. The effects of the Bali bombings are moreover overshadowed by a generally slow recovery of East Java in the wake of the Asian economic crisis after 1997/8. Non-oil and gas exports from East Java in 2002 reached US$ 4.8 billion, a downturn of 8.9% compared to 2001. In 2002, exports of plywood, handicrafts, and food increased from 2001, while for the first two months of 2003, exports overall showed an increase of 10% on 2002. Comparison of January-February 2002 and 2003 reveals a downturn in exports in early 2003 of textiles (-23%), handicrafts (-24%) and clothing & apparel (-21%) amongst others. In sum, East Java continues to experience the effects of the 1998 economic crisis, with per capita GRDP incomes in 2002 still 8% lower than 1997.

94. Some of these declines may have been effects of the Bali bombing, but external factors such as increased competitiveness from other economies in the region such as China and internal factors such as the decline in the prawn industry are likely also to have influenced these trends. Overall, East Java in 2001 was ranked 22nd out of 26 provinces based on the Human Development Index with a poverty rate of 29.5%, suggesting that the Bali bombings play only a minor role in a greater range of development challenges.[27] The small and medium scale sector in East Java dwarfs that of Bali, with the direct impacts of the Bali bombings probably only playing a limited role in its overall fortunes.[28]

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[26] Interview with Irjen Pol Drs. Made Mangku Pastika, June 2003.

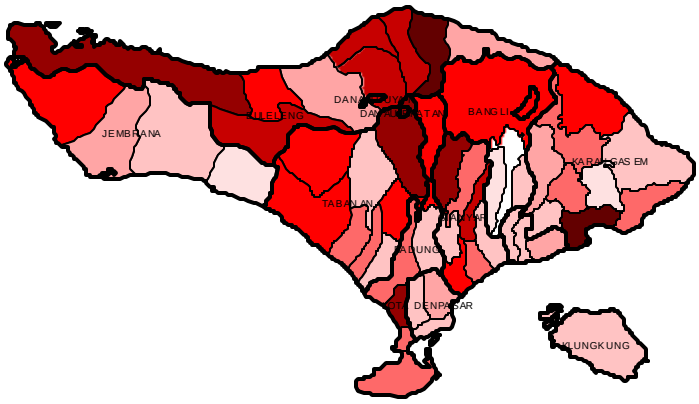
[27] UNDP (2001) Towards a New Consensus: Democracy and Human Development in Indonesia. Indonesia Human Development Report 2001.

[28] Small and medium-sized enterprises are estimated at more than 6 million in East Java (Dinas Koperasi dan UKM Jawa Timur, 2002) and are involved in a range of activities including agriculture, handicrafts and food production with more than half of these businesses active in non-agricultural sectors. Small and medium-sized enterprises in East Java are a major source of employment, accounting for 92% of jobs, but less than 50% of the GRDP of East Java. The total export value of goods produced by SMEs in 2001 was estimated at US$ 337m, more than half of these being handicrafts and food. (Joint Research on SMEs Export potential, Balitbangda, Institut Teknonologi Surabaya and

Small-scale enterprises in East Java mostly market their products and services in the same sub-districts and districts (48% and 30%, respectively), with only 8% marketing to other provinces and less than 1% producing for export markets.[6] Small businesses within East Java appear, therefore, to be dependent on local markets within the province, indicating that the impacts of the crisis in Bali are unlikely to be broad and widespread in East Java, but focused on specific commodities in specific areas that have trade linkages with Bali.

95. Unfortunately, there are no routinely collected data that reflects trade linkages between provinces. Products exported through Bali are believed to represent 36% of total exports from small and medium-sized enterprises in East Java with more than 50% of food consumed in Bali coming from East Java.[29] Products are typically exported to Bali as half or partially processed, and are finished in Bali from where they may then be exported. Many producers in Java have showrooms in Bali, and export of products may be made directly from Bali or from the production area in Java. Information on these trading patterns and the importance of Bali to producers in East Java and elsewhere is sadly lacking.

Figure 14. Concerns About Future Social Disturbances in May 2003



Universitas Brawijaya, December 2002 and PUSKOWANJATI Economic Impact Assessment Jan 2003, BPS, DEPERINDAG Jawa Timur).

[29] Joint Research on SMEs Export potential, Balitbangda, Institut Teknonologi Surabaya and Universitas Brawijaya, December 2002 and Researcher interview with ASDP, Dinas Perhubungan Jawa Timur.

96. East Java is also a source of labor, especially in the informal sector, and labor migration from East Java to Bali increased following the onset of the economic crisis in 1998.[30] Estimates of people entering Bali via seaports in 2002 are roughly 230,000 from East Java via Gilimanuk and roughly 460,000 from Lombok via Padangbai.[31] It is not known what proportion of these people came to Bali for work, but given that Badung district in December 2002 is reported to have issued about 80,000 temporary residency permits since 2000, which are a requirement for both Balinese and non-Balinese residing temporarily in the district, it is likely that the proportion is relatively small even accounting for temporary residents that do not possess a temporary residency permits.[11] Nevertheless, these data show that up to one-quarter of residents in Badung are likely from other districts in Bali and beyond.

97. The May 2003 assessment identified ten districts as manifesting the most likely impacts: Surabaya, Sidoarjo, Mojokerto, Lamongan, Pasuruan, Lumajang, Jember, Situbondo, Banyuwangi and Tulungagung. Within the districts, 200 small businesses in East Java show impacts restricted to certain areas with specific trade linkages to Bali. For example, these included silver and wood industries in Pasuruan, granite and metal products in Tulungagung, wood and bamboo products in Banyuwangi, all of which experienced over 50% reductions in turnover. The impacts on small businesses in the industrial areas of Surabaya and Sidoarjo were minimal compared to other areas. Most of the impacts recorded in the May 2003 assessment were a consequence of the Bali bombings, with businesses reporting the war in Iraq and SARS as having limited impact.

98. Three-quarters of community leaders in the 10 districts reported reduced incomes in the community since October 2002. This appears to have multiple causes including the economic downturn in those areas with linkages to Bali, the lack of employment opportunities in Bali as well as the increase in fuel, electricity and telephone tariffs in January 2003. This does appear to have led to hardship with participants in focus-group discussions reporting reduced levels of expenditure and consumption, and even school dropouts. Since the bombing, there has been no significant increase in social tensions, although respondents commented on increased anti-American attitudes as a result of the war in Iraq.

99. *Sales Volume Downturn*. The Bali bombing did have a significant localized impact on the turnover of the sample of 200 handicraft and food industry businesses visited (Figure 15). On average, these reported a sales downturn of 50% in April 2003 compared to before October 2002 (up to 70% from some business). The Iraq war and SARS were seen to have a much smaller impact. Those businesses with trade links to Bali were the most affected six months after the Bali bombings due to cancellations and reductions in orders as well as delays in payments.[32]

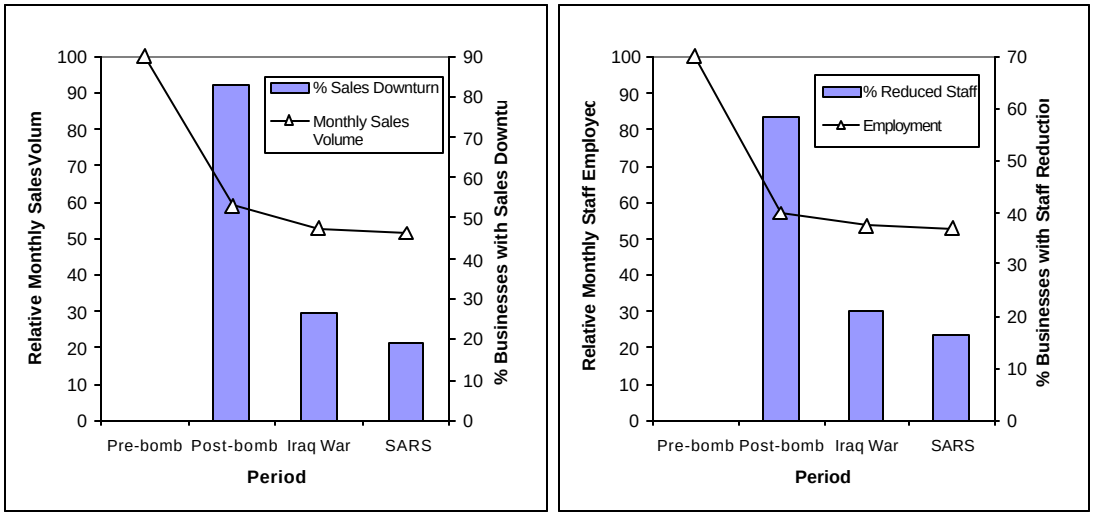
100. *Most Impacted Commodities*. Of the 10 commodities investigated, those with significant export markets - wood (furniture), silver, handicrafts, and garments - are thought to be the most affected. Seventy percent of silver products are exported from East Java,

[30] Universitas Airlangga, UNDP, USAID, World Bank, Rapid Assessment Report January 2003

[31] Bali Post, 3 December 2002, Upaya Penertiban Penduduk; see also Bali Post, 15 January 2003, Aparat Bertindak Cepat dan Bebas Sogokan which states that Kuta has issued 31,677 temporary residence permits, Benoa 13,151 and Dalung 12,407 permits since 2000.

[32] PUSKOWANJATI Socio-economic Impact Assessment, May 2003

Figure 15. East Java Handicraft and Food Sector Impacts

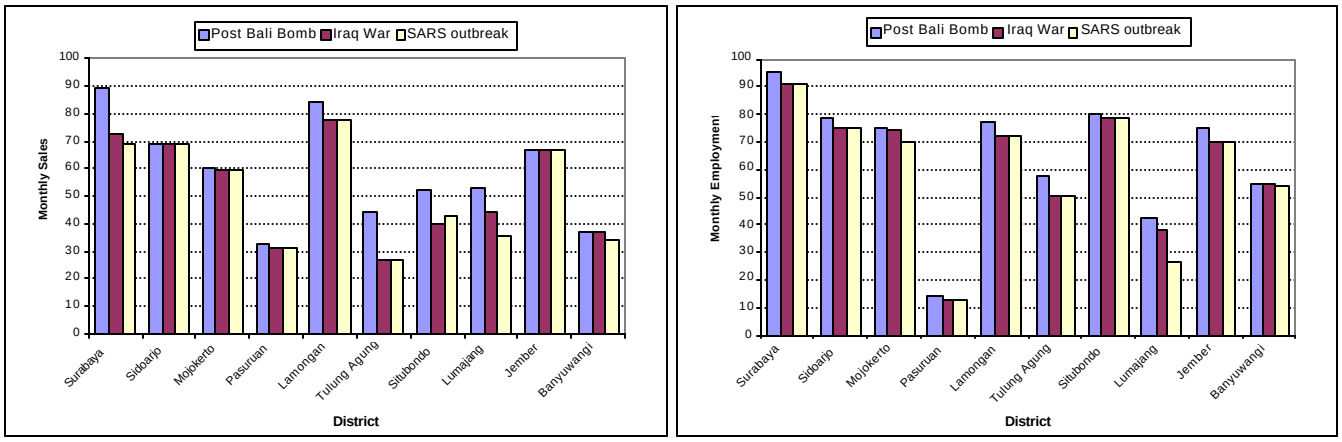


Source: Assessment Survey May 2003

principally to Europe, America, and Japan. Several producers interviewed reported no export orders since October 2002. The garments industry has also been in decline, at the bottom of its economic cycle in May and facing increased competition from other countries in the region. In general, overseas buyers for a range of commodities are reported to have reduced their visits to Bali and East Java, which has consequently reduced export orders of these commodities from East Java.

101. *Most Impacted Areas:* The survey indicates that the most impacted areas are districts with clusters or village industries with direct or indirect trade with Bali. These are Pasuruan (silver and wood industries), Tulungagung (granite and metal products), Lumajang (silver, garments and foods), Banyuwangi (wood and bamboo products),

Figure 16. East Java: Sales and Staffing Changes



Note: Data are relative measures to pre-bombing sales and employment (= 100) from a sample of 200 small businesses in East Java.

and Situbondo (wood, fisheries and shell handicrafts). Clusters or village industries visited in Surabaya and Sidoarjo appear to have had less impact because of the better access to local markets in these urban areas.

102. *Unemployment*. Downturns in sales have affected employment in the sample of industries visited. At first, employers cut work hours for staff and laid off temporary workers, but with the sustained impact of the downturn, layoffs of permanent staff eventually occurred. More than 80% of the focus businesses reported laying off in excess of 50% of staff as a result of the Bali bomb, with the impacts of the war in Iraq and SARS being much less in comparison (Figure 16).

103. *Social Welfare*. There appears to be localized impacts on social welfare in East Java, although the full extent and intensity of these were difficult to measure. The survey of key respondents in East Java found 74% of community leaders reporting decreased household incomes in the community since October 2002.[33] Focus-group discussions highlighted that, since October 2002, people were reducing levels of consumption and expenditure on food and healthcare and experiencing difficulties in paying school fees, with reports of children dropping out of school. District governments have an important role in following up these findings and identifying in more detail the social welfare impacts from the Bali bombings and other factors that have affected local economies and people's livelihoods in East Java.

104. *Migrant Labor*. While the 2000 Population Census shows that a significant number of East Javanese have migrated to Bali in search of work (e.g., from Banyuwangi), these migration flows are limited in comparison to the overall size of East Java. Since the Bali tragedy more than 1,100 workers are recorded as having lost employment in Bali and returned to East Java.[34] However, it is likely that the actual number of people returning to East Java is much greater and includes those who have left due to a lack of work opportunities as well as the several thousands of people who have been sent back to Java due to residency violations. Working overseas is a potential coping mechanism and opportunity for families to increase their incomes. With East Java contributing more than 40,000 migrant workers in 2002, the assessment found increased interest for resident to become overseas migrant workers (TKI).

105. *Social Issues and Tensions*. The Bali bombings increased worry in East Java (39% of respondents) but overall had little impact on social issues and tensions. A number of respondents reported that they were afraid of traveling to crowded places away from home (16%), were increasingly cautious talking about SARS (16%), and increased anti-America sentiments over the war in Iraq existed (22%). The Bali bombing had no impact in Surabaya and Sidoarjo according to respondents, where the price increases in goods, especially sugar, BBM, telephone, electricity and water had a much greater impact on the community. In Lamongan, people reported that there was increased difficulty in traveling to Bali and going to Malaysia to work as an overseas worker due to discrimination.

106. *Coping Mechanisms in East Java.* Coping strategies identified and used by most survey respondents are as follows: reducing

[33] Key respondents in East Java included fifty village heads, community leaders, ulama/kyai, teachers, and heads of local cooperatives in the 10 districts.

[34] Interview with BAPPEPROP East Java, January 2003.

employees; selling assets; exploring local and domestic markets; seeking direct export opportunities; adjusting and creating local demands; reducing prices; increasing loans and borrowings; savings to secure further crisis; employ families or relatives; closing down businesses; seeking other potential sources of income. Some of the respondents do not have an idea how to promote their businesses in the future. Overall respondents were positive and optimistic about recovery potential, but were unsure of exactly "when" and" how" this would be achieved.

107. Bali, Lombok, and East Java have experienced negative impacts due to the October 2002 bombings. Impacts were highest in areas directly linked to tourism and ranged from direct loss of income to socio-economic difficulties to fear of social tensions. On each island, residents employed coping mechanisms to mitigate perceived and real impacts.

CHAPTER 3: RESPONSES

108. Responses and pledges of support to the direct and anticipated impacts of the Bali bombings came from a wide range of actors including the Government of Indonesia, international donors, private charitable donators and civil society organizations locally and overseas, reflecting the level of worldwide support and solidarity for Bali and Indonesia in the face of the worst terrorist attack since 11 September 2001. While it would be valuable to review all the support and responses that have occurred as a result of the Bali bombings, this remains beyond the scope of the present assessment. Instead, we focus on government and donor responses that address the socio-economic impacts of the resultant crisis in order to assess the timeliness and effectiveness of responses to the crisis in Bali, and whether these are adequate to mitigate the present impacts of the crisis.

109. The downturn in tourism arrivals to Bali and Indonesia since October 2002 has presented multiple challenges for responding. Broadly, five issues relating to context, impact and response are worth highlighting:

- Many areas with significant tourism linkages in Bali previously benefited economically and have become relatively prosperous compared to other areas, raising issues regarding relative need compared to other areas in Indonesia with higher levels of poverty
- Bali faces serious longer-term development issues in addition to the shorter-term recovery agenda. Dealing with the latter by focusing on tourism recovery at the expense of the longer-term developmental issues (such as economic diversification, effective public service delivery, good governance, environmental management and spatial planning) will not make Bali any more resistant to further crises and trends that may affect tourism in the future.
- The impacts have not been area-specific but dispersed, presenting difficulties for the effective targeting of responses.
- Present responses were mostly designed in the aftermath of the Kuta bombings and no longer reflect current needs in late 2003. A recovery in tourism arrivals, which seemed to be occurring in early 2003, would have led to an easing of the economic crisis in Bali and related areas. However, since October's terrorist attacks, the war in Iraq and the emergence of SARS has further attenuated the recovery in international tourism arrivals and its socio-economic consequences, leading to a deeper and more prolonged crisis than anticipated in January 2003.
- Much can be done by regional governments through restructuring current development spending and programs, however local governments are required to take proactive measures in linking the changed context in Bali and elsewhere with current and future developmental spending. This in part reflects the absence of detailed information on the crisis as well as difficulties experienced in the operationalization of new development approaches and strategies.

110. This chapter of the report focuses on the responses from the Government of Indonesia and international donors to the Bali crisis based on results from surveys and

interviews, and analyses these responses in the light of the findings of the assessment. A major issue in determining policy for the overall response to the Bali crisis is the balance between (a) tourism-led recovery initiatives, (b) social protection responses, and (c) medium-term economic diversification initiatives to enhance sustainability. The government policy following 12 October appears to consist mostly of tourism-led recovery responses focusing on security and tourism promotion, but this policy does not appear to be widely appreciated by many stakeholders, emphasizing the greater attention needed for effective communication and public relations. In contrast, donor responses have on the whole been supporting either social protection responses or medium-term diversification initiatives through a combination of changes in existing programs and additional new ones, although many of these are yet to show tangible impacts on the ground. These issues and delays in the realization of responses have contributed to the overall sense in Bali that pledges for support immediately following the bombing have not been followed through with concrete outcomes.

3.1 National Government Responses

111. Following the emergency phase in the days and weeks following 12 October 2002, government and donors began to address the immediate consequences of the bombings. The national government formed a 'Team for the Coordination of National Tourism Recovery' at the end of November 2002 headed by the Coordinating Minister for Social Welfare, and consisting of six working groups focusing on: (i) security in tourist areas, (ii) promotions and events, (iii) infrastructure development, (iv) transportation, (v) budgetary incentives, and (vi) social safety nets.[35]

112. In December 2002, the government's target was to achieve tourism recovery in Bali within one year. Recovery would include three stages: "rescue" (October-December 2002), "rehabilitation" (January-June 2003) and normalization (July-November 2003). The main indicator for recovery as defined by the Coordinating Ministry for Social Welfare is 5,000 foreign direct arrivals to Bali per day, with 3,000 being the estimated "break even point".[36] From the government's perspective, the main obstacles to recovery in Bali relate to perceptions of security and tourism, which has led to a focus on security and tourism promotion.

113. The government allocated Rp. 100 billion (est. USD 12 million) for the short-term recovery work of the National Tourism Recovery Team.[37] These funds were contingent on proposals for the actual release of funds. Ministries or department must submit their proposals to the Coordinating Ministry of Social Welfare for review, then for secondary reviews by BAPPENAS and the Ministry of Finance. The disbursement of funds is based on approval of the Minister of Finance, who releases the funds to the Coordinating Ministry of Social Welfare, who will then approve the money to the relevant Ministry or Department. BAPPENAS and the Ministry of Finance requested all Ministers and Agency heads to prioritize Bali when drawing up the 2003 development budget. By

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[35] Keputusan Bersama Menko Polkam, Menko Ekuin, Menko Kesra – 29 November 2002.

[36] Pikiran Rakyat, 14 Desember 2002, 'Bali Harus Kembali Dikunjungi 5.000 Wisatawan/Hari Setahun untuk Normalkan Kepariwisataan Nasional'

[37] Bali Post, 6 Januari 2003, Pencairan Dana Pemulihan Pariwisata Bali.

early June 2003, the following funding allocations had been made by the central government in response to the Bali crisis (details of sectoral responses will be discussed in section 3.4):

- Rp. 12 billion to Coordinating Ministry of Social Welfare for rescue, preparatory and coordination operations (disbursed).
- Rp. 8 billion to Ministry of Culture and Tourism for coordination and preparatory activities for campaigns and events to stimulate tourism (disbursed).
- Rp. 36 billion to recover security to Department of Defense and Security for security system revitalization program (approved).
- An additional proposal has been submitted by the Ministry of Culture and Tourism for Rp 18 billion, however no decision has been made.

114. At the end of June 2003, the Minister for Culture and Tourism formed a Working Group involving government, industry representatives (ASITA), and the Tourism Dialogue Forum (Forum Dialog Pariwisata) to support national tourism recovery. The Working Group will develop and implement programs on tourism promotion, human resource development and international cooperation, tourism products and incentives for the tourism industry.[38]

3.2 Provincial and Local Government Responses

Provincial Government Response in Bali

115. The provincial government of Bali formed a Team for Bali Recovery and produced a plan for recovery including emergency, short-term, medium-term and long-term phases (see Annex 2).[39] The Bali Recovery Team, headed by the Vice Governor, formed six working groups matching the working groups of the national team for tourism recovery. The group was reorganized in March 2003 and the team's activities were to rely on the 2003 provincial budget (APBD) 2003. The new team, which remains headed by the Vice Governor and coordinated by BAPPEDA, has six sub-teams as follows:

- Security System – headed by the Deputy Chief of Police with members including district heads and other government officials.
- Tourism Promotion and Events – led by the Head of Bali Tourism Office with members including other officials and the private sector (Bali Tourism Board, PHRI, and tourism associations).
- Transportation – led by the Head of the Bali Office of Transportation with members including the Head of Ngurah Rai airport and other government officials.
- Infrastructure Development in Tourism Areas –led by the Head of Bali Public Works Office and including the Bupati of Badung, Parum Samigita, and Bali Human Ecology Study Group.
- Fiscal Incentives –led by the Head of Bali Cooperatives, Small and Medium Size Enterprises Office with members including other government officials and the head of Bank Indonesia, Denpasar.
- Socio-Economic Recovery – led by the Head of the Bali Board for Community Empowerment with members including the heads of relevant government offices and NGOs.

[38] Bisnis Indonesia, 15 July 2003, 'Pokja pemulihan pariwisata terbentuk'.

[39] Governor Decree Nos. 472/04-F/HK/2002 and 102/04-F/HK/2003.

116. Regrettably, issues of financing, especially for short-term recovery funds from the central government, and poor coordination, planning and budgetary mechanisms among the various levels and parts of government – central, provincial, and local – has meant the Bali Recovery Team has not yet been effective in initiating a comprehensive recovery response.[40] The level of effective response potentially provides not only lessons for moving forward, but center-regional collaboration in other future regional/sub-national crisis response initiatives.

117. With decentralization in 2001, Indonesia's local (*kabupaten* and *kota)* governments attained a greater degree of autonomy and resource allocations. The response of the regional government must therefore be seen in the context of their evolving authority and resource base, especially to the extent that this was sensitive to the post-bombings downturn of the tourism industry. The regional governments of Bali – province, *kota*, and *kabupaten* – spent Rp. 2.5 trillion in 2001 (est. USD 284.60 million). The regional governments, however, have only a limited degree of discretion for short-term fiscal responses, as the majority of these funds are devoted to civil servant salaries. The center now maintains far fewer civil servants in the province, but in 2001 spent at least another Rp. 0.57 trillion (est. USD 63 million) in deconcentrated development expenditures.[41]

118. The disbursement of funds from central government departments to provincial level offices has occurred in the absence of a strategic budgeted programmatic framework. Poor coordination has resulted in ineffective utilization of funds, rather than a comprehensive recovery package. It was anticipated that the central government would provide funds for Bali recovery programs implemented by regional governments. In July 2003, the Bali provincial office of DG Anggaran, Department of Finance stated that the budgeted deconcentrated funds for 2003 from the APBN was Rp. 341 billion. BAPPEDA reports that approximately Rp. 10 billion of these deconcentrated funds has been received from the APBN, and that there are insufficient resources for regional governments to implement recovery programs.

119. Provincial recovery efforts have therefore depended upon existing funds from provincial budgets. The provincial government in Bali has focused on security (including residency administration) and tourism promotion. By early 2003, many of the other plans developed by the provincial government had not yet been implemented. In order to secure funding for recovery programming, BAPPEDA Bali submitted a proposal to the central government in February 2003, but failed to secure funding, for the 'Bali Rescue and Recovery Program.' This focused on community grants, food security, education, and health support covering about one-half of Bali's desa *adat* with a proposed budget of Rp. 350 billion.

120. Under decentralization, the bulk of provincial and local government revenues still come from the central government through the general block grant (DAU). These funds are allocated in such a way that insulates them from major regional economic downturns, such as those that occurred in Bali in the wake of the bombings. Taxes on hotels and restaurants (PHR) are a local revenues source (PAD) in Indonesia. While in most parts of Indonesia these revenues are not very significant, they were a major source of revenue in Bali, especially in those districts with a high concentration of tourism like

[40] For example, see Bali Post, 6 March 2003, 'Menko Kesra Akui Dana "Recovery" Bom Bali Lamban'.

[41] This data accounts for just over half of central development expenditures to specific provinces (WBOJ 2002).

Badung. For example, in 2001 the *kabupaten* enjoyed a per capita local budget (APBD) that was double that of the national average (Rp. 1.3 versus 6.6 million per capita) by deriving almost half of its total revenues from hotels and restaurants.

District Government Response in Bali

121. Table 24 evaluates recent developments for the regional revenue base. Drawn from comparisons between 2002 realizations and plans, the impacts of own revenues have been significant. While Badung appears to face lower pressures in terms of its wage bill (44% versus almost 80% in Karangasem), its own revenue impacts have been more significant, with PHR revenues down an estimated 40 percent (est. Rp. 100 billion or 11 million USD). While more stable sources such as the general block grant (DAU) have meant that local governments can continue to cover their recurrent costs (especially wages). Discretionary resources in the development budget that could have been used for rapid crisis response at the local level have been squeezed through a reduction of own revenues.[42]

122. Districts with reduced target APBD for 2003 are Badung, Denpasar, Gianyar and Karangasem. Badung, which prior to the bombing shared 30% of its PHR with six other districts (Klungkung, Bangli, Tabanan, Jembrana, Buleleng and Karangasem), has reduced this share to 22%.[43] In June 2003, several districts (including Karangasem and Bangli) reported that actual PHR revenues were well behind targets set in budgets.

123. Despite being granted a more limited role in basic service delivery with the 2001 decentralization, the provincial level government may still be best placed, from a fiscal and coordination stand point, to play a more proactive role in the crisis response. The revenues of Bali province stood at Rp. 245,000 per capita in 2001, almost one-third above the national average of Rp. 189,000 per capita. Moreover, less than one-third of its expenditures were effectively earmarked for wages. At the same time, the province however has not been immune from a fiscal squeeze of its own. The province is also significantly reliant on motor vehicle fuel taxes and registration taxes (PBBKD, PKB, BBNKD), which would have been highly susceptible to the economic downturn. As taxes are also shared with the local governments, this would have further constrained their fiscal position. Effectual targeting of the provincial budget, in close coordination with central government deconcentrated funds, therefore appears to emerge as the major fiscal channel for an effective response to the impacts on Bali.

124. These data suggest that local governments on both ends of the directly and indirectly impacted spectrum have been affected and will compromise the ability of district governments to meet the additional resource needs for initiating recovery responses as well as meeting regular commitments. While Badung was richer and enjoyed larger discretion in terms of its development budget, the fiscal impact of the bombings has been most direct. Whereas impacts in Karangasem have been more muted

[42] Until 2002, regional governments in Indonesia broke down their budgets into routine and development budgets. Projects, such as assistance to particular sectors or transfers to villages, were typically booked under the development budget.

[43] The sharing of hotel and restaurant revenues by Badung appears to reflect a negotiated realization of the interdependencies of the islands local governments in the context of tourism, and possibly the seeds of enhanced provincial level coordination and management in the tourism sector, although this also reveals their vulnerability to periods of economic downturn.

Table 24. Bali Regional Public Finance in 2003

District	Local Budget -APBD (Rp billions)			Total Own Revenues (PAD) (Rp billions)			Restaurant and Hotel (PHR) Own Revenues (Rp billions)			Wages (%)	Per capita APBD (Rp)	
	2002	*2003* [1]	*% change*	*2002*	*2003* [1]	*% change*	*2002*	*2003* [1]	*% change*	2001	*2002*	*2003* [1]
Badung [2]	516.0	379.5	-26.5%	310.7	205.0	-34.0%	250.0	150.0	-40.0%	43.9	1,491,920	1,097,255
Denpasar	379.0	325.0	-14.2%	91.0	85.8	-5.7%	45.0	37.5	-16.7%	56.5	711,817	610,397
Tabanan	282.3	317.2	+12.4%	31.2	34.0	+9.0%	7.6	6.5	-14.8%	76.7	750,738	843,550
Jembrana	192.7	187.6	-2.6%	6.0	7.0	+16.7%	0.13	0.11	-16.0%	62.8	831,299	809,384
Buleleng	296.1	379.8	+28.3%	16.2	19.7	+21.6%	2.5	3.3	+29.6 %	85.2	530,384	680,453
Karangasem	243.6	238.0	-2.3%	23.7	23.2	-2.1%	10.0	8.0	-20.0%	78.3	675,754	660,220
Bangli	137.3	166.3	+21.1%	6.1	5.6	-8.2%	0.6	0.15	-75.0%	66.0	708,550	858,207
Klungkung	151.0	172.7	+14.3%	12.4	10.3	-16.9%	0.7	0.5	-26.5%	77.4	972,743	1,112,313
Gianyar	365.8	283.2	-22.6%	54.2	44.0	-18.8%	21.2	21.0	-0.9%	17.1	930,422	720,327
Province										29.8		

Source Notes: 2002 figures refer to realizations, 2003 figures to planned budgets, 2001 figures are from the Ministry of Finance

owing to a smaller share of direct tourism related impacts. Karangasem has less discretion in its budgets, its 420,000 per capita budget was already over a third below the national average, its wage share of 78% was well above the national average in 2001, and the extent of vulnerability among its population was higher.

125. *Present Crisis Responses*. Despite budgetary constraints, district governments have initiated various responses to the downturn in tourism and associated impacts. An overview of district government responses reported during meetings with several key officials in each district is given in Annex 3, though, in general, these responses are not comprehensive nor strategically planned. [44] Almost all district governments visited in Bali requested support with funding and/or technical assistance in developing short-term responses to deal with specific issues such as unemployment, as well as longer-term economic development planning. On the whole, district governments expected the provincial and national government to be leading recovery responses, and expressed a need for better coordination amongst governmental levels in response. Overall, district governments expressed four priorities for future responses:

- Maintain and increase security measures.
- Crisis response programs to mitigate the impacts of the crisis.
- Technical assistance in economic developmental planning.
- Establishment of an effective coordination system between the provincial and district governments.

[44] Meetings held in June 2003 by UNDP with district BAPPEDA, Offices of Tourism, Manpower, Trade and Industry, Board for Community Empowerment and Board for Social Unity and Community Protection.

Regional Government Responses in East Java and NTB

126. *East Java*. The East Java provincial government responded to the crisis focusing on small businesses and social impacts.[45] For small business, the Bureau of Economy of the Provincial Government is undertaking a mapping exercise for SMEs that will identify support for SMEs such as access to capital, training and trade promotion. Trade links abroad are promoted by attending international trade fairs and exhibitions, and by working with Indonesian overseas missions. East Java has also been active in developing links with other areas in Indonesia (e.g. Yogyakarta) in marketing products from the province.

127. Employment overseas is an important source of income for East Java, more so during the prolonged economic crisis in the province. For that reason, the provincial government has set forth as a priority support to migrant workers (TKI). Measures include agreements and coordination with governments in destination countries, legalized documents for migrant workers, rights protection, and upgrading skills through education and training.

128. At the district level, the 10 local governments visited during the assessment in East Java had not initiated a formal response to the crisis. The USAID PERFORM project will support planning, program design and budgeting for 2004 in East Java, which presents an opportunity for supporting local government responses in the province.[46]

129. *NTB/Lombok*. The provincial government of NTB has not initiated a formal response to the impacts of the crisis.[47] Government departments in NTB have undertaken limited responses such as trade promotion to support business affected by the crisis, but local stakeholders generally do not believe in the ability of the local government to deliver an effective response.[48]

3.3 Donor Responses

130. The international community responded rapidly to the Bali crisis. Responses included the restructuring of existing programs to address the crisis, as well as the commitment of new resources. In addition to the assessment process initiated by the UNDP, the World Bank, and USAID, donors have supported a number of emergency, short-term recovery, and longer-term development initiatives (see Annex 4).

131. The main donor initiatives addressing socio-economic recovery that are operational on the ground in Bali include:

- AusAID - Bali Rehabilitation Fund (AUD 750,000 in direct grants)
- USAID - Office for Conflict Prevention and Response (in excess of USD 5 million)
- UNDP - Community Recovery Programme (USD 300,000)
- World Bank - Kecamatan Development Project (USD 28 million over three years)

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[45] Meeting Summary with East Java Governor H. Imam Oetomo PUSKOWANJATI , UNDP Consultant.

[46] The PERFORM (Performance Oriented Regional Management) Project supports the development of regional government institutional capacity in West Sumatra, West Java, Central Java, East Java, South Sulawesi and Papua, specifically in respect to the management of regional finance, urban service provision, and participatory development planning. See www.perform.or.id.

[47] Interview with Head of BAPPEDA, NTB.

[48] University Mataram, Workshop on the crisis in Lombok, June 2003.

132. With the exception of USAID, these donor responses have yet to disburse significant funds, and have yet to impact the current socio-economic conditions. These initiatives have mostly been undertaking initial preparatory work, while some have experienced administrative delays. It is anticipated that these programs will be fully operational and disbursing funds in the first half of 2004.

133. In addition, a number of other donor projects in Bali existed before the crisis and are developing or implementing activities that assist recovery. These include:

- International Finance Corporation - East Indonesia Business Facility (USD 20 million for four provinces including Bali, Lombok and East Java over five years)
- CIDA – PEP II (Private Enterprise Participation, Second Phase) aims to contribute to poverty reduction in East Java, Bali, South Sulawesi and North Sulawesi through (i) improving the environment for SME development and growth and (ii) providing interventions aimed at supporting job creation within SMEs.
- European Commission - Sustainable Development of Irrigated Agriculture in Buleleng and Karangasem Project will introduce high income generating mixed farming systems through the introduction of new high yielding crops, increase involvement of female community members in agriculture and other income generating activities, and enhance the professional capacity of local irrigation and agricultural organizations.[49]
- GTZ – PROFI (Promotion of Small Financial Institutions) is supporting the development of viable microfinance institutions, and the strengthening of systems and frameworks in East Java, Bali, and NTB since 1999.
- World Bank – Bali Urban Infrastructure Project – disbursements of USD 2-3 million via the Community-based Development (CBD) Programme being implemented and planned in almost 300 *desa adat*; support for community consultation in Kuta and labor intensive drainage works in Kuta.

134. Outside of Bali, in Lombok, East Java, and other areas affected by the decline in the tourism sector following 12 October 2002, there are few specific donor responses. However, the IFC, AusAID, and USAID responses listed above, plan to provide program support in Lombok, and IFC will also be active in East Java. Overall donor support has been concentrated in Bali. This should be reviewed given the prolonged crisis as a result of the war in Iraq and SARS. Areas such as Lombok and Yogyakarta where tourism and related industries provide important livelihood and employment opportunities may deserve further support from donors.

135. *Donor Coordination*. UNDP has been supporting donor coordination with the government at the national and provincial levels in Bali, East Java and Lombok/NTB. Meetings with district governments in Bali provided an opportunity to make district governments aware of donor responses. Meetings were held between donors and local stakeholders in Bali to brief the provincial government on overall donor assistance and to discuss support to the business sector. Overall, the resources available for donor coordination did not lead to a significant increase in the level of engagement between donor projects, the government, and other stakeholders, which should be a priority for the coming months.

[49] See http://www.delidn.cec.eu.int/develop1.htm.

3.4 Sectoral Responses for Recovery and Development Assistance

Emergency Response

136. The days and weeks following 12 October 2002 saw a major emergency crisis response led by government agencies, the Indonesian Red Cross and local residents supported by the international community. The Australian Red Cross was active in initial response and tracing services (AUS 174,451), the supply of three ambulances (AUS 281,000), a tuberculosis project (AUS 400,000), support to the regional blood bank (AUS 250,000) and a disaster preparedness project (AUS 2,506,025). WHO has also undertaken a review of the emergency response at Sanglah hospital.

Security Response

137. The enhancement of security measures has been a key part of the government's response to the Kuta tragedy and is directed at ensuring Bali is safe from further terrorist attacks and maintaining security in the community. Security measures have included:

- Increased security at ports of entry such as Ngurah Rai airport, Gilimanuk[50], Benoa, Padang Bai and Celukan Bawang through checks of identity cards and goods.
- Technical assistance from the World Tourism Organization (WTO) to evaluate and propose enhancement of security measures at Ngurah Rai Airport, finding that although certain safety and security measures were carried out, there is a need for further improvements.
- Provision of security equipment for the airport by the Japanese government – this equipment has yet to be made operational.
- Implementing new security measures through the traditional villages (*desa adat*) in Bali that have provided a greater role for traditional village security personnel (*pecalang*) and greater surveillance of temporary residents through identity checks and the issuance of temporary residence permits.
- Increased security at tourism facilities such as hotels and restaurants, tourist sites and other public spaces. Security will be included as a variable in hotel classification procedure and the provincial police will oversee hotel security measures.
- Increasing the number of Tourist Police who are performing security measures at tourist resorts by patrolling regularly in the area.
- Strengthening of police intelligence, police presence at the airport and increasing numbers of police active at the community level through the *polsek* (subdistrict police station) and *Babinkamtibmas* (village level police presence).

138. Responding to crime and social issues through anticipating the socio-economic impacts of the crisis has been part of a preventative policing strategy in Bali aiming to build community trust in the police. At the village level, the police are working with village heads in dealing with the social impacts and tensions that have arisen through supporting neighborhood security and youth, but with limited budgets, the extent of achievements is curtailed. The Bali police received new equipment, motorcycles and cars, but according to the Bali Police Chief, the latter are not in active service due to a lack of operational funds.

[50] Jembrana district government currently administers security at Gilimanuk and has requested additional security equipment for the port. Jembrana district also proposes that the provincial government manage security at the port given it is a provincial entry point.

139. The Bali Police Chief's goal is to upgrade security in Bali to international standards and to receive verification from an independent group. The security assessment at the airport by the World Tourism Organization revealed over thirty recommendations for action, and it is important that these are pursued. Similarly, other aspects of security provision in Bali could be assessed and regularly verified by an independent third party. Real improvements in security systems should be effectively communicated to stakeholders, especially the tourism sector.

Tourism Recovery

140. The national working group on promotions and events developed recovery policies, established a media center for information dissemination to Indonesian embassies, developed a national tourism campaign, organized a music concert in Bali, and recruited international consultants including Gavin Anderson & Co (Australia) and Marketing Garden (Japan).[51] Promotional activities overseas included advertisements on CNN and promotional visits to key tourism fairs. A key strategy has been to promote domestic visitors to Bali and the holding of conferences and meetings on the island.

141. Although Indonesia was not directly affected by the emergence of SARS in March 2003, some important direct routes (e.g. Taiwan) and hub routes (e.g. Singapore) experienced outbreaks of the disease, which effectively took the Bali tourism recovery efforts 'back to square one.' Since then, the Ministry of Culture and Tourism has developed a new National Tourism Recovery Plan that began in mid-2003 and will last until the end of 2004. The plan aims to restore confidence in the international domestic markets during a phased rescue (3 months), rehabilitation (4 months), normalization (6 months), and expansion (6 months) plan that will include domestic and international promotion, a media campaign, support to marketing representatives, Indonesian culture promotion, tourism product development, and fiscal incentives for the tourism industry.

142. With SARS under control, other countries in the region are dramatically increasing their promotional activities in an attempt to regain much valued tourism revenue. Hong Kong launched a USD 128 million 'Looking Ahead' campaign, Thailand a 'Smiles Plus Campaign', and most of the other countries with significant tourism sectors in the region (such as Malaysia, the Philippines and Australia) are increasing their tourism promotion campaigns. Real concerns remain that Indonesia is simply not doing enough effective tourism promotion and marketing to rival the increased competition in the region, which possesses significant implications for the longer-term future of the industry and its employees.

143. *PATA Bali Recovery Task Force*. In December 2002, the Pacific Asia Travel Association's (PATA) Bali Recovery Task Force visited Bali and provided a series of recommendations to support the recovery of tourism in Bali and Indonesia which included:

- All elements relating to tourism in Bali should come together to produce a unified agenda for action.
- Create an environment for careful tourism planning including issues of safety and security.
- Establish an Integrated Crisis Management Plan in Bali.
- Rebuild and broaden the Bali brand to encompass culture and heritage.

[51] The global tourism promotion plan developed by Gavin Anderson was delivered to the Government of Indonesia in March 2003, but has yet to be implemented.

- Market the Bali brand to contemporary markets and through partnership marketing.

144. Overall, the PATA Task Force argues that "the major tourist organizations involved in Indonesia have neither reacted effectively to the current situation nor provided the institutional leadership necessary under the circumstances." The PATA report highlights the importance of travel advisories, outreach campaigns, safety and security, an effective publicity and communications program, and the need for regional and national actors to work together toward a common agenda and strategy that has adequate funding for implementation. Regionally (such as in Malaysia, Singapore, and Thailand), many models of tourism management and promotion from which Indonesia could benefit exist.

145. *Central Government Response* to SARS. The Ministry of Health formulated a policy to respond to SARS that included socialization activities, increased surveillance at airports, seaports, and land borders, as well as a capacity building element in the surveillance of pneumonic epidemiology. Indonesia did not suffer a direct SARS outbreak, although preventative measures were taken at ports of entry and medical centers.

146. *Visa Regulations.* In March 2003, the government issued Presidential Decree No. 18/2003 to abolish the existing Free Short Visit visa facility as part of an international commitment to fight against terrorism, the international drug trade, trafficking of women and children, and other forms of international crime.[52] The new regulation was to be implemented six months from the day it was enacted, but following lobbying from the tourism sector the government dropped its plans to abolish the visa on arrival facility. Instead, the government has replaced this regulation with a USD 35 fee for the 'visa on arrival' for all 48 countries with this agreement, which, based on 2001 national visitor arrivals, would raise roughly USD 140 million.[53] More importantly, this policy, like its predecessor, may act as a disincentive for tourists to visit Bali and Indonesia. It is not clear exactly how this 'tourism tax' would be used and its net benefit for Indonesia should be reviewed.

Industry

147. *Support to Cooperatives and SMEs*. The Ministry of Cooperatives and Small and Middle Enterprises has three main activities in Bali, and although none of these are in response to the impacts of the economic crisis on local businesses, they do present provincial government with the opportunity to target funds to businesses that could benefit. The three programs in 2003 are: (1) an allocation from the fuels (BBM) subsidy of Rp. 3.56 billion; (2) de-concentration funds of Rp. 2.9 billion allocated to support the development for entrepreneurship and small and micro enterprise (Pengembangan Kewirausahaan dan KUKM) and Rp. 1.88 billion to support the development of an information system of small and micro enterprise; and (3) a Business Start-up Capital (*Modal Awal Padanan*) program allocated to support clusters of small and micro enterprise identified by the local government.

148. *Fiscal Responses and Incentives for Tourism-Related Industries*. The central government has not granted any tax

[52] Interview with Planning and Preparation Division of the Department of Justice and Human Rights.

[53] Bisnis Indonesia, 28 June 2003. The article suggests that just a 4.7% decline in arrivals as a result of the tax would offset any of its benefits, but it is not clear how these projections were calculated, and whether they refer to total tourism expenditures or tax yields.

concessions to businesses affected by the Bali bombing. However for those who experience problems with repaying loans, Bank Indonesia published a decree in December 2002 asking banks to assist businesses with restructuring of their credit.[54] The Jakarta Initiative Task Force also held meetings and a conference in March 2003 with banks and businesses in Bali to promote debt restructuring between debtors and creditors. The task force found that banks were taking steps to allow debtors to defer interest and postpone principal payments but that a policy for dealing with a crisis deeper and longer than six months did not exist. BRI has been active in debt restructuring in Bali since October 2002, and has restructured approximately Rp. 20 billion of debt owed by over 1,500 customers.[55] Bank Indonesia was concerned that the rural credit banks could not keep pace with the crisis and that they needed technical assistance with debt restructuring techniques.

149. Recently, there have been increasing calls from industry for such a package to assist the industry in recovering from the combined shocks of the Bali bombing, war in Iraq, and SARS.[56] Other countries in the region have launched recovery packages to assist their tourism industries.[57] In June 2003, the working group for budgetary incentives was in the process of developing a range of incentives that allow tourism-related industries to continue operations.

Social Welfare

150. *Support for those Directly Affected by the Bombings.* A wide range of support was provided to the families of victims of the October bombings from abroad and within Indonesia, which together is in excess of USD 10 million. Support has included financial support, medical support, counseling and scholarships for children, and longer-term projects including support to Sanglah hospital and the building of a memorial hospital. Although efforts were made to coordinate these responses, donations and support have come from many sources, complicating these efforts.[58] Strengthened mechanisms for facilitating the use of private funds raised for Bali through effective programming could lead to more diverse and beneficial outcomes.

151. *Social Safety Nets.* The national working group for social safety nets is developing relief distribution plans for regions affected by the demise of national tourism, which have yet to be approved. At present, there is no national social safety net program in Bali, but some district governments are providing free education (e.g. Jembrana), free primary health services (e.g. Denpasar), or

[54] Peraturan BI No 4/11/PBI/2002 dated 20 December 2002 (see http://www.bi.go.id).

[55] BRI Presentation - Perbankan Bali dan Tragedi Bali 12 Oktober 2002.

[56] Bali Discovery Tours News, 14 July 2003, 'Calls Mount for Tourism Supports: State Ministry Supports Calls for Scheme of Supports and Relief for Damaged Tourism Sector'. See http://www.balidiscovery.com.

[57] Malaysia, for example, launched an economic stimulus package in May 2003 to help travel agencies and tour operators over the next six months. The package offers (i) a Special Relief Guarantee Facility fund worth RM1 billion for tourism sector operators, (ii) five percent discount in electricity bills for hotel owners from June to December 2003, (iii) fifty percent rebate for six months road tax for taxis, (iv) exemption from service tax for hotels and restaurants from June to December 2003, (v) abolishment of service tax on complimentary rooms in hotels beginning June 2003, (vi) postponement of income tax installments for tour operators from June to December 2003, (vii) restructuring and rescheduling of loans by finance institutions for workers whose salaries are subjected to pay cuts due to poor business for the industry. Source: Tourism Malaysia, May 2003.

[58] See www.balirecoverygroup.com.

limited *padat karya* work programs (e.g. Tabanan).

152. *Community Grants*. Community grants are being provided by the Kecamatan Development Project (World Bank), the Community-based Development program (World Bank-BUIP) and the Community Recovery Program (UNDP). Coordination between the government and these initiatives could be improved to help stakeholders be better informed over progress and targeting issues.

3.5 Community Priorities and Responses

153. *Community Responses and the Desa Adat*. Bali's social and cultural capital has been a vital asset during the crisis. Within the local community, at the family, banjar (local community group), and desa adat (traditional village) levels, there are communal coping mechanisms that assist families through difficult times. More than half (51%) of respondents identified a traditional system within the *desa adat* that helps families overcome economic difficulties and that addresses social problems. For help with socio-economic problems, people in Bali tend to get help first from families, then community leaders and friends, then from the village head (Table 25). This clearly shows the importance of traditional leaders and the banjar in terms of responding to social welfare needs. Many traditional villages (*desa adat*) have incomes from village finance institutions (LPD) and other funds raised through contributions from local businesses and residents, possessing the potential to be used for the benefit of local residents. [59]

154. *Community Priorities for Response*. The International Republic Institute (IRI), with support from USAID, assisted the provincial government through polling community views on priorities for recovery programming in December 2002. The IRI study found that local neighborhood security measures (including the regulation of residency), support for the poor including health and education and support to SMEs were the highest priorities for response. In May 2003, the highest-ranking priority need was support to the poor focusing on unemployment and other impacts of the crisis as identified by 57% of key respondents. Other important response needs included strengthening the police (24%), tourism promotion (21%), support for SMEs (15%), support for agriculture (14%), and improvement of residency administration (13%). Priorities for socio-economic programs included access to primary health care (35%), credit for SMEs (31%), education (26%), credit for farmers (24%), community grants (21%), infrastructure and facilities (14%), non-credit support for SMEs such as trade promotion etc. (13%), hospitals (11%), grants to *subak* (11%), livestock assistance (10%), and non-credit support for farmers (11%).

Table 25. Local Providers of Support during Crisis in Bali

Group	***Average Rank Importance***
Families	1.67
Balinese community leader (*kelian adat*)	2.38
Local friends	2.43
Village head	2.70
Religious leader	3.49
Village midwife	4.08
Doctor	4.36
PKK	4.65
Source: University of Udayana, Key Respondents Survey	

[59] The LPD in Kuta, one of the most profitable LPDs in Bali, had a net profit of Rp 2 billion in 2002, although the details of how these funds were used is not known.

3.6 Summary of Government and Donor Responses

155. The overall response to the Bali crisis has been measured according to initial predictions of the time required for recovery in tourism and the level of socio-economic impacts. It is clear now that the crisis is deeper and longer lasting than at first anticipated, giving greater urgency to the need for effective action. Recovery responses from both donors and government are not yet having significant impacts on the ground for a range of reasons including (a) complexities associated with effective targeting, (b) delays in disbursement, (c) a limited focus on welfare responses, (d) poor coordination, (e) a lack of synergy between government and donor responses, (f) perceptions of Bali as rich, (g) limited tourism promotion activity and (h) assumptions of a recovery in tourism. In May 2003, only 13% of key respondents in Bali reported knowledge of any response to the crisis. Clearly the visibility of crisis responses is low, which in part reflects the need for enhanced public relations and communication about Bali recovery initiatives, but more importantly reflects the fact that many responses are not yet being implemented or having impacts.

156. A key weakness in the Bali recovery response has been in the planning process. Responses have been fragmented and there has been a lack of focus on the most vulnerable. This was exacerbated by the limited data available providing an overview of the tourism sector and information on impacts relevant to policy-makers, so that responses have typically not been based on a clear view of the situation. Regional governments have the best understanding of the current situation, yet are unable to elicit an effective response due to financial and other constraints.

157. The key requirement is for district, provincial, and central governments to use available information on the socio-economic situation in Bali and related areas, in cooperation with donors to define a comprehensive and coordinated recovery program. Over the coming weeks, a greater focus is required on using the information from this assessment and other sources in planning the effective utilization of resources allocated to Bali recovery, initiating new responses to mitigate the deeper impacts of the crisis and develop long-term economic plans that will promote sustained growth and development. In particular, effective consultation in Bali and other areas will be important in order for the voices of communities and other stakeholders affected by this crisis to be heard.

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

158. The socio-economic impacts of the Bali bombings, compounded by the effects of the war in Iraq and SARS, have worsened considerably since January 2003. Direct tourism arrivals in the second quarter only increased to above 3,000 per day in mid-June 2003, the government's estimated 'break-even' point for the Bali economy.[60] Even under optimistic scenarios, in the absence of any other unanticipated shocks, it is unlikely that numbers will return to normal before 2004, thereby deepening the lingering impacts of the crisis. On the positive side, exports from Bali have generally been maintained, providing some respite for the island's economy. Nevertheless, small and medium-sized enterprises are feeling the crisis, with financial institutions reporting increased levels of non-performing loans. Especially worrying are indications of localized hardship in certain areas of Bali and Lombok with indications that local coping mechanisms are failing. The effects of the crisis on unemployment and the youth will also require special attention. In this context, the maintenance of social harmony and security remains a key issue to ensure Bali's retains its peaceful image.

159. Despite the significance of these impacts from the crisis in tourism, it is vital that government, industry, and donors do not lose sight of the long-term agenda of tourism and sustainable development in Bali and elsewhere. Chapter 1 underscored that much of the growth of tourism in Bali and Lombok has been spontaneous and has occurred outside of a well-regulated planning framework. The process has often involved opposition from local people who felt that their interests were not given sufficient importance in the decision-making process. Tourism is a complex industry with many actors. The challenge is for government to develop processes and approaches that provide opportunities for local people to have a say in future development and in influencing government policies and priority programs. Furthermore, Bali will need to continuously diversify and strengthen sectors that can thrive even in circumstances where the tourism sector is less buoyant, in particular agriculture and small industries.

160. Many of the responses put in place six months ago have yet to deliver impacts on the ground, and have proved to be inadequate for meeting the diverse needs of those affected by the crisis in Bali, Lombok, and other areas. Donor responses have not always addressed priority needs, have taken some time to begin disbursement, and have lacked effective targeting mechanisms, in part due to an absence of information about impacts. Government responses have appeared to lack coordination and pro-action, and have lacked an effective communication strategy. Over both, the short and longer-term, new approaches are required that bring together government, the private sector, and communities in a more effective manner.

161. The Government of Indonesia, both at the national and regional level, and donors should consider the following conclusions and recommendations of this assessment in planning new, and reshaping existing,

[60] Daily direct foreign arrivals for the peak months of June to September between 1997 and 2001 averaged 4,140 arrivals per day. Information on the number of indirect foreign arrivals and number of domestic arrivals combined with visitor spending habits are required to assess fully the status of Bali's tourism economy.

responses to mitigate the crisis and stimulate long-term sustainable development in affected areas. It is important to recognize that recovery in the sense of return to past conditions may not be an option for Bali. Current trends in global tourism and future scenarios of these in relation to Bali mean that the longer-term agenda of regenerating Bali as a destination and building a more diverse economy should not be delayed.

4.1 Managing the Crisis and Promoting Recovery

162. Over the short-term, Bali and related areas will continue to be in crisis until tourism arrivals increase to generate the economic demand that will pull these areas out of crisis. Until this happens, a short-term agenda for promoting a tourism-led recovery and mitigating the impacts of the crisis should be followed. The timeframe for this remains somewhat unpredictable, but it is generally thought that recovery will not occur until the final quarter of 2003 at the earliest, and more likely, no earlier than 2004. Although visitor arrivals increased in June and July 2003, with hotels, restaurants and retailers offering large discounts combined with a changed visitors profile with unknown spending habits, Bali's tourism-based economy remains fragile. Yet the absence of comprehensive information and data on Bali's tourism sector leaves a knowledge gap that must be filled to enable effective policy-making. Chapters 1 and 2 suggested that only direct international tourism arrivals to Bali serve as an effective leading indicator in the sector at this time. Indicators on indirect international and domestic stay-overs and spending are proving far less reliable and timely.

'Back to Bali': Supporting Recovery in Indonesia's Tourism Sector

163. Tourism-led recovery presents the greatest short-term opportunity for supporting economic recovery in Bali. The formulation and implementation of a *Comprehensive Multi-Stakeholder Tourism Recovery Plan* with linkages to longer-term planning would be the most cost effective measure to support short-term recovery and maintain social welfare. Past experience from other tourism crises show a coordinated plan that provides a consistent message to the market, inclusive of current concerns over safety and security, is the most effective approach. Although a number of promotional activities have been undertaken to date and the private sector has initiated its own specific responses, this cannot be said to represent a comprehensive and coordinated response to the crisis.

164. Tourism growth cannot be controlled in a top down approach. Initiatives must also be in the long-term interest of communities and other stakeholders. Creative solutions must be found to ensure effective distribution of the benefits of tourism. A traditional plan will not work, and it will be important to involve stakeholders to develop a unified and comprehensive strategy and action plan. This will require the establishment of a multi-stakeholder mechanism to coordinate planning and implementation with representation from various stakeholders in Bali. In particular, regional autonomy has created difficulties in effectively coordinating the management of tourism and related functions. Tourism can be argued to represent a provincial asset in Bali, so that in the context of Law 22/1999, the concentration of responsibilities for tourism, spatial planning, and environmental management may be more effectively placed at the provincial level.

A. Recommendations for Tourism Recovery

1 Government agencies, with possible support from UNDP/World Bank, should consolidate the collection and management of data and information relating to tourism in Bali in order to provide a better foundation for policy-making. BPS Bali and the Bali Tourism Authority, in particular, should consolidate their data and should build on the efforts of the Bali Tourism Authority to make this widely available to stakeholders.

2 Government and donors should support the implementation of action plans resulting from the July 2003 meeting and provide similar support to other tourism destinations such as Lombok and Yogyakarta. Canceling the USD 35 fee for a tourist visa upon arrival is a key point for consideration.

3 Provincial governments in Bali, NTB, and other destinations form broad multi-stakeholder Tourism Recovery Groups (government, police, industry, community representatives) for implementing a comprehensive tourism recovery strategy that effectively coordinates between the National Tourism Recovery working group and provincial actors. These groups should produce strategy documents with clear timelines, milestones and resources for implementation. Donors could support with appropriate technical assistance.

4 Government, with possible donor support, ensures new security measures (e.g. WTO airport security review) are implemented and enhanced security systems are strengthened and verified to international standards. The provision of police advisors, as has been done in the past by UNHCR in other areas in Indonesia, would provide assistance to the police in improving security in Bali and other areas.

5 Government intensifies international promotion campaigns and information dissemination at an appropriate time in key markets as part of the overall tourism recovery strategy. Government should review the strategy proposed by Gavin Anderson & Co as part of this overall effort.

6 Government reviews the needs and options for fiscal measures to support the tourism industry in crisis. Donors could support the government with technical assistance in determining options for fiscal policy responses.

7 Provincial governments in Bali, Lombok and other key tourism destinations engage with district governments and communities to identify possible revitalization projects of tourism sites that can be undertaken by local communities with government or donor funding as part of a community-based approach to tourism that will also provide much needed job opportunities. Donors should consider supporting such public-private agencies such as the Bali Heritage Foundation.

8 UNDP and other donors could support the Department of Tourism and Culture in the formulation of national and regional tourism plans including Bali. Private-public partnerships like the newly established Bali Heritage Trust, based on a Governors decree of February 2003, provide possible avenues of support in this context.

9 Government reviews the management of tourism, spatial planning and environmental management in Bali in the context of Law 22/1999.

B. Recommendations for Support to Small Businesses

10. The government and Bank Indonesia in Bali (via the Provincial Sub-Team for Fiscal Incentives) and Lombok undertake a consultative policy review, with donor support if required, to identify appropriate fiscal responses for businesses in Bali, Lombok, and possibly other areas such as East Java and Yogyakarta, affected by the tourism crisis. This should be published and communicated effectively to the business community prior to the implementation of any measures.
11. Provincial government, Bank Indonesia, business associations (e.g. KADIN, ASITA, HIPMI, IWAPI etc.), financial institutions (e.g. BRI, BPRs, LPDs), and donors should cooperate to establish and consolidate local mechanisms to assist the renegotiation of debts between debtors and creditors. Activities could include a Small Business Roadshow, technical assistance to financial institutions and business associations and small business training through existing networks.
12. Provincial and district governments develop strategies and support pilot projects with the business community and cooperatives (e.g. PUSKOWANJATI in East Java) (including possible donor support from IFC, AusAID, Japan, and USAID) in developing and implementing new marketing and trade promotion initiatives, and over the medium-term new product development, in Bali, Lombok, East Java and other areas affected by the crisis.
13. UNDP and/or IFC could support the establishment of an effective coordination mechanism between donors, government, Bank Indonesia, financial institutions, business associations, and other actors in Bali and Lombok.

165. In July 2003, local stakeholders (police, government, private sector, and non-governmental actors) in Bali met to develop a unified agenda for action aimed at promoting recovery in tourist arrivals to Bali. As follow up to this, stakeholders in Jakarta and Bali should coordinate closely in the delivery and implementation of an action plan. In addition, the strategy developed by Gavin Anderson & Co, under contract to the Indonesian Culture and Tourism Board, which addresses the main issues for tourism promotion in Bali in several key markets, deserves review as a key component of the government's management of the crisis.

166. Bali is the "crown jewel" of Indonesia's tourism industry and the prospects for tourism in Bali directly relate to the future of the sector nationally. Bali acts as a gateway for tourists traveling to other destinations in Indonesia such as Lombok and Yogyakarta. Strategic decisions on how to develop the 'Indonesia tourism product,' reinvent the Bali brand, and support development with linkages to other destinations in Indonesia need to be taken that involve the development of new and attractive destinations matching the contemporary travel market. Over the medium-term, this will require the production of a new tourism strategy for Bali and other destinations in Indonesia through a multi-level (national, provincial, and district) and multi-stakeholder process (including broad public and other stakeholder participation). Associated activities should focus on spatial planning, environmental management, governance, support to local institutions, and communities so that they can benefit from

C. Recommendations for Measures to Maintain Social Welfare

14. ABD and World Bank, with support of the Netherlands government, decide with local and provincial government whether targeted school grants in the most affected areas (emerging from the recent schools survey) are needed.
15. The Ministry of Health and regional health authorities, with support from the ADB if required, should ensure effective mechanisms are in place for the distribution of health cards to eligible families and that health centers and hospitals have adequate funding for the treatment of patients presenting health cards.
16. Community grant provision through KDP, BUIP, and CRP should be better coordinated with government and targeted to those communities hardest hit by the crisis. These mechanisms should also be coordinated effectively with other recovery initiatives, where possible.
17. UNDP with possible support from ILO and other agencies (e.g. KDP, AusAID) should support a rapid labor market and job seeker assessment in cooperation with regional governments focused on key areas. This assessment should lead to concrete programs and incentives for job creation linked to small business development and local economic diversification, vocational training opportunities and institutions, labor intensive work programs and improved approaches for dealing with unemployment.
18. The Provincial Sub-Team on Socio-Economic Recovery should coordinate effectively with relevant donor projects.

tourism and other activities focused on culture and heritage.

Small and Medium Sized Businesses

167. Many small and medium-sized businesses in Bali are in need of support to ensure the survival of those with good long-term prospects. The government and donors should focus on immediate initiatives to support the financial situation of local businesses through debt restructuring and perhaps other fiscal measures, provide support with training for business management in a crisis situation, and support businesses in accessing new markets for existing products.

168. Debt restructuring has been completed for some Bali tourism and tourism-related industries, but the extent of the problem is much greater than the current capacity, especially for small businesses. Based on the work of the Jakarta Initiative Task Force and others, there is a need to (a) keep monitoring the situation, (b) facilitate debt restructuring negotiation mechanisms, (c) support businesses in simple financial planning, preparation of cash flows and other financial management skills to help debtors manage their businesses and negotiate realistic repayment terms with lenders, and (d) support financial institutions, especially small financial institutions such as BPRs and LPDs, in determining action (accept loss or improve collections), particularly over consumer loans.

169. Many companies and business actors advocate provision of subsidized credit as a response. While some businesses may benefit from having access to soft credit, given the

D. Recommendations for Maintaining Local Security and Managing Social Tensions

19. Government and other donors should support the provincial police by ensuring adequate equipment and operational budgets for enhancing security and the performance of the police in Bali. Donors could support the police in developing effective and professional community policing through the provision of police advisors.

20. Government and the donor community could develop area-based preventative responses in those sub-districts that are experiencing high levels of social tensions as a result of the crisis. These may include support to local institutions and community forums as well as programming to deal with the underlying causes of tensions such as unemployment and crime.

current economic uncertainty this may not be a sustainable intervention and may lead to greater financial difficulties for business during the crisis. This issue requires careful policy analysis, but the provision of credit through a Working Capital Injection Fund on a case-by-case basis where appropriate may provide important longer-term benefits.

170. Access to markets is considered to be the main problem facing small business affected by the crisis. These impacts are felt well beyond Bali and require enhanced efforts in marketing and trade promotion to support affected businesses. In particular, the effective provision of information, cooperation between provinces, and where appropriate, the use of information technology and the media can help to make promotion cost-effective. Regional governments and business associations should seek how to use Indonesia's overseas missions and trade promotion facilities in their marketing activities

Social Welfare

171. Social welfare impacts have increased since January 2003 and Bali is now truly experiencing the beginning of the predicted socio-economic crisis following the Kuta tragedy. Government and donors should now put in place targeted social safety net programs to assist those facing the greatest hardship as a result of the crisis. Social safety nets should, where possible, build on local community responses and avoid creating dependence, as for example with cash handouts. The main policy instruments available to donors will be school grants and community grants/credits.

172. Education and health are two key sectors for social protection interventions. Every effort should be made to ensure that children do not drop out of school and the quality of education does not decrease owing to the downturn of the tourism industry on Bali. Access to primary health care and hospitals needs to be maintained and the identification of those eligible to receive health cards should be conducted.

173. The quality and quantity of education in Bali continues to decline. Quantitative and qualitative monitoring is imperative in order to ascertain the exact degree to which schools are affected. A further survey should be fielded to capture the changes in school composition now that a new school year has begun.

174. Community grants provide an effective way of stimulating the local economy in crisis situations. Targeted grants in the education

sector could mitigate the impact of the crisis on schools, while maintaining enrolment rates. Donor projects providing community grants include the Kecamatan Development Project, the Community Recovery Programme, and a proposal submitted by BAPPEDA Bali to the central government for recovery in which a key part is the provision of community grants. At present, the provision of community grants has been limited due to a lack of operational mechanisms or funding. Enhanced dissemination of disbursement schedules should help inform the degree to which these programs are meeting the direct social impacts of the tourism slump on Bali.

175. Current information indicates that probably hundreds of thousands of people have experienced substantial reductions in working hours and salaries for a sustained period since the crisis began, while many others have lost jobs and livelihoods. Unemployment, and more importantly underemployment, is emerging as one of the key issues requiring response, and highlights the need for responses that include (a) support to employee / employer relations and mediation, (b) job creation, (c) support to job seekers / effective vocational skills / reskilling programs, and (d) linkages to SME development for entrepreneurs with new ideas and business concepts.[61]

[61] The AusAID Bali Rehabilitation Fund has supported a training needs assessment of Bali and Lombok that has suggested people in Bali identify few opportunities for work outside of tourism, although more wish to find work outside of the industry. Training without being linked to job opportunities and job creation will not be successful, rather training requires linkages to work placements, apprenticeships, and job creation in sectors outside of tourism.

Managing Socio-Economic Impacts and Social Tensions

176. Maintaining security and the management of social tensions as a result of the crisis are critical components of the overall response in Bali. Although the local community and *pecalang* are playing an important role in local neighborhood security, the key security actor in Bali is the police. Donors and government can support the police and others responsible for security by ensuring that improved security measures are implemented and made operational, policies to maintain standards of operation and professionalism are met, and that trust in the police is enhanced through community policing and other means.

177. Concern remains in some parts of Bali that the impacts of the crisis and social tensions may threaten local security. Much of this is related to problems of youth and unemployment, but the specific causes and context differ from place to place. A need remains to work with local stakeholders to formulate approaches and action to deal with the underlying causes of social tensions in these areas.

4.2 From Recovery to Sustainable Development and Growth

178. The future of tourism is much more uncertain following recent events in and outside of Indonesia, highlighting the inherent risk in the sector, and the industry as a whole. On top of this, Bali has faced a period of stagnation in the growth of tourism that requires strategic planning to support the longer-term agenda of revitalization of the island as a premier tourism destination. Rather than depending on tourism for the future, Bali further needs to diversify its economy, especially to support further growth and development in the districts where tourism

does not play a significant role in the economy. Small and medium-sized enterprises in Bali, East Java, Lombok, and beyond dependent on markets in Bali require support in order to reduce their dependence on tourist arrivals and create more sustainable local economies. Given the high degree of linkages between Bali, East Java and Lombok, cooperation between these areas in marketing products would potentially be more cost-effective.

E. Recommendations for Long-Term Economic Development in Bali

21. Donor support affected districts in consolidating information on regional economic potential and developing new economic development plans with a focus on the rural sector. With the cooperation of local universities and other stakeholders, there is a need to coordinate the production of long-term economic development strategies for districts in Bali and Lombok.
22. Government and donors should support the review of policies and procedures relating to investment and design incentives to attract smaller investors to Bali and Lombok.
23. Regional governments should use the results of this assessment and other information in consultation with local stakeholders and donor projects to develop operational revised strategies for sustainable economic development.

Long-Term Economic Development

179. Tourism is the mainstay of Bali's economy and has been concentrated in the south of the island. Bali needs to balance its future development strategy to (i) promote greater equity in the distribution of the benefits of tourism, (ii) develop an environment supportive of investment, (iii) support other sectors to mitigate against the inherent risks of the tourism sector and (iv) create effective rural development policies that benefit those not benefiting directly from tourism.

180. District governments in Bali have expressed the need for support in developing comprehensive economic development plans. In particular, the rural sector is highlighted as an area in need of support. Developing effective policies and programs for rural economic development will have significant impact on the regions poorest and help provide realistic opportunities to slow migration to urban areas.

181. Although Bali is currently in crisis, Bali has much potential for future investment. Foreign investors can assist in bringing in skills and experience that can support the development of added-value industries.

Small Businesses: Building a Strong Private Sector

182. Bali has emerged as the showroom for many Indonesian products. Yet with Indonesia facing increased competition from other countries for export markets, there is a long-term need for Bali, East Java, and Lombok to cultivate further innovation, competitiveness, and market development in order to reap more fruits from new sectors and move up the value chain. This will require a range of longer-term responses including (i)

F. Recommendations for Enhanced Coordination and Response Planning

24. UNDP and government disseminate the results of the assessment to national, provincial, and local stakeholders.
25. Government at central, provincial and district levels work together in undertaking a comprehensive but rapid planning process that includes consultation with local private sector and non-governmental stakeholders to define and target specific recovery responses. This process should be led by the Provincial Team for Socio-Economic Recovery in Bali, and donors can lend support to this process.
26. Government, UNDP and other donors work together to hold public meetings in Bali, East Java and Lombok on the findings of this report.
27. The use of private donations is better coordinated with donor and government responses in order that these resources are used effectively to respond to existing needs.

market analysis and product research and development, (ii) business development services, (iii) access to capital, (iv) trade promotion, (v) building of small business capacity and skills, and (vi) trade linkages and information.

183. Government and donors could (i) identify and strengthen economic clusters, village industries, SMEs and fair trade systems / networks, (ii) provide support for technical assistance for product design, innovation, production, marketing, management, and business strategy development, (iii) support education and vocational training from unskilled to skilled workers and support vocational training institutes, (iv) use information technology and multimedia tools to support, define, and win new markets, (v) make information and training available to small businesses and cooperatives on relevant appropriate technologies, (vi) consolidate information on economic potential providing easy access for small businesses, cooperatives and small investors. The IFC East Indonesia Small Business Facility, with an office in Denpasar, will play a key role in developing some of these approaches to building a strong private sector in particular fields, and should ensure that it effectively shares its experiences with other stakeholders.

4.3 Continued Monitoring and Donor Coordination

184. With the continuation of the crisis and the need to strengthen responses, continued monitoring, enhanced coordination and joint planning are required.

Coordination and Planning

185. A comprehensive and prioritized programmatic framework for Bali recovery responses is lacking. This assessment provides government at central, provincial and district levels an opportunity to work together to produce short-term crisis responses (e.g. through government crisis response mechanisms and donor support) and longer-term developmental responses (e.g. through the APBD/APBN).

G. Recommendations for Future Monitoring and Evaluation

28. ABD or the World Bank repeats the schools survey in November 2003 with implementation by Udayana university. Extension of this survey to other regions, including East Java should be integrated into a more general post-decentralization monitoring of schools.
29. World Bank repeat the key respondents survey in November 2003 with implementation by Udayana University.
30. IFC Bali Facility repeat the industry survey in November 2003 with implementation by Udayana University.
31. World Bank provide monitoring information through the KDP facilitator network in 47 kecamatans and a survey with implementation by Udayana University.
32. World Bank liaise with GTZ PROFI in the monitoring of local financial institutions.
33. Government and donors consider supporting a limited monitoring and evaluation mechanism that can feed back information on Bali recovery program constraints and effectiveness.

186. The coordination between donor support and government responses needs to be enhanced to avoid overlap of responses and to build synergy between responses. In addition, significant resources have been mobilized through private donations. There is a need for greater coordination between these private charitable initiatives and government/donor initiatives to ensure that funds raised lead to substantial benefits for those affected – both directly and indirectly - by the Kuta tragedy.

Monitoring and Evaluation

187. Monitoring and assessment activities need to be continued in light of the continuing crisis. Furthermore, an independent monitoring and evaluation system to provide feedback to government and donors on the implementation and effectiveness of responses needs to be established. Such a system would be beneficial over the next 12 months in providing a continuous evaluation of response mechanisms.

Annexes

Annex 1: Bali Tragedy Impacts Management Programme Initiated by Departments, Ministries, Non-Departmental Agencies and Local Government

NO	PROGRAMME	NATIONAL BUDGET (FY 2003)	REGIONAL BUDGET (FY 2003)	OUTSIDE NATIONAL BUDGET	TOTAL
A. Departments/Ministries/Non-Departmental Agencies					
1	Office of the Coordinating Minister for Political and Security Affairs			8,969,367,000	8,969,367,000
2	Office of the Minister for People's Welfare	40,000,000,000			40,000,000,000
3	Ministry of Transportation	2,400,000,000		122,000,000,000	124,400,000,000
4	Ministry of Home Affairs	3,650,000,000		46,500,000,000	50,150,000,000
5	Ministry of Finance	22,659,158,000			22,659,158,000
6	Ministry of Trade and Industry	2,005,386,000			2,005,386,000
7	Ministry of Health	69,472,770,040		48,369,000,000	117,841,770,040
8	Office of the State Minister for Cooperatives and SMEs			23,746,000,000	23,746,000,000
9	Ministry of National Education	260,214,450,000			260,214,450,000
10	Ministry for Resettlement and Regional Infrastructure	72,369,160,000			72,369,160,000
11	Culture and Tourism Development Board	180,000,000,000			180,000,000,000
12	Ministry of Foreign Affairs				
13	Ministry of Manpower				
14	Ministry of Energy and Mineral Resources				
15	Ministry of Religious Affairs				
16	National Development Planning Board (BAPPENAS)				
17	Office of the Minister for State Companies				
Sub-Total (National Government)		**652,770,924,040**		**249,584,367,000**	**902,355,291,040**
B. Local Government					
1	Bali Province	207,193,810,700	35,097,012,000	748,466,300,000	990,757,122,700
2	East Java Province	15,750,000,000			15,750,000,000
3	South Sulawesi Province	8,195,000,000	3,200,500,000		11,395,500,000
4	Central Java Province				
5	DI Yogyakarta Province				
6	NTB Province				
Sub-Total (Local Government)		**231,138,810,700**	**38,297,512,000**	**748,466,300,000**	**1,017,902,622,700**
Total (Government)		**883,909,734,740**	**38,297,512,000**	**998,050,667,000**	**1,920,257,913,740**

(Source: BAPPENAS, May 2003).

Annex 2: Bali Provincial Government Recovery Matrix for (A) Emergency, (B) Short-Term Recovery, (C) Medium-Term Recovery and (D) Long-Term Recovery.

A. Emergency Phase

	Action	Agency	When
Social Recovery			
1	Initiation and workshop for national and regional teams	Bappenas / Bappeda	4th week October 2002
2	Recovery of Image I: Roadshow, International Media and Events	M. Foreign Affairs, Bali Government, M. Culture & Tourism, BTB	November 2002 - January 2003
3	Recovery of Bali Tourism's Positive Image via Humanity Approach (prayers, victim-support)	Dep. Rel. Affairs, M. Foreign Affairs, Bali Government, M. Culture & Tourism, BTB	November 2002
4	Development of Tourist Packages	ASITA, PHRI, Airlines, Dinas Culture & Tourism	November 2002
5	Consolidation with Large Investors in Bali	KADIN, BTB, BTDC, Dep. BUDPAR, DIPARDA	November 2002
6	Increase Security and Services (police hotline, equipment, neighborhood security, residency system, tourist police, entry points)	Police, tourism and transportation agencies, local governments and community	November 2002
7	Clearance of bomb site and planning of a monument	Pemda Bali/ Dinas PU	November 2002
8	Assessment of Socio-Economic Impact (poor, SMEs etc.)	Institusi/Tim Koordinasi Pemulihan Kondisi Sosial Ekonomi Pasca Tragedi Kuta	November 2002 - January 2003
9	Incentives (airline fees and domestic tourism packages)	PT. Angkasa Pura, M. Culture & Tourism	
10	Hospital Services	Dinas Kesehatan	November 2002
11	Improving clean water system, roads, drainage and pavements	Dinas PU	December 2002
12	Food Security	Dinas Pertanian	October 2002
13	Reporting and Public Accountability of Bali Socio-economic recovery	Institusi / Tim koordinasi Pemulihan Kondisi social Ekonomi Pasca Tragedi Kuta	January 2003

B. Short-Term Recovery

	Action	Agency	When
B1. Social Recovery			
1	Implement community-based socio-economic development programmes for the poor via desa adat (KDP, CBD etc.)	Institusi / Coordinating Team for Bali Recovery	February - April 2003
2	Basic Social Services for the Poor and Victims (Health and Education)	Dinas Kesehatan	February-April 2003
3	Develop Public Socio-Economic Infrastructure at Bomb Site in Kuta-Legian (clean water, drains, roads, housing)	Dinas PU	February - April 2003
4	Institutionalise Inter-faith Forums at village, sub-district, district and provincial levels to strengthen grass-roots social cohesion	Biro Tata Pem Balimas	April 2003
5	Regulation and security at entry points into Bali	Police, local governments	February - April 2003
6	Development of social welfare (support for victims)	Dinas Sosial	
7	Business development and support to SMEs	Dinas Kop, PK&M	2003
8	Credit for cooperatives including from fuel subsidy	Dinas Kop. PK&M	2003
9	Empowerment of human resources and institutional strengthening of cooperatives and SMEs	Dinas Kop, PK&M	2003
B2. Peaceful Bali Campaign			
1	Recovery of Image II: Roadshow, International Media and Events	M. Foreign Affairs, Bali gov., M. Cult/Tour, BTB	February-April 2003
2	Reporting and Public Accountability of Bali Socio-economic recovery	Institusi / Coordinating Team for Bali Recovery	April 2003
B3. Economic Recovery			
1	Restructuring credit of SMEs	Coordinating Team for Bali Recovery	February - April 2003
2	Supporting business through subsidised credit, tax breaks etc.	Coordinating Team for Bali Recovery	February - April 2003
3	Programme to facilitate the intensification and diversification of SMEs in job creation, production skills, marketing, credit, trading house	Coordinating Team for Bali Recovery	February - April 2003
4	National and local economic policy that is conducive to economic recovery	Coordinating Team for Bali Recovery	February - April 2003
5	Develop international airline routes	Merpati Nusantara	
6	Develop fisheries agribusiness, management and development of marine resources and fisheries	Dinas Perikanan	2003
7	Livestock assistance to the community	Dinas Pertenakan	2003
8	Development of food security (food security, agribusiness, horticulture, empower agricultural extension workers)	Dinas Pertanian	2003
9	Develop plantation agribusiness (credit, development, management, marketing, infrastructure)	Dinas Perkebunan	2003
10	Technical services in productive fields	Dinas Perindag	2003
11	Technical service and domestic and foreign trade promotion	Dinas Perindag	2003

C. Medium-Term Recovery

	Action	Agency	When
C1. Social Recovery			
1	Reorientate regional development programmes to be pro-poor	Coordinating Team for Bali Recovery and DPRD	2003
2	Implement community-based socio-economic development programmes for the poor via desa adat (KDP, CBD etc.)	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
3	Basic Social Services for the Poor and Victims (Health and Education)	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
4	Develop Public Socio-Economic Infrastructure at Bomb Site in Kuta-Legian (clean water, drains, roads, housing)		2003 - 2005
5	Institutionalise Inter-faith Forums at village, sub-district, district and provincial levels to strengthen grass-roots social cohesion	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
6	Normalise regulation and security at ports of entry	Polda Bali, Pemda Bali	2003 - 2005
7	Improve services and security (insurance for tourist sector workers, airport security, signage)		
C2. Peaceful Bali Campaign			
1	Recovery of Image III: Roadshow, International Media and Events	Institusi / Coordinating Team for Bali Recovery; Diparda	2003 - 2005
2	Reporting and Public Accountability of Bali Socio-economic recovery / Good Governance	Coordinating Team for Bali Recovery	2003 - 2005
3	Community education and enhancing the National Discipline Movement	Polri, Instansi terkait, Industri Par	
C3. Economic Recovery			
1	Restructuring credit of SMEs	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
2	Supporting business through subsidised credit, tax breaks etc.	Institusi / Coordinating Team for Bali Recovery	2003 -2005
3	Programme to facilitate the intensification and diversification of SMEs in job creation, production skills, maketing, credit, trading house	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
4	National and local economic policy that is conducive to economic recovery	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
5	Program pengembangan Pariwisata Bali yang berwawasan lingkungan dan pro poor growth	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
6	Develop 'Wisata Bahari' (development of Benoa port and marina)	Pemda Bali, Pelindo, Dephub, Gahawisri	
7	Programme for strengthening non-tourist sectors of the economy	Institusi / Coordinating Team for Bali Recovery	2003 - 2005
8	Financial Incentives (reduced tariffs, tax reforms etc.)	PT. PLN, Meneg BUMN, Dep.Keu	
9	Marketing and Public Relations (professional company hired to undertake PR, security; tour operators invited; film made; PATA conference; ASEAN cooperation; charity night with int.artists)	Pata Annual Conf. Host Committee, Kementerian & BP Budpar, Pemda Bali, BTB, Tourism Associations	2003
10	Promote domestic tourist packages	BP Budpar, BTB, Industri Par, Asosiasi Par, Pemda Bali	

D. Long-Term Recovery

	Action	Agency	When
D1. Social Recovery			
1	Organise Scenario planning for Future Bali	Tim Koordinasi Pemulihan Kondisi sosial ekonomi Pasca Tragedi Kuta dan DPRD	2004 - 2005
2	Institutionalise Inter-faith Forums at village, sub-district, district and provincial levels to strengthen grass-roots social cohesion	Institusi /Tim Koordinasi Pemulihan Kondisi sosial Ekonomi Pasca Tragedi Kuta	2003
3	Improve services and security (insurance for tourist sector workers, emergency health facilities in tourist areas, immigration services, airport security, signage etc.)	Tourism Associations, Depkes, Ditjen Imigrasi maskapai Penerbangan, Dephub, PT. Angkasa Pura, maskapai Penerbangan, Dep Kimpraswil, Pemda Bali, Kabupaten /Kota	
D2. Diplomacy for Peaceful Bali			
1	Establish a body for promoting Bali	Institusi / tim Koordinasi Pemulihan Kondisi sosial ekonomi Pasca Tragedi Kuta	2005
2	Reporting and Public Accountability of Bali Socio-economic recovery / Good Governance	Institusi / tim Koordinasi Pemulihan Kondisi sosial Ekonomi pasca Tragedi Kuta	2003 – 2005
D3. Economic Recovery			
1	Programme to facilitate the intensification and diversification of SMEs in job creation, production skills, marketing, credit, trading house	Institusi / Tim Koordinasi Pemulihan Kondisi sosial Ekonomi Pasca Tragedi Kuta	2003
2	National and local economic policy that is conducive to economic recovery	Institusi / Tim Koordinasi Pemulihan Kondisi Sosial Ekonomi pasca Tragedi Kuta	2005
3	Development of Tourism Development Programme emphasizing environmental protection and pro-poor growth	Institusi / Tim Koordinasi Pemulihan Kondisi sosial Ekonomi Pasca Tragedi Kuta	2005
4	Programme for strengthening non-tourist sectors of the economy	Institusi / Tim Koordinasi Pemulihan Kondisi Sosial Ekonomi Pasca Tragedi Kuta	2005
5	International Media Campaign	BP Budpar, BTB	
6	Building of a Monument for the Bali Tragedy	Dep. Kimpraswil, Pemda Bali	
7	Community education and enhancing the National Discipline Movement (Tourism Awareness at the village level, training on development of non-tourism products)	Instansi terkait Industri Par, LSM, Deperindag, Dept. pertanian, Dep. kelautan & Perikanan, Instansi terkait	

Annex 3: Responses to the Crisis in Bali from District Governments. These are based on meetings with all district governments held by UNDP in June 2003, and represent the responses highlighted by officials in these meetings.

District	Response	Future Plans and Needs
Denpasar	• Hotels given three-month grace period for tax (PHR) payments from October 2002. • Urged hotels to avoid staff redundancies and held meetings with union and hotel associations. • Provision of training for those without work. • Regulation of residency undertaken in cooperation with Village Head Forum and Traditional Leaders Forum. • Establishment of Board for Security Coordination in Sanur. • Free treatment in health centres for all residents.	• Increased community-level security. • Revolving funds for industries which provide wide employment opportunities.
Badung	• Hotels given three-month grace period for tax (PHR) payments from October 2002. • Distribution of PHR to other districts (except Gianyar and Denpasar) reduced from 30% to 22%. • Provision of training for those without work. • Identification of work experience placements for those without work • Regulation of residency.	• Maintain and increase security measures. • Short-term support to (i) develop rural economies, (ii) enhance SDM, (iii) increase small-scale investment. • Longer-term TA support to develop master plan for economic development.
Gianyar	• Tourism promotion with local travel agents focusing on domestic tourists • Handicrafts promotion. • Regulation of residency and return of people without identity cards.	• Support for rapid impact economic responses. • Assistance for security facilities. • Support for development and planning of tourism. • TA to support the development of strategies to overcome the crisis.
Klungkung	• Provide training for the unemployed people and crating new field of worked. • Disbursing micro credit loan throughout the community by desa adat (traditional village) scheme. • Regulation of residency.	• Support for strengthened security measures; social programmes. • Longer-term TA support to develop master plan for economic development. • Increased community-level security.

District	Response	Future Plans and Needs
Bangli	• Handicraft promotion activities undertaken but with limited impact. • Provision of training for those without work.	• Support for strengthened security measures; social programmes. • TA for development of region's economic potential. • Business development assistance.
Tabanan	• Reduction in government budget of about 10% limiting response. • Promotion of overseas employment opportunities/TKI (e.g. South Korea). • Work programmes (Padat Karya) initiated in four villages. • Local economic support in several sub-districts including assistance in form of livestock, capital and machinery. • Credit to farmers in support of food security in 8 sub-districts. • Pilot project in Kediri subdistrict of formation of village enterprise (BUMDES). • Establishment of village market in 1 sub-district. • Revolving credit for home improvements for poor families.	• Maintenance of security through TA and equipment. • Support in the establishment of community-based industries that provide wide employment opportunities. • TA to support strategies in economic development following the October bombings.
Jembrana	• Promotion activities undertaken. • Art Market being established. • Rp. 15 billion for poverty programmes including revolving credit. • Training for overseas workers TKI. • Formation of Inter-faith Forum, coordination with police and promoting conflict prevention.	• TA to develop tourism development plan in Jembrana. • TA and extension services for small businesses.
Karangasem	• Security and identity card checked at entrance door for Padangbai harbor. • Collecting and identify of changes compositon of number PRA KS (poor family) as impact of Bom tragedy. • Revolving credit for home improvements for poor families.	• Work programmes linked to the development of roads to reach isolated villages. • TA to support the development of an economic development plan for the district.
Buleleng	• Tourism promotion program by following national or international art event. • Work programmes (Padat Karya) initiated in four villages. • Revolving fund for informal sector, i.e. traditional market vendor, farmer. • Increasing district budget allocation for promotion of tourism and handicrafts.	• TA to develop tourism development plan in Singaraja. • TA to support the development of an economic development plan for the district. • Support for facilitating coordination and among district and provincia level.