TRAVAIL, capital et société 42:1&2 (2009)

Réduction de la pauvreté en Indonésie : une croissance favorable aux pauvres exige plus que de bonnes institutions

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Résumé

L'Indonésie offre un sérieux point de référence aux débats sur la politique contemporaine de réduction de la pauvreté de la Banque mondiale. Une lecture particulière du passé indonésien colore une importante partie de la philosophie de « croissance favorable aux pauvres » de la Banque. La crise asiatique et la chute du nouvel ordre de Suharto ont également fourni une ouverture significative au chercheurs de la Banque, leur permettant d'influencer la politique d'après-crise dans l'Indonésie actuelle. Le pays inaugure certaines des approches les plus innovatrices de la Banque, notamment le Projet de développement Kecamatan (un système qui fournit de très grosses sommes tout en situant les structures décisionnelles au niveau des villages). L'expérience indonésienne sert ici de base à un examen critique des objectifs du consensus post-Washington et de certaines critiques qui en sont faites. L'objectif de développement « apolitique » de la Banque continue d'écarter de manière problématique les problèmes cruciaux du projet de développement – particulièrement ceux qui touchent aux tentatives gouvernementales d'influencer l'allocation de capital de manière à générer une croissance plus universelle. Certains des changements encouragés par la Banque pourraient-ils être radicalisés de façon à pointer dans une direction plus progressive? L'article explore des stratégies politiques possibles, suggérées par l'expérience indonésienne, qui permettraient de capitaliser sur l'élargissement de l'objectif d'aide représenté par le consensus post-Washington.

LABOUR, Capital and Society 42:1&2 (2009)

Poverty Reduction in Indonesia: Why Pro-Poor Growth Requires more than 'Getting Institutions Right'

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Abstract

Indonesia provides a key reference point for debates about contemporary World Bank poverty policy. A particular reading of Indonesia's past informs an important part of the Bank's thinking on 'pro-poor growth'. The Asian crisis and the fall of Suharto's New Order have also provided a very significant opening for Bank researchers to shape post-crisis policy in Indonesia's present. Indonesia is pioneering some of the Bank's more innovative recent approaches, notably the Kecamatan Development Project (a system for disbursing very large-scale funds through village-level decision-making structures). This paper uses a review of the Indonesian experience to inform a critical engagement with the post-Washington Consensus agenda and some of its critics. It will argue that the Bank's 'apolitical' development agenda continues to keep central issues off the development agenda in ways that are problematic – particularly questions about government attempts to influence the allocation of capital in ways that might generate more inclusive growth. However, the paper also asks whether some of the changes promoted by the Bank may also be radicalised in ways that might point in a more progressive direction and explore some possible political strategies, suggested by the Indonesian experience, to capitalise on the broadening of the aid agenda that the post-Washington Consensus represents.

Introduction

The World Bank's new thinking on poverty, embodied in the Poverty Reduction Strategy Paper (PRSP) process, initially appeared to be an improvement on the structural adjustment programs of the 1980s. It acknowledged a broader role for the state and actively encouraged more participatory politics, while an explicit focus on poverty promised protected or even increased social spending in Bank programs. However, there is a growing consensus amongst both mainstream and critical analysts that results have thus far been disappointing. Certainly, in Indonesia, the wide-ranging liberal reforms that took place following the Asian crisis have done little for the Indonesian poor.

Many critical authors have explained these difficulties by arguing that the new agenda includes strong continuities with traditional structural adjustment policies. They suggest that we should see the Bank's poverty agenda either as a more sophisticated and softer version of neoliberalism designed to provide legitimation and institutional embedding for the old agenda (for example Craig and Porter, 2005; Weber, 2006, and Ruckert, 2009), or as a deepening of little-modified neoliberalism (Cammack, 2009). While I accept the critical argument that Bank policy continues to be primarily concerned with promoting capitalism, I am uneasy about ascribing a sophisticated 'logic' to Bank policy (as does Cammack, 2009), if that implies seeing the Bank as a unified institution with a coherent and politically sophisticated strategy. My reading of the Bank's gradual shift from the Washington Consensus to a post-Washington Consensus involves a more reactive and haphazard process of sometimes politically naive adaptation in the face of external pressure and internal division.

This paper uses Bank publications on Indonesia and the politics of post-Asian crisis reforms to paint a picture of the PRSP agenda as unsatisfactory for the Bank, for domestic and international capital, and for the poor. I argue that one reason for disappointing outcomes in Indonesia is the conception of politics implied by the PRSP approach. The focus on 'participation' in PRSP documents envisages relationships between the Executive and 'civil society', with very little discussion of how this is expected to fit with elected legislatures. This encourages a vision of the poor as 'an interest group' which is given voice primarily by development NGOs in the narrowly defined context of the formation and evaluation of a national poverty strategy or in local level participatory planning processes. Mainstream NGOs have argued, forcefully, that this voice has been more narrowly circumscribed in the PRSP process than the Bank had promised. The core macro-economic framework is decided by the Bank or IMF and 'participatory' input is on much more marginal issues of the delivery of previously determined social expenditure (Oxfam, 2004).

While this is undoubtedly true, a more fundamental issue concerns the reasons why the PRSP process has had so little impact. The interest group-consultation vision of politics involved opens some (limited) space to articulate the interests of the poor, but it does little to increase their political power. The poor will remain a politically isolated voice unless an agenda for poverty reduction can be built that creates alliances with a broader range of political actors capable of real political leverage. The Bank is obviously partly responsible for the shape the PRSP has taken but some blame must also attach to strategies adopted by some mainstream international NGOs, who drove the focus on participation during negotiations surrounding the creation of the revised Highly Indebted Poor Countries initiative (HIPC II),[2] and by development NGOs in Indonesia who have an overly technocratic approach to promoting a more pro-poor agenda in the post-crisis period.

Finally, I argue that Bank interventions have not done a good job of promoting an environment that is attractive to international capital, as evidenced by low investment and growth rates since the Asian crisis. Bank supported interventions undermined the political patronage that had guaranteed investors' interests in the pre-crisis period but failed in their attempt to replace such guarantees with legally protected property rights, resulting in an insecure environment for both domestic and international capital. The Bank appears to have assumed that 'rational' institutions would automatically receive political support, since they would benefit 'markets' in general, rather than narrow vested interests. In this respect, the Bank's political vision seems deeply contradictory, on the one hand wanting 'participation' in the hope that the public will support what it sees as 'rational' policies and 'best practices' and, on the other, trying to circumscribe participation in case it develops into a political challenge to the Bank's agenda. This naive or incoherent political vision has contributed to failures in the Bank's attempts to promote capitalism in Indonesia.

The Bank's failure to produce poverty reduction or an attractive investment environment means that there are vulnerabilities to the current political regime in Indonesia. It is unlikely that the Bank will have successfully institutionalised and legitimated a strongly pro-capitalist regime. That leaves open some potential space to press for further political change that might produce more pro-poor outcomes. I suggest that Indonesia's past suggests that some kind of coalition around industrial policy, designed to create further growth in manufacturing may provide potential for at least marginally better outcomes for the poor.

Misunderstanding Indonesia's Past

In this section, I explore some of the intellectual and political roots of Bank policy in Indonesia and the PRSP process more generally. Although Indonesia is not eligible for the World Bank's concessional lending facilities or for Heavily Indebted Poor Country (HIPC) debt relief, features of the Bank's vision of pro-poor growth borrow significantly from its reading of Indonesian development.[3] Additionally, the PRSP process was formulated in the immediate aftermath of the Asian crisis. Political reactions to IMF and World Bank policies during the Asian crisis influenced PRSP debates and the PRSP approach went on to influence Bank policy towards Indonesia as it evolved in the later post-crisis period.

Rather than imputing a particular logic to current Bank policy, I trace some of the evolution of Bank thinking. I show that the Bank's new agenda was not developed internally and in isolation but was strongly influenced by political pressure from external actors, particularly international NGO groups. My aim is to demonstrate that the Bank does display some political vulnerabilities - that the attempts at legitimation embodied in the post- Washington Consensus agenda are a sign of weakness, rather than strength. I argue that the Bank's view of Indonesian political economy remains problematic and unsophisticated in ways that have undermined its attempts to create a system of political economy that is friendlier to international capital. I also suggest that aspects of international NGO pressure and Indonesian reactions to Bank policy have also been driven by problematic understandings of politics in ways that have perhaps not made the most of the opportunities provided by the kinds of political weakness that drove Bank adaptation in the late 1990s. I conclude the section with an alternative view of the roots of growth and poverty reduction during the 1970s and 1980s that presents a more holistic picture of the political coalitions involved in shaping the Indonesian political economy.

The groundwork for the PRSP process was laid over a long period of gradual change in Bank views as the economic failings of the orthodox structural adjustment policies of the 1980s created external political pressure and internal intellectual change. Intellectually, the Bank's perspective on Indonesia was particularly important in building bridges between Bank and mainstream NGO concerns to create a (broadly) mutually acceptable post-Washington Consensus discourse in the late 1990s. The Southeast Asian countries had provided valuable ammunition to the Bank and neoliberal ideology when it was thought that successful Asian development was driven purely by sound macroeconomic policy and export orientation (Little et al. 1970; Krueger, 1985). However, this view came under pressure from the revisionist literature on the Northeast Asian developmental states (Amsden, 1990; Bienefeld, 1989; Wade, 1990), ultimately resulting in the Bank's *East Asian Miracle* report (World Bank, 1993).

The Asian experience forced the Bank to acknowledge that the structural adjustment agenda had paid too little attention to the role of strong state institutions and that investment in human capital (health and education spending) was an important part of East Asian success (World Bank, 1993). However, the most subversive part of the revisionist literature was its insistence that the state, rather than the market, had directed investment by deliberately 'getting the prices wrong'. Southeast Asia provided a defence for the Bank as, although the Northeast Asian evidence did point to effective industrial policy, in countries like Indonesia industrial policy was more problematic, with foreign direct investment playing a larger role in promoting growth (World Bank, 1993; Wade, 1996). Nevertheless, there is still evidence that even Indonesia's industrial policy produced a swifter transition to manufacturing than it would have by following comparative advantage (Rock, 1999; Jomo, 1997) but the fact that state intervention was also more obviously connected with patronage and waste than in other countries in the region made Indonesia an attractive choice to support Bank rhetoric about sound macroeconomic policy and the importance of FDI. By the time the Asian crisis struck in 1997, the Bank was already drifting towards a post-Washington Consensus agenda which added a greater emphasis on good governance and fiscally responsible, targeted social spending to the narrower focus of neoliberal reforms promoted throughout the 1980s. However, the

Bank remained unwilling to contemplate industrial policy as a means towards achieving sustainable economic growth (World Bank, 1997).

In the aftermath of the Asian crisis, the new focus on governance was helpful to the Bank in explaining why a country that it had previously praised should find itself in such difficulties. During the early 1990s, the Bank had tended to credit what is saw as the good aspects of Indonesian policy to a small group of 'technocrats' inside Bank Indonesia (the Central Bank) and BAPPENAS (the Indonesian Planning Ministry).[4] In the aftermath of the Asian crisis, though, the Bank argued that 'good policy' needed to have broader institutional roots. Far greater emphasis was placed on corruption as a source of Indonesian economic weakness and on institutionally entrenched legal rights as the solution. Hence, Bank and IMF post-crisis reforms concentrated on wide-ranging institutional reforms and the removal of patronage-influenced rents (World Bank, 1999; World Bank, 2006).

This gradual intellectual conversion within the Bank during the early 1990s was taking place against a background of considerable external political pressure and NGO lobbying. In the late 1990s, this pressure had built to the point where it became an important influence on shaping the post-Washington Consensus agenda, particularly through the Jubilee 2000 and drop the debt campaigns. Changes in US and UK positions were particularly important in driving forward the new 'poverty' agenda within the Bretton Woods Institutions (Callaghy, 2004; Dixon and Williams, 2001). The international politics of reform revolved around attempts by the British and American centre-left to maintain consensus on Third Way politics in the face of growing anti-globalisation protests and increasing NGO opposition in the late 1990s.[5] In the US, where debates about the Bretton Woods twins were most public, the Clinton Administration came under attack from the left and right wings of Congress over the size of the Asian bailouts and a perceived lack of transparency and accountability at the IMF and Bank.[6] Left-wing critics were torn between a desire to abolish the IMF altogether and a view that if Bank and Fund conditionality was a reality, conditionality should be 'positive', encouraging good governance, participation and social spending.[7] Left-wing Congressional arguments around IMF funding drew on ideas that had come from a longer program of international development NGO lobbying on low-income country lending and the HIPC debt relief campaign. This NGO-promoted approach filtered into debate about what Fund and Bank programs in Asia should look like and into subsequent debate about reforming lending in the context of HIPC II. These views also had some support from elements within the Bank that had previously worked with large internationally active development NGOs.[8] Inside the Bank, the creation of a more socially embedded neoliberalism was partly a response to political pressure, rather than a carefully designed pre-emptive strategy. NGO influence was important in changing Bank policy and there was some genuine agreement between the Bank and international NGOs at the level of broad goals (Callaghy, 2004). 'Governance' provides an important bridge as we can see from the expected outcomes of post-crisis reform in Indonesia, with both international NGOs and the Bank hoping that 'participatory' political processes might enhance the prospects of 'good governance'; though, it also became clear over time that both had different ideas about what exactly good governance processes would look like (Thirkell-White, 2003).

Publicly at least, the Bank hoped that political liberalisation in Indonesia would create greater accountability and transparency so that foreign investors would encounter a level playing-field, rather than the capricious corruption of the Suharto regime, which excluded them from some areas of business and forced them into problematic alliances in others.[9] Most NGO groups were keen to see attacks on Suharto's authoritarianism and corruption and also hoped that the participatory aspects of the Bank's agenda (and, of course, the transition to democracy) would provide new voice for the Indonesian poor. The Bank's view was based on a perspective which attributed Indonesia's past growth to 'sound' macroeconomic policies pursued by a few 'technocrats' inside Bank Indonesia and BAPPENAS. 'Indonesia's poverty strategy was designed and implemented by highly skilled economic planners outside the political sphere, but at the direct urging of President Suharto' (World Bank, 2006: 7). The technocrats oversaw macro-economic stability, pursued repeated exchange rate devaluations and encouraged economic liberalisation, which paved the way for foreign direct investment in relatively labour-intensive export production, driving growth and poverty reduction from the late 1980s onwards. These technocrats also had a genuine interest in pro-poor policy and had helped to promote high-levels of expenditure in rural areas during the 1970s (Timmer, 2006; Azis, 1993; World Bank, 1999). Suharto had at times supported these endeavours but had also subverted them through patronage politics which had become a growing problem in the run up to the crisis. Political reform would institutionalise universal rules and provide broader ‘checks and balances’, allowing Indonesia to return to a better institutionalised version of the technocratically driven aspects of New Order policy, which the Bank credited with creating the strong growth of the post-1965 era (World Bank, 1999 and 2006).

For many Indonesian NGOs and large segments of public opinion, expectations were not all that different. Many felt that removing the corrupt oligarchy would make space for an expansion of social policy. Concerns about Fund and Bank ‘neoliberalism’ revolved around worries that redistributive social spending would be too low.[10] In the Indonesian context, economic liberalisation in the 1980s and 1990s had produced widening inequalities and high profile corruption but it had not come with the destruction of domestic business that was experienced with the removal of import substitution industrialization (ISI) policies in Latin America, for example, or with sharp cuts in public spending.[11] A combination of this quite different economic experience and heavy suppression of political organisations, and particularly organisations on the left, has shaped Indonesian civil society. The more political groupings were often focused on democracy as the most pressing political issue, with economic programs as something that might be more fully worked out later. Development NGOs tended to be foreign funded and technocratic, rather than grassroots political organisations.[12]

Whilst the Bank and the Indonesian opposition had quite different priorities, they both seem to have been operating on the basis of poorly developed political strategies, built partly on overly narrow understandings of the ways in which their goals had been partially achieved in Indonesia’s past. The Bank’s vision of pre-crisis politics tends to separate ‘good’ (technocratic) policy from ‘bad’ vested interests. Its hope for future reform was that ‘good’ (neoliberal) policies could be re-established and more deeply institutionalised through wide-ranging liberal institutional reforms (new forms of economic regulation and new public management style reforms in the civil service) and carefully managed increases in political openness. A more accurate vision of Indonesia's past, though, would see the 'good' and 'bad policies as part of the same historical conjuncture. 'Bad' vested interests (the Indonesian conglomerates with close connections to the Suharto regime) were an important force in shaping FDI and the form that economic liberalisation took in the 1980s. This incoherence in Bank thinking left it with little by way of a viable strategy for achieving its reform goals in the post-crisis period because it paid too little attention to the on-going power of Indonesian business, which had little to gain from the reform process.

Equally, segments of the Indonesian opposition that were poverty-focused (particularly the Indonesian NGO movement) seem to have had a narrow vision of how to promote the interests of the poor that paid too much attention to gaining voice for the poor to address short-term issues related to rural livelihoods. Here again, Indonesia's past success at improving rural livelihoods suggests that a narrow focus on the poor alone will not lead to viable political strategies for reducing poverty over the medium-term. Indonesia's past success in reducing agricultural poverty built on more wide-ranging and complex alliances with a significant place for national capital, rather than simply 'the poor'. Any successful pro-poor coalition in Indonesia's future will also need to include alliances with wealthier and more powerful actors.

I now turn to an alternative account of these key aspects of Indonesia's past development to illustrate some of the political alliances that actually shaped Indonesian political economy. The success of Indonesian Foreign Direct Investment (in terms of promoting growth and expanding employment) was partly facilitated by the adventures in economic nationalism that the Bank condemned. Regardless of whether one accepts arguments about the economic groundwork laid by nationalism (Rock, 1999), nationalist policy created important political tolerance for foreign investment. The early laissez-faire attitude to foreign direct investment in Indonesia in the late 1960s produced significant political unrest as market-seeking FDI displaced Indonesian businesses. A combination of political unrest and rising oil revenues facilitated a more nationalist turn, involving adventures in state-owned industry and some attempts to restrict areas of the economy for domestic investment (Robison, 1986; Winters, 1996). Some of the state-owned industry was economically disastrous but attempts to protect small-scale domestic business from FDI led to the promotion of labour-intensive export-oriented investment (rather than just *any* foreign business) in ways that turned out to ensure inward investment would create broad-based growth (Rock, 1999).

If FDI was successful because of unacknowledged political factors, the problems that emerged from liberalisation are also better understood on the basis of political economy. Indonesian economic liberalisation in the 1980s is often seen by orthodox commentators as a rational technocratic moment in which economic pressures provided momentum for reforms that reduced the government's role in the economy and undermined opportunities for corruption (Hill, 1996). However, this underestimates the extent to which politically connected big business, which had profited from spin-offs around the edges of state-driven industrialisation during the 1970s, now wanted to break free from aspects of state control, while at the same time maintaining political protection and assistance. Privatisation and contracting out of infrastructure projects produced new opportunities for big domestic business and financial liberalisation opened up lucrative sources of overseas funding – particularly the potential to 'capture' the domestic private banking system, manipulate the Jakarta Stock Exchange, and use political connections as implicit guarantees for foreign investment (Robison, 1997). With the benefit of hindsight, liberalising reforms in the financial sector may actually have undermined government control over business concentration,[13] particularly in an environment in which foreign investors were happy to invest in companies with strong political protection that compensated for weak property rights (Pincus and Ramli, 1998; Robison and Hadiz, 2004). Here again, benefits for domestic business were a *quid pro quo* for further liberalisation of the inward investment regime, which helped boost labour intensive export manufacturing.

Similarly, neither the influence of expert technocrats with the ear of Suharto, nor a democratic commitment to listen to the voices of the poor can explain agricultural spending in the 1970s. The rural sector was appealing to the technocrats as a potential area of comparative advantage but it was also a key potential source of export revenues to help fund investment in industry and a key potential political weakness (MacIntyre, 1993). Suharto's concern for agriculture may have been partly due to a tendency to identify with his rural roots but was also driven by his desire to consolidate his rural political base, given the history of communist organisation in the Indonesian countryside (Schwarz, 1999). At the same time, rural poverty reduction was not simply driven by supply-side improvements to agricultural productivity, or the attempt to connect rural areas to urban markets through reasonable infrastructure provision. It was also secured by increases in demand, created through strong domestic employment growth, which increased the prices for rural commodities and helped to reduce population pressure on rural resources as migration to the cities took off (Timmer, 2006). Growth in agricultural productivity and the suppression of labour activism in the industrial sector created a relatively gradual transition between the two sectors (without the kind of problematic mass migration, driven by poor rural conditions and highly unionised labour that took place in parts of Latin America).

Political strategies in Indonesia on the part of both the Bank and domestic political opposition arguably build on flawed interpretations of the past. As suggested earlier, it is actually very difficult to separate the ‘good’ and the ‘bad’ elements of Indonesian political economy. One might argue that promoting economic growth was important precisely because Indonesia was presided over by a weakly legitimate authoritarian regime that spent much of its time securing power through patronage-related pacts with military and business leaders. The Suharto era state was a problematic developmental state, with far higher levels of corruption than its Northeast Asian counterparts. Nonetheless, producing broad-based economic growth was vital to its survival. The creation of labour-intensive manufacturing, which was central to poverty reduction efforts, was not simply a technical strategy but part of a complex bargain with domestic corporate elites, the price for which was some level of economic nationalism, tinged with significant corruption.

Liberalisation in the 1980s represented a retreat of the state from economic planning, in ways that removed some opportunities for patronage but also some levers of state control (Pincus and Ramli, 1998). It provided new forms of state-business interaction as the state became a provider of contracts and sometimes rent-related protection and a guarantor of inward-investment (Robison, 1997; Robison and Hadiz, 2004). At the same time, the threat of popular rural rebellion receded and export agriculture became a less important part of national revenue, reducing the pressure for rural spending. Inequality began to grow during this period as state-business relationships became more complex and important and the state's ability to discipline capital into investing in labour-intensive export production declined.[14]

In this light, the post-crisis strategies of democratisation and reform to corporate governance legislation as ways to re-start investment and stimulate pro-poor spending look more problematic. They do not seem to embody a strategy for winning political support for poverty reduction or the creation of a liberal regulatory framework foreign investors could identify with. The poor do form an important part of the potential electorate in Indonesia but relatively pure distributional transfers, particularly if they are tightly targeted on the very poor, may have a more limited electoral appeal than policies that encourage expanding urban employment (Gelbach and Pritchett, 2002). Similarly, creating a highly competitive market economy will require significant engineering to overcome resistance from large rent-seeking businesses. The pre-crisis experience suggests foreign business is not immune from the impulse towards profiting from rent-seeking, monopoly and capital intensive resource extraction.

For more significant change, an alternative political coalition needs to be built with something very positive to gain from an alternative vision of political economy, to compensate it for a hard fought political struggle. More controversially, I would argue that only a state that is capable of disciplining business will impose the kinds of incentives that are required to promote investment in labour-intensive manufacturing growth, rather than resource or rent-seeking activity. If I am right, that requires a state with a strong political basis outside traditional business elites, or a strategy that incorporates those elites into an active development program.

Creating change therefore requires a holistic, political approach that looks at a range of possible policies and a range of plausible political coalitions and does its best to thrash together some kind of imperfect, viable program. Although the Indonesian experience of the 1970s and 1980s was far from perfect, it did embody a cohesive vision of politics that was capable of delivering for poor and rich (if rather more for the latter than the former). It is this kind of pragmatic political thinking that is missing from Indonesian politics, and a meeting of World Bank staff with poverty-oriented NGOs, in a participatory policy-making setting outside the formal political process (the PRSP model) is unlikely to produce it. The results of liberal political reform and an admittedly somewhat half-hearted attempt at participatory poverty planning in Indonesia have produced neither a genuinely pro-poor politics, nor an institutionally well-organised free-market paradise for foreign investors (Thirkell-White, 2007).

Indonesia's Present as a Test of the Bank's Poverty Strategy

The Bank's agenda for post-crisis Indonesia was one of political liberalisation and institutional reform, in an effort to re-establish the business-friendly environment that had existed in the 1980s, before corruption began to get out of hand. Something of a political vacuum around economic policy in post-crisis Indonesia gave the IFIs (and other donor consultants) a great deal of influence (Hamilton-Hart, 2006), and successive governments made significant efforts to implement the demanding reform agenda that had been articulated during the crisis. Despite Indonesia's relatively good resource base, infrastructure and bureaucratic competence (at least relative to many of the HIPC countries), the results have been disappointing. Performance on investment, growth, unemployment and poverty reduction have all been worse than in the crony-authoritarian pre-crisis period.

Average economic growth from 1980 until 1996 was in the region of 7%. After the crisis, it gradually increased over 6 years to reach levels of around 6%. Furthermore, to quote the Bank's own study, "economic growth, after the crisis recovery period, is no longer as pro-poor as it was before the crisis. After a low average annual pro-poor growth rate of 2.7 percent in 1999-2002, this declined even further to a mere 0.3 percent in 2002-2004" (World Bank, 2006: 23). Since then, poverty has only declined cumulatively by another 1% (though it actually rose during 2006 to 17.4% and has dropped more quickly since) to 15.4% according to March 2008 figures(Ashcroft and Cavanough, 2008). Unemployment has remained high (stabilising rather stubbornly at 9-10%) and rates of investment have been far lower than in the pre-crisis period (World Bank, 2006). The Gini coefficient has increased noticeably since the crisis, rising from 31.1 in 1999 to 36.8 in 2008 (Maulia 2008)

There have been increases in social expenditure, particularly in education and through an innovative and successful participatory rural infrastructure scheme but this is not translating into significant poverty reduction. As the World Bank has recently put it:

> Indonesia's structural transformation has not yet restarted. Although output in industry and services bounced back after the crisis, employment growth since the crisis has been much slower than the pre-crisis rates. The structural transformation by which workers moved out of agriculture towards more productive employment in industry and services appears to still be on hold, with the share of workers in agriculture barely changing between 1999 and 2004 (World Bank, 2006: 18).

In this section, I argue that part of the problem has been in the features of post-crisis reform that correspond most closely to the Bank's broader poverty agenda. Democratisation has been largely successful. The legal framework has been heavily reformed and, at times, there has been a concerted attempt to rein in corruption. NGOs have acquired greater access to the policy-making process and democracy has even resulted in greater discussion of poverty as a political issue. However, there have not, to date, been any significant progressive shifts in structures of political power and political alliance formation. If anything, liberal institutional reform has left the state weaker at controlling predatory Indonesian capital and encouraging positive foreign direct investment. Demand is increasingly driven by newly available consumer borrowing and high commodity export prices. What is missing is a more creative political alliance building in the pursuit of a more politically sustainable vision of pro-poor growth. I next provide some tentative suggestions as to what such alliances might look like.

Participatory Poverty Action and NGO Access to the Political Process

The ethos of the PRSP approach clearly has influenced developments in post-crisis Indonesia. The government has continued and scaled-up a massive programme of investment in infrastructure that takes place through grants delivered at a grass-roots level and administered by local communities through participatory processes (initially KDP – the Kecamatan Development Project and now scaled up as PNPM).[15] Indonesia also prepared an interim PRSP, despite not being eligible for HIPC assistance. The most positive aspect of both processes is that they mark a departure from the severe political repression of the Suharto era. In terms of central government, most local NGOs acknowledge that the policy process has become far more open. It is now relatively easy for NGOs to engage government officials in debate and put forth their point of view. To that extent, as in other contexts, the PRSP era has ushered in a significantly different way of doing politics.

The KDP system provides block grants of between US$60,000 and110,000 to the kecamatan level.[16] The funds are then allocated locally through a participatory planning process. Theoretically funds can be spent on almost anything villagers see as a priority but, in practice, funds have tended to be spent on local infrastructure projects (roads, bridges irrigation systems). Each village can submit up to two proposals to the *Kecamatan* council and villagers have to negotiate amongst themselves to decide which proposal is most worthwhile (though technical staff supply an assessment of technical feasibility, benefits to the poor and plans for maintenance). Proposing villages must send at least two women and one man to the meeting at which final funding decisions are made. No higher-level political revision is possible. Project monitoring takes place at village level according to established procedures (tenders from 3 suppliers, public costings etc,) under the oversight of a specially established committee, along with external oversight from contracted NGOs and the Indonesian Association of Independent Journalists (Voss 2008; Guggenheim n.d.).

Bank and external evaluations of the project have been highly positive. Project costs have come in around 50% lower than government run schemes of an equivalent quality (by avoiding corruption and using local labour). Ten years of KDP projects have created 72 million workdays for local people (70% of whom were drawn from the poorest groups) and, more importantly, unemployment rates in areas that have received KDP funds are 1.5% lower than in control districts and consumption gains were 11% higher in KDP districts than other poor districts over the Bank's evaluation period. Surveys of villager perceptions report high levels of project satisfaction and projects from the KDP pilot 'Village Infrastructure Projects' have proved highly sustainable (Voss 2008).

KDP, then, does seem to show that highly localised community processes can do a good job of managing funds for small-scale projects. This is a good way of building basic infrastructure with a positive impact on rural livelihoods. However, as the Bank acknowledges, the benefits of bypassing higher level political systems rapidly disappear for any project that requires coordination on a larger scale, from integration of road networks to improvements in educational quality (which require measures to improve the training or incentives for teachers). At US$1.5 billion per year (projection for 2009), PNPM is a large project in absolute terms. However, despite being the government's flagship social welfare policy, PNPM accounts for only 0.34% of Indonesian GDP (estimated at US$439 billion for 2009).

There has also been an attempt at participatory shaping of policy planning at the national level, through the preparation of an InterimPRSP, despite Indonesia's lack of formal eligibility for HIPC-related assistance. The process was supposed to mainstream the issue of poverty reduction throughout government policy and create a participatory process linking civil society groups and the poor in the policy-planning process. The documents, particularly the national poverty reduction strategy (SPNK), are high quality pieces of work that build on significant, high quality, research and data gathering. Although a good deal of attention goes to 'traditional' welfare policies (spending on rural infrastructure, health etc.) there is also a healthy concern with more macro level policies for job creation. The SPNK contains a section on employment creation, arguing for:

> an increase in investment in labour-intensive industries, the development of businesses and employment outside of the agricultural sector, and increasing access to capital, the factors of production, information, technology and markets, developing micro-finance institutions,

improving protection for cooperatives, micro, and small businesses[17]

NGO commentators hoped the strategy formation process could be used to mainstream poverty planning into national-level policy-making. However, many NGOs have complained about the fact that the interim strategy formulation process was heavily bureaucratic and too distant from the centre of power. It was deputed to Djoehari Lubis, whose title '4th Deputy for Poverty Reduction at the Office of the Coordinating Minister for People's Welfare', perhaps speaks for itself. NGOs sought to move responsibility to BAPPENAS, the much more powerful planning ministry, but were unsuccessful. The second phase, which resulted in the National Poverty Reduction Strategy (SPNK) was apparently more participatory but still some distance from the centres of power that shape Indonesian policy-making. A tendency for the strategy to promote more general goals, rather than specific (let alone prioritised) policy measures, combined with that political distance, means that it is difficult to identify outcomes in terms of government policy, other than the expansion of the PNPM programme, outlined above.[18]

Poverty and Democratic Politics in Post-Reformasi Indonesia

A greater openness to NGO consultation in general and the Interim-PRSP process in particular have had a positive impact on poverty policy in Indonesia but only at the margins. That is because NGO perspectives on poverty policy are not connected up to a broader strategy to build political coalitions with significant power to force real change. *Reformasi* (reform) politics has opened new discursive spaces and removed many direct constraints on political organisation by or on behalf of the poor. However, no one has yet capitalised on that space in a way that can create fundamental changes to Indonesian political economy.

On paper, Indonesia's transition to democracy has been remarkably successful. Elections determine office holders in the Executive and Legislature and the Presidency has changed hands several times (Rieffel, 2004). The bureaucracy is increasingly open to influence from a wide range of social groups, though primarily those with a particular kind of policy focus (Rosser et al., 2004). Press freedom is real and the population is free to criticise corruption. The modest social safety net programs introduced during the Asian crisis, the persistence of KDP/PNPM and the importance of anti-poverty rhetoric in campaigning suggest the poor do have some impact on the political process. However, there is a growing consensus that nominal freedoms and formally democratic institutions are failing to translate into a truly representative politics.

Democracy has clearly become the 'main game in town'. However, the elite monopolize, bend and abuse the rules of that game. Most of the supposedly democratic rights and institutions are in place, but they are largely defunct or deficient (Tornquist, 2006: 248). In terms of the electoral system, the civil society groups that mobilised to push reform agendas before Suharto's fall have failed to transform themselves into political parties. Political parties behave more like loose alliances of individuals than tightly disciplined organisations with a clear ideological position.[19] Proportional representation and the fragmentation of the party system helps to re-enforce this lack of clarity as presidents co-opt politicians from a wide range of political parties to form 'rainbow coalition' cabinets (Slater, 2004; Baswedan, 2007). It is unclear how a vote for a particular party will translate into positions in the Executive. Party members may have little incentive to scrutinize and criticize government policy (since nearly all parties are, to some degree, part of the government), and the electorate is not presented with a clear choice between different policy programs. Additionally, particularly during the early period of tenure in the DPR, politicians are as interested in recouping their 'investment' in acquiring political office as they are in legislative scrutiny.[20] The result has been a fracturing of political power and a weakness of electoral oversight, which encourages either plain populism or bold statements of intent by Presidents that are rarely followed through (Slater, 2004). Poverty reduction is a case in point, where Susilo Bambang Yudhoyono's promise to cut poverty to 8% in the 2004 election was never likely to be fulfilled.

This situation is driven partly by elite capture from above and partly by weak political organization from below. Superior funding and organizational structures have maintained support for Suharto era political parties. Golkar, the popular vehicle of Suharto's New Order, and Megawati's PDI-P (which grew out of one of the New Order's two officially sanctioned 'opposition' parties) are still capturing the largest share of the vote. The close ties between big business and politics that were central to the Suharto era have reconfigured themselves to operate under the new democratic conditions (Robison and Hadiz, 2004). Politicians' and parties' need for finance and political cooperation, combined with the relative poverty of the Indonesian electorate (and sometimes outright corruption), make elite-level funders more important to parties than grass-roots membership. There have been some high-profile corruption prosecutions in the *reformasi* era but these cases also continue to provide embarrassingly transparent indications of the persistence of widespread corruption throughout the judicial and political systems (van Klinken, 2008).

In terms of action from below, Ole Tornquist's extensive research with civil society movements in Indonesia points to strong reservoirs of civil society activists and organisations but also to their weaknesses as political organisations. He argues that democracy activists in Indonesia tend: to have a weak social base, to be more interested in direct action than engagement through legislative channels and to favour single issues rather than programme building (Tornquist, 2006). An increasingly vibrant Indonesian civil society has not yet become the basis for political parties that can meld a series of single issues into a broad-based political movement with significant electoral impact. The partial exception is the Islamic activist PKS, which has managed to build a credible national-level party on the basis of grass-roots support and mobilisation, though its sectarian Islamic politics have not exactly endeared it to liberal analysts.

Conclusion

The overall outcome of the recent Indonesian reform process has been one in which formal political freedoms have expanded but this has not produced significant improvements for the poor. I have emphasised the extent to which Indonesian reform corresponds to the broader PRSP model in its expectation that a combination of political liberalisation, liberal institutional reform, orthodox economic policy and international pressure for a poverty focus would deliver pro-poor growth. Obviously, the Indonesian experience is also atypical in some ways. Indonesian echoes of the PRSP process did not have the same potential financial pay- off that the HIPC initiative offers to other countries. That may partly explain the gradual marginalisation of the poverty strategy setting process. Indonesia also inherited a tradition of heavy suppression of civil society, which goes some way to explaining the contrast with some Latin American experiences, in which the legitimation of civil society involvement in policy-setting processes was politicized to create a new political dynamic of its own (Ruckert, 2009). Indonesian civil society does not have a long tradition of popular mobilisation to fall back on (with the partial exception of the student activism of the 1970s).

However, Indonesian failure also seems to point to deeper problems with the PRSP approach itself. The PRSP process creates only narrow openings in policy-making processes which continue to be dominated by the state and the IFIs. It does nothing to encourage the building of broader political coalitions capable of mustering enough power to force structural change in the management of political economy. Giving voice to poor groups at the local level improves the delivery of infrastructure or social spending but broader political pressure is needed to increase the budgets for such spending, or even more importantly, to alter state-business relationships in ways that may promote more sustainable growth in poor people's livelihoods. Although the PRSP process does not encourage this type of process, it may also not rule it out, at least in countries like Indonesia that are not strongly aid dependent.

The Bank's agenda of promoting orthodox liberal markets has also failed to attract the kind of political support that would be required to drive it through. Attempts to promote a rules-based liberal regime that might allow equal access to foreign investors and secure their property rights and abilities to enforce contracts have largely been unsuccessful. Indonesia's low growth, high unemployment and low investment rates suggest that the regime that has emerged from reform efforts is likely to remain vulnerable. Possibilities to exploit the new political openness that has emerged are not therefore completely lacking and it is possible that Indonesian civil society will, over time, manage to mount more effective challenges to the *status quo*.

Whilst there are, at present, few signs that this is likely to happen in the short-term, the New Order experience does provide some guidance for the kinds of coalition that political activists might seek to build. Indonesia's past record of poverty reduction suggests that more effective challenges will need to build on political strategies that can create linkages between the interests of the poor and those of more powerful political actors. Government strategies to promote indigenous business have the potential to build coalitions between relatively powerful business groups and poorer sections of the population, improving the chances of attracting widespread political support. With careful political management, to ensure funds are not wasted and that new business creates decent employment, the results could be more effectively pro-poor than those promoted by current Bank policy.

Endnotes

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2. I acknowledge that seeing international NGOs as the primary external architects of the PRSP approach is a simplification. They only achieved access to the policy-making process by creating alliances with elected politicians, particularly in the US and UK. That access was partly driven by politicians concerns about the much broader anti-globalisation movement and by a more conservative mobilisation behind the Jubilee 2000 campaigns. Nonetheless, empirical accounts of what actually took place in the negotiations surrounding HIPC II all emphasise the intellectual leadership of large international NGOs in pushing for the notions of 'participatory' policy-making that were eventually included in the PRSP process (see Callaghy 2004 and Thirkell-White, 2005).
3. I trace some of the intellectual connections below. See also Timmer 2006, which plays a key role in current Bank thinking on 'pro-poor growth'.
4. For a particularly clear articulation of this point of view by a World Bank staffer, see Azis 1993.
5. This is inevitably a very compressed summary of complex processes. For the best account on the international politics of HIPC, see Callaghy 2004. On the relationship of HIPC to the Third Way, see Bowman Cutter et al. 2000; Craig and Porter 2005; and Dixon and Williams 2001.
6. For a review of some of the extensive Congressional debate, press coverage and public hearings, see Thirkell-White 2005.

7. Author interviews with Bernie Sanders' World Bank staff, Washington DC, October 2000, reproduced, along with other evidence, in Thirkell-White 2005. Sanders was a key player in left-wing democrats campaigns over IMF funding following the Asian crisis
8. Author interviews with Bernie Sanders' World Bank staff, Washington DC, October 2000.
9. Given the profits made by some foreign businesses during the Suharto era, one can debate whether the World Bank really believed this story. My view is that it actually did – that World Bank staff felt that although foreign business had 'made do' under the Suharto regime, it would be more comfortable with a better institutionalised and less fragile set of relationships. After all, domestic joint venture partners with political connections require compensation for the access and protection they provide.
10. For an indicative report produced by the NGO sector, see INFID 2004. The broader assertion relies on extensive author interviews in Jakarta in July 2006.
11. For more detail on this contrast, see Grugel, Rigirozzi and Thirkell-White 2008.
12. For further information, see Tornquist 2006, whose findings confirm author interviews in Jakarta in July 2006. One 'anti-neoliberal' activist, for instance, told me quite sincerely that the IMF was a 'hero of *reformasi'* for its role in bringing down Suharto and challenging oligarchic corruption. In the Indonesian context, liberal policy was seen as an attack on the oligarchic elite. The only alternative with any political currency was a small movement for an '*ekonomi rakyat*' (people's economy): a populist movement that briefly had some support from President Habibie but is currently of limited political significance.
13. The expectation had been that shifting capital allocation from state banks to more competitive markets would reduce large corporations' ability to monopolise credit due to their political connections (see Cole and Slade 1998).
14. And indeed, state willingness to do so in the face of the growing political and intellectual influence of neoliberal ideas.
15. Program *Nasional Pemberdayaan Masyarakat* or National Program for Self-help Community Empowerment
16. A sub-district covering from 20-50 villages or 10,000-75,000 people.
17. Unofficial translation of Chapter III of the Indonesian National Poverty Reduction Strategy, SPNK, provided to the author by staff at the World Bank Jakarta.
18. These comments build on author interviews in Jakarta, July 2006 with World Bank staff and NGO activists. For an NGO view, see also INFID 2004.

19. This view was expressed by a wide range of observers interviewed in Jakarta in July 2006, including NGO activists, UNDP governance reform workers, economists and members of the political parties.
20. Again, this is almost universally accepted in Jakarta. A high ranking Indonesian UNDP employee, working on programs for parliamentarians argued that much of the work he had done in helping parliamentarians debate legislation over the first term of the DPR had been undone by the high turnover of elected members. The new members were not yet close enough to an election to concentrate on anything other than acquiring funds. Interview with the author, Jakarta, July 2006.

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