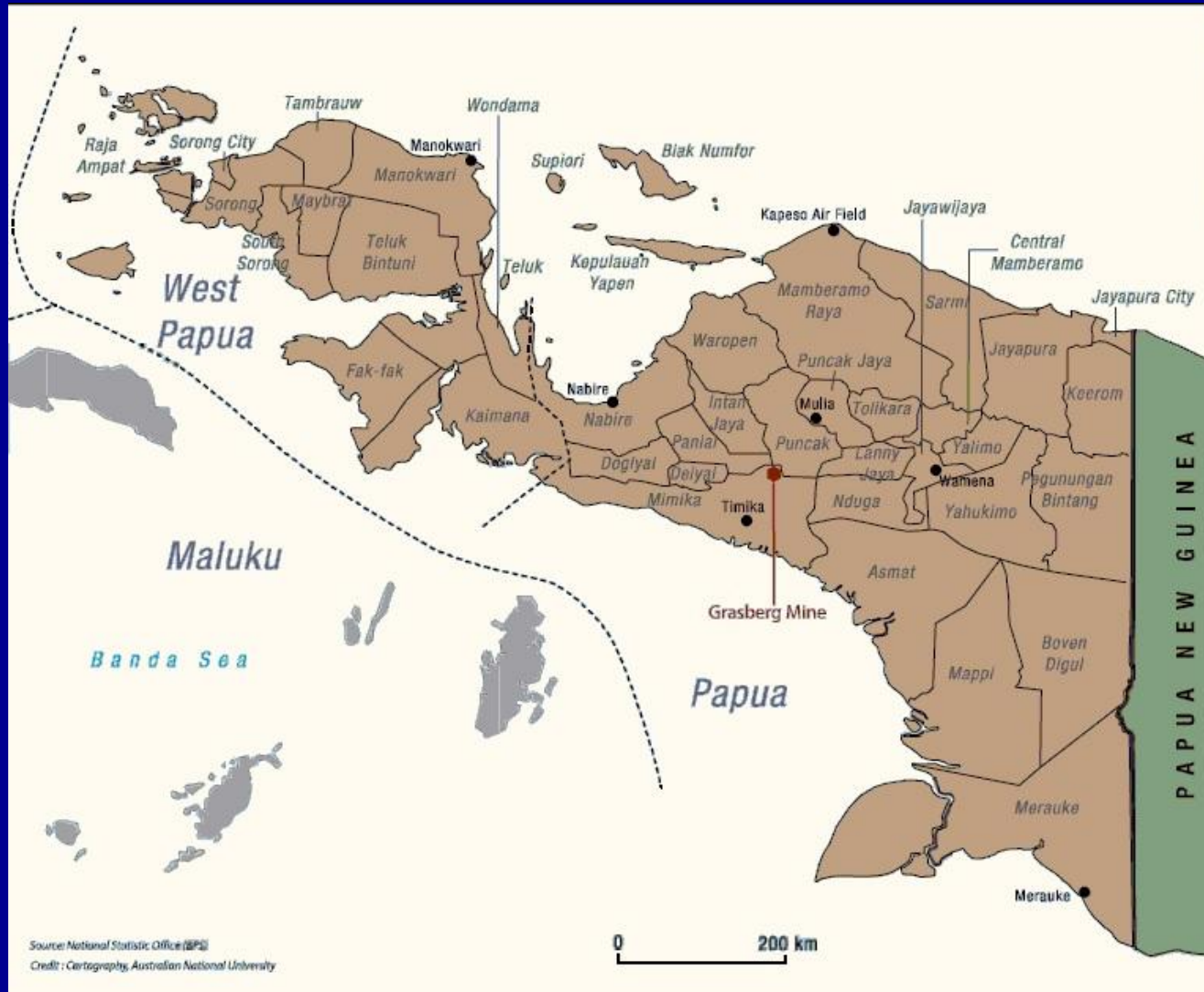


Development in Papua after Special Autonomy



Budy P. Resosudarmo
Julius Ary Mollet
Hans Kaiwai
Umbu Reku Raya

Papua and West Papua



2001: Special
autonomy

2003: provincial
split

Summary

- In general:
 - development in the island of Papua is progressing
- However:
 - (1) Papua's economy after the provincial split has been stagnant, (2) poverty in rural areas is still high, (3) other welfare indicators also show that development challenges are still immense

- Possible explanations:

- Issue 1:

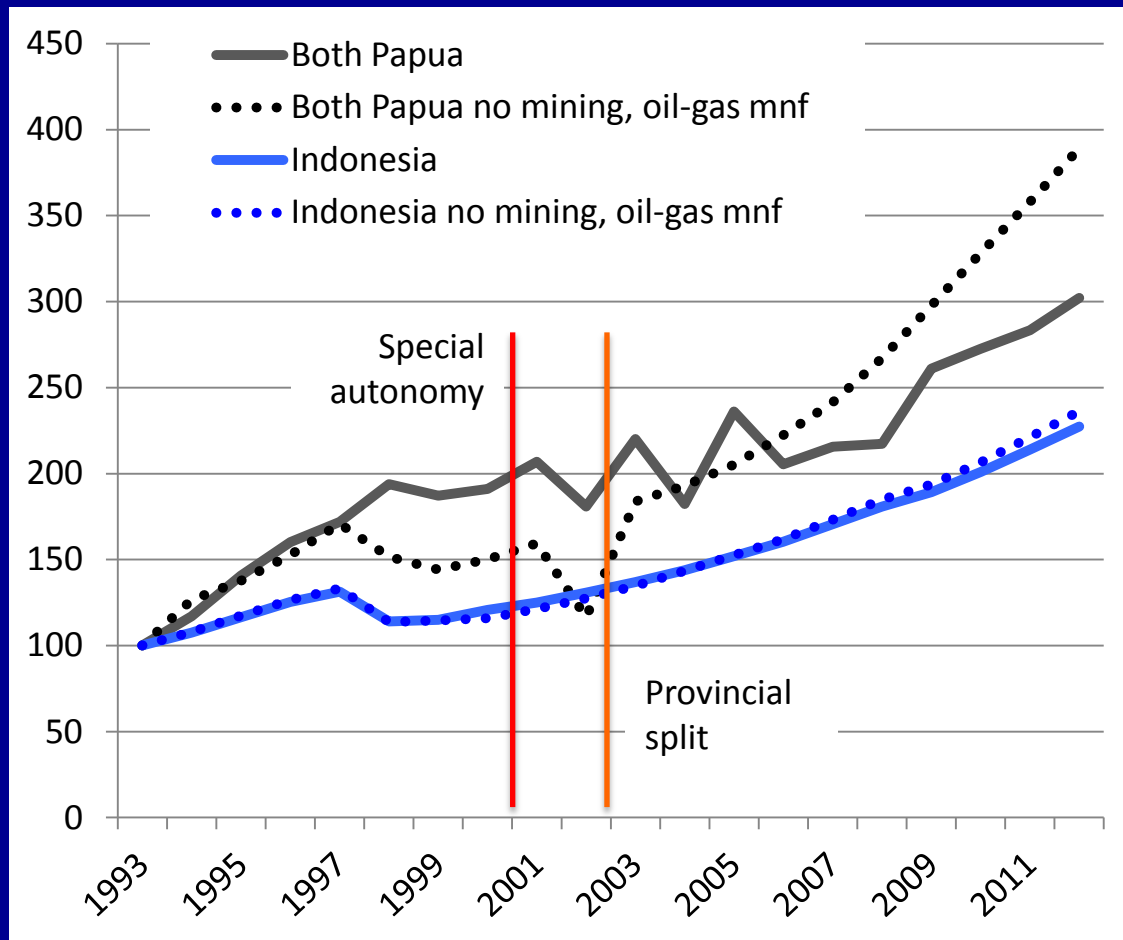
- Heavy reliance on NR → other sectors grew slowly (Manning & Rumbiak, 1989)
 - When NR drops, the economy is affected

- Issues 2 & 3: besides the initial condition

- High population growth in rural areas
 - Fundamental: low level of education and infrastructure and health facilities (Mollet, 2007)
 - Fiscal effectiveness (Resosudarmo et al., 2009)
 - Urban bias development (Manning & Rumbiak, 1989)
 - Effective targeting



Long-term look at the economy

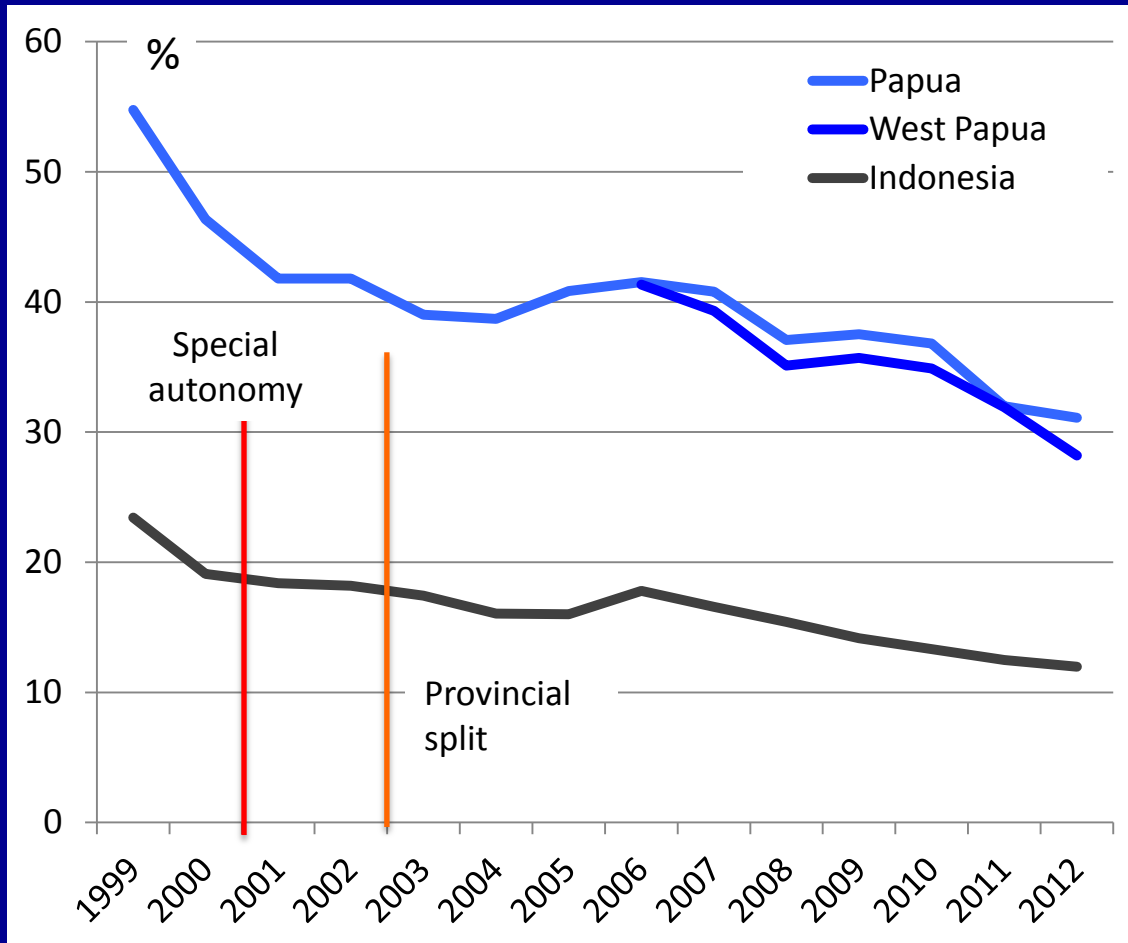


GDP and GDP w/o mining and oil-gas industries grew at least by a similar amount to Indonesia

GDP grew a bit slower after regional autonomy, but still at least equal to that of Indonesia

→ The economy of the island seems to be growing relatively well

Poverty



Proportion of poor people declined both in Papua and West Papua

It declined faster than the national level

But still more than twice the national figure

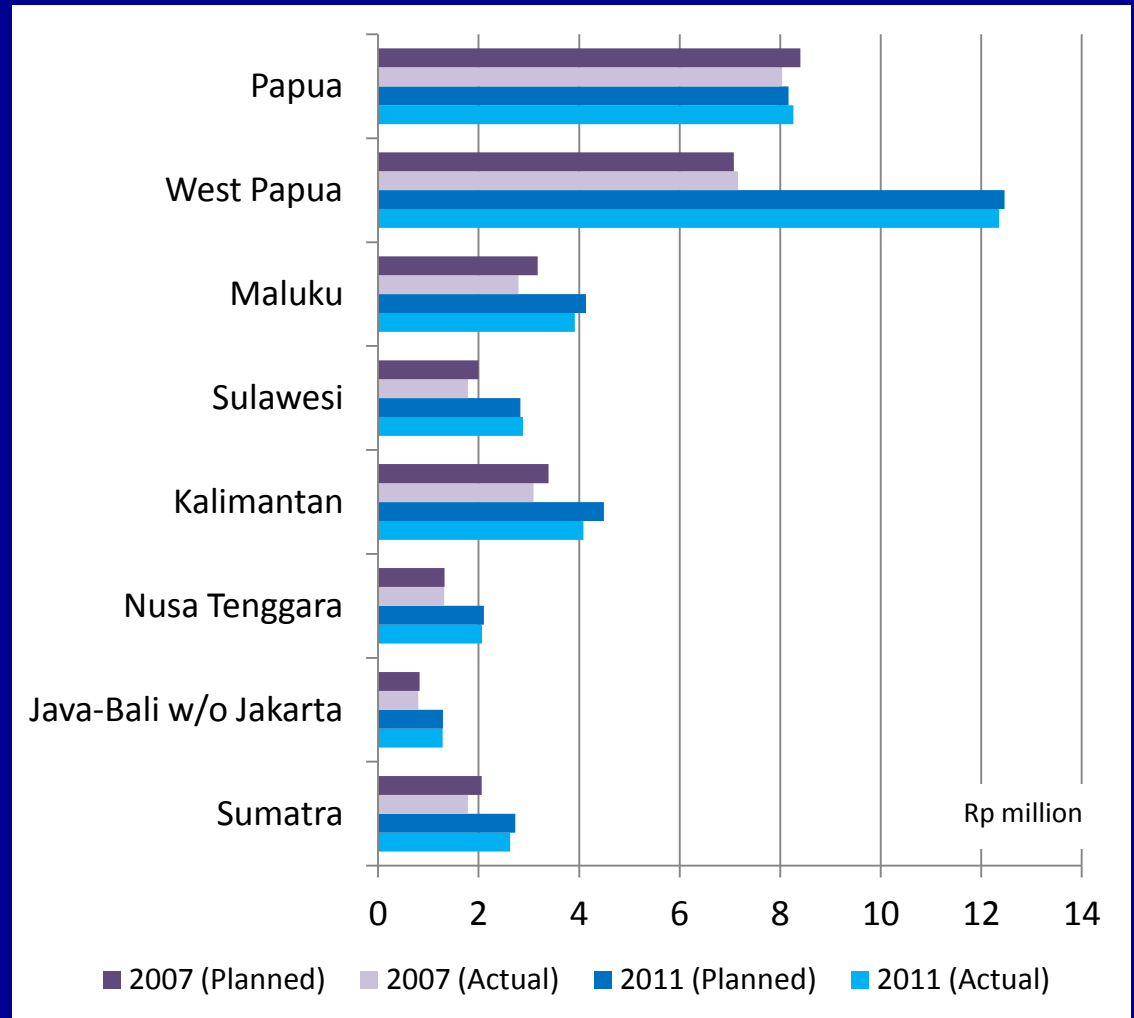


Budget

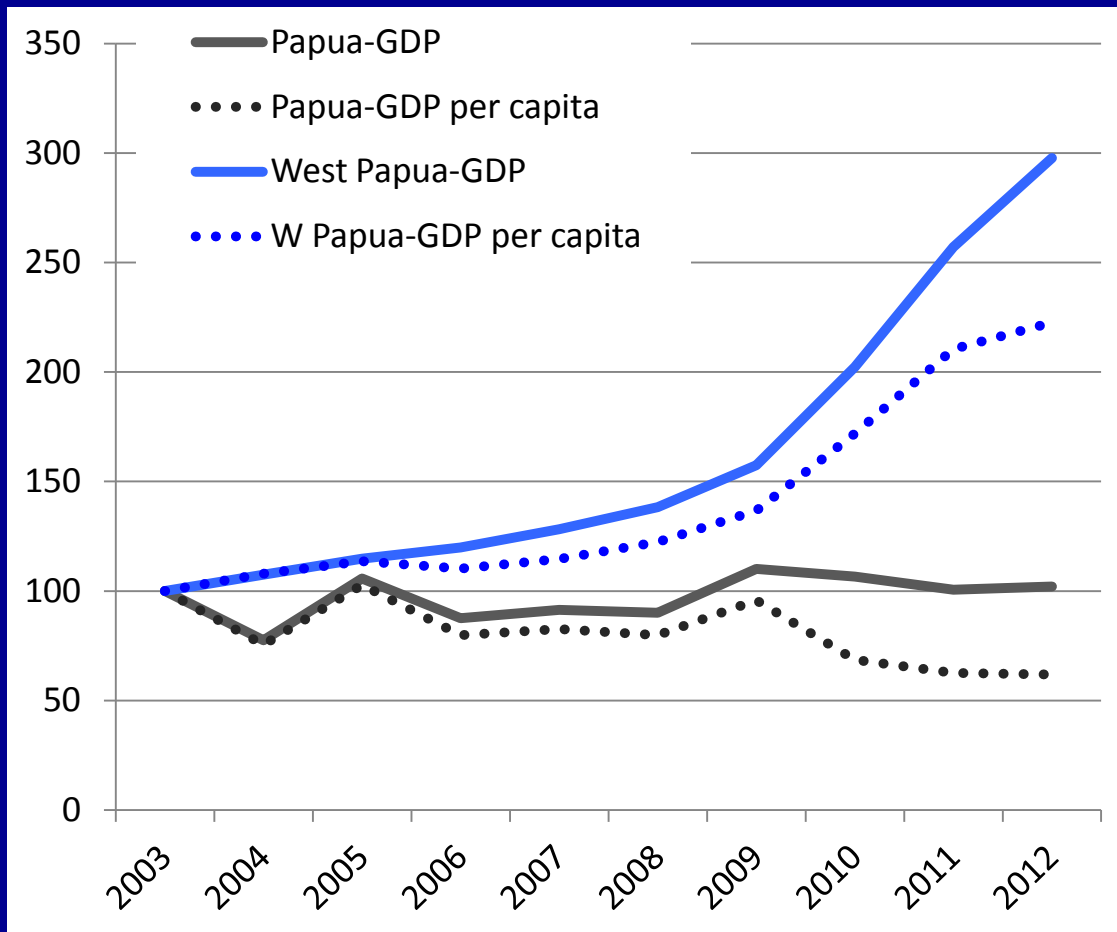
Regional government
(planned/actual)
expenditure per capita in
both Papua and West
Papua has been relatively
high compared with other
regions

→ Size of government
budget seems to be
comparatively fine

→ Need to be higher than
other regions: could be
due to difficult
geographical conditions



Issue 1: After the split



While West Papua's GDP showed rapid growth, Papua's GDP did not

GDP per capita grew slower than GDP; in Papua, it grew negatively

- Economic growth is dominated by the growth of West Papua
- Population grew faster than the economy

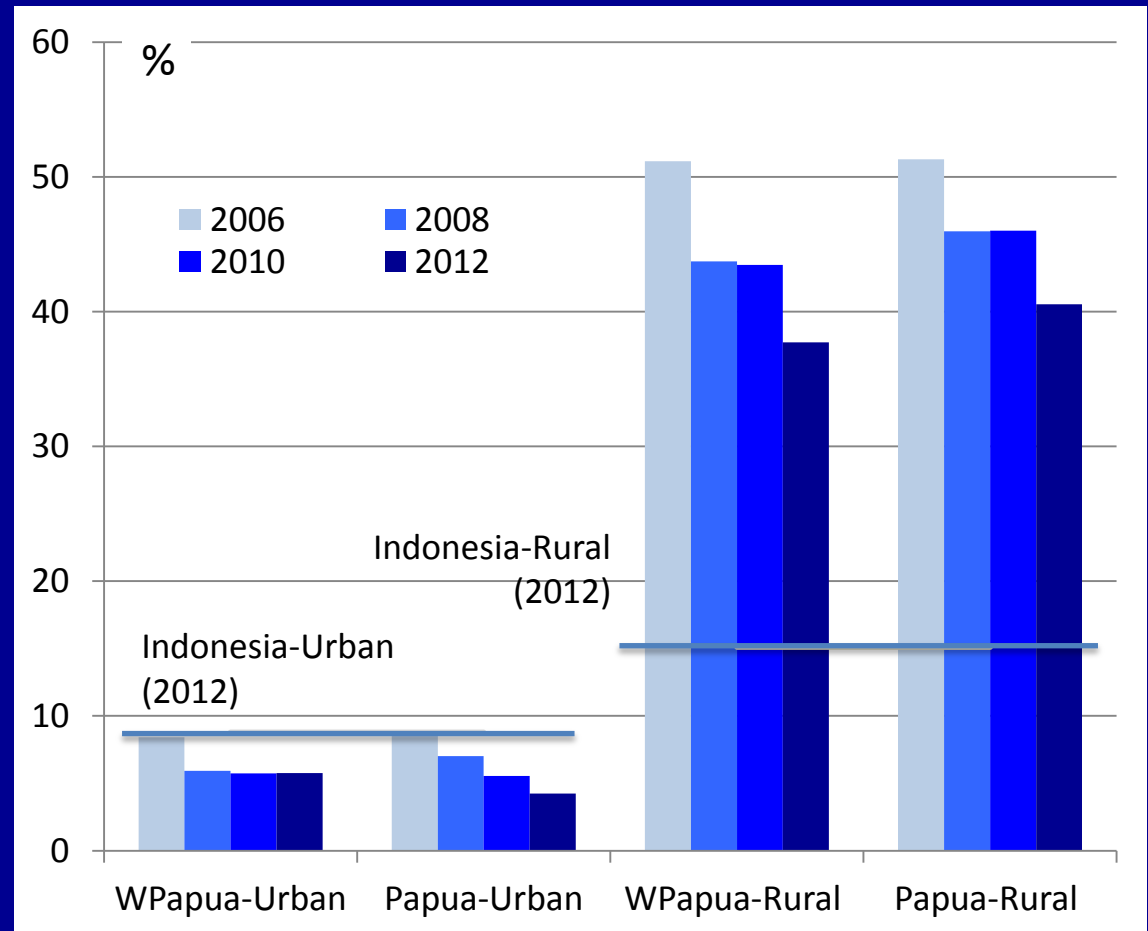
GDP and GDP per capita are indexed at 100 in 2003

Issue 2: Rural poverty

The poverty rate in urban areas has been much lower than the national average

Though declining, the poverty rate in rural areas is still much higher than the national average

→ Reducing the poverty rate in rural areas is the main challenge of the poverty alleviation program in Papua and West Papua



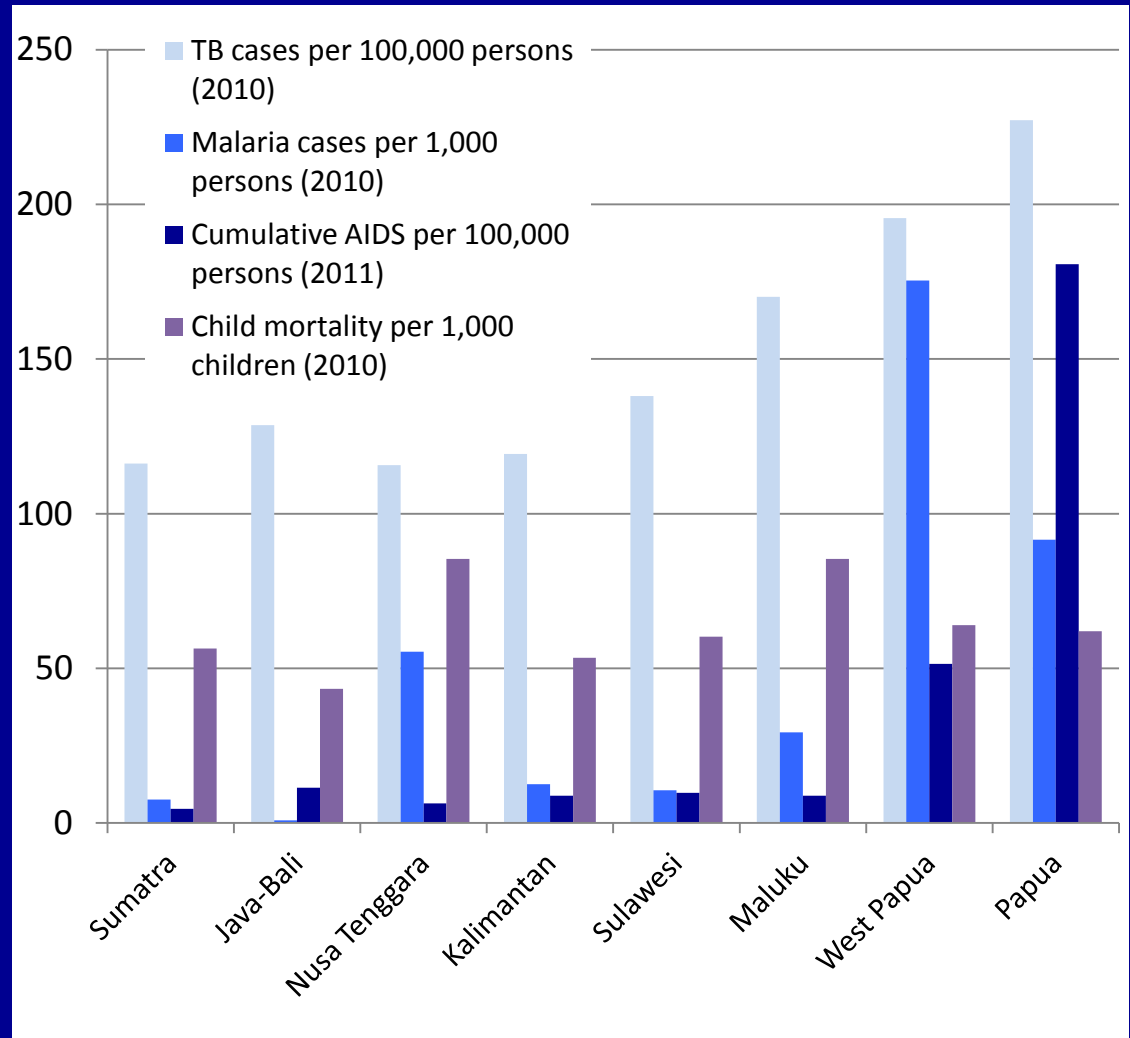
Issue 3: Health indicators

Rates of TB and Malaria
Papua and West Papua,
though falling, are still the
highest in the country

Rate of cumulative AIDs
increased

But this is not the case
regarding child mortality
rates*

→ Other welfare
indicators show that
development
challenges in Papua
are still immense, but
there is progress

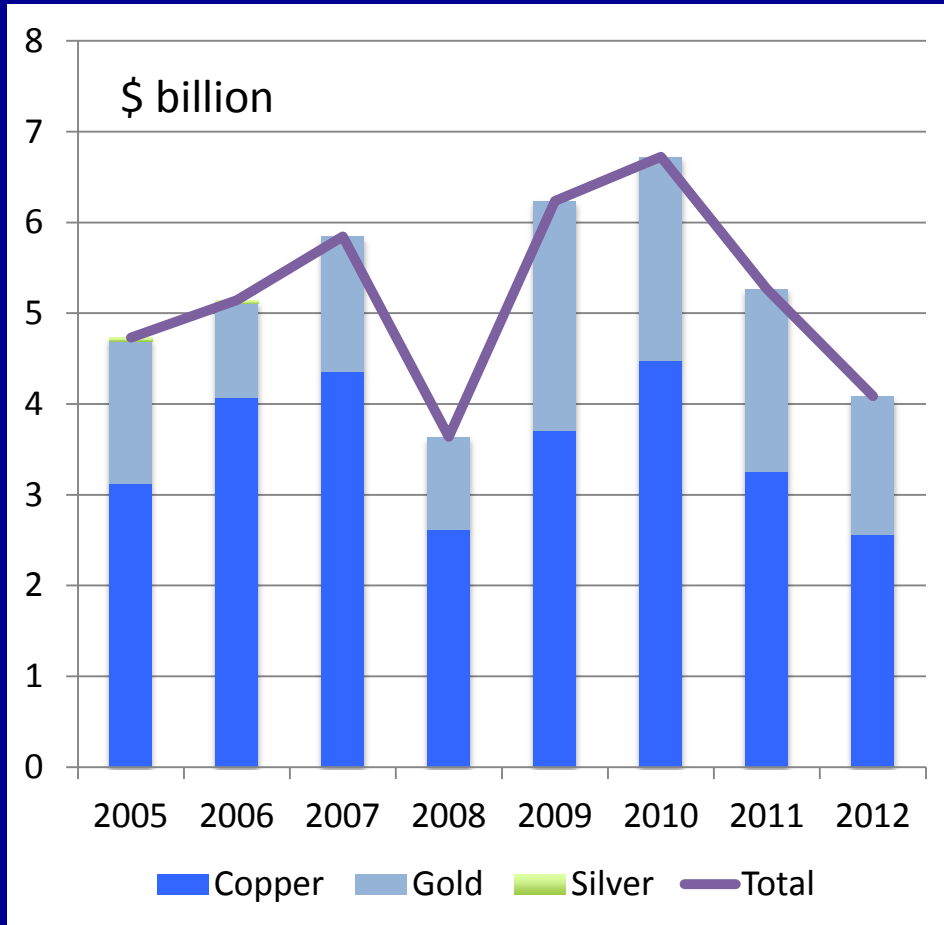


Structure of the economy

- The economies of both Papua and West Papua are both dominated by natural resource extraction industries:
 - Mining (Freeport) → 47% of Papua's economy (2012)
 - Natural gas (BP) → 54% of West Papua's economy (2012)
- Several issues with natural resource extractive industries:
 - When revenue from these industries decline, the economy is heavily affected
 - Limited leakage to general public
 - Less incentive to develop other industries
- In both provinces, agriculture (food crop) has been the second most important sector (+/- 12.5%)
- Followed by construction and government services



Freeport sales



Freeport sales are still relatively high but have declined in the last few years

→ This is the main reason for the decline in Papua's exports in the last few years



Expenditure growth

Private and government consumption as well as capital formation grew positively

Decline in mineral exports is the main reason for economic stagnation in Papua province



	Papua		West Papua
	1993-2001	2003-2012	2003-2012
Private Consumption	8.7	9.4	7.7
Government Consumption	11.6	14.5	11.6
Fixed Capital Formation	9.1	12.7	6.1
Change in Stocks	13.0	35.7	18.8
Exports	12.8	-9.7	15.2
Imports	12.1	5.9	7.5

Rural population

- Population grew by as much as 4.9% annually (Papua and West Papua: 2000-2010)
 - This is 3 times the national figure
- Migrant population grew more than non-migrant (6.7% vs 4.5%)
 - Migrant population is approx. 22% of the population (2010)
- Rural population grew by as much as 5%, while urban population by 4.6%
→ fast growing rural population



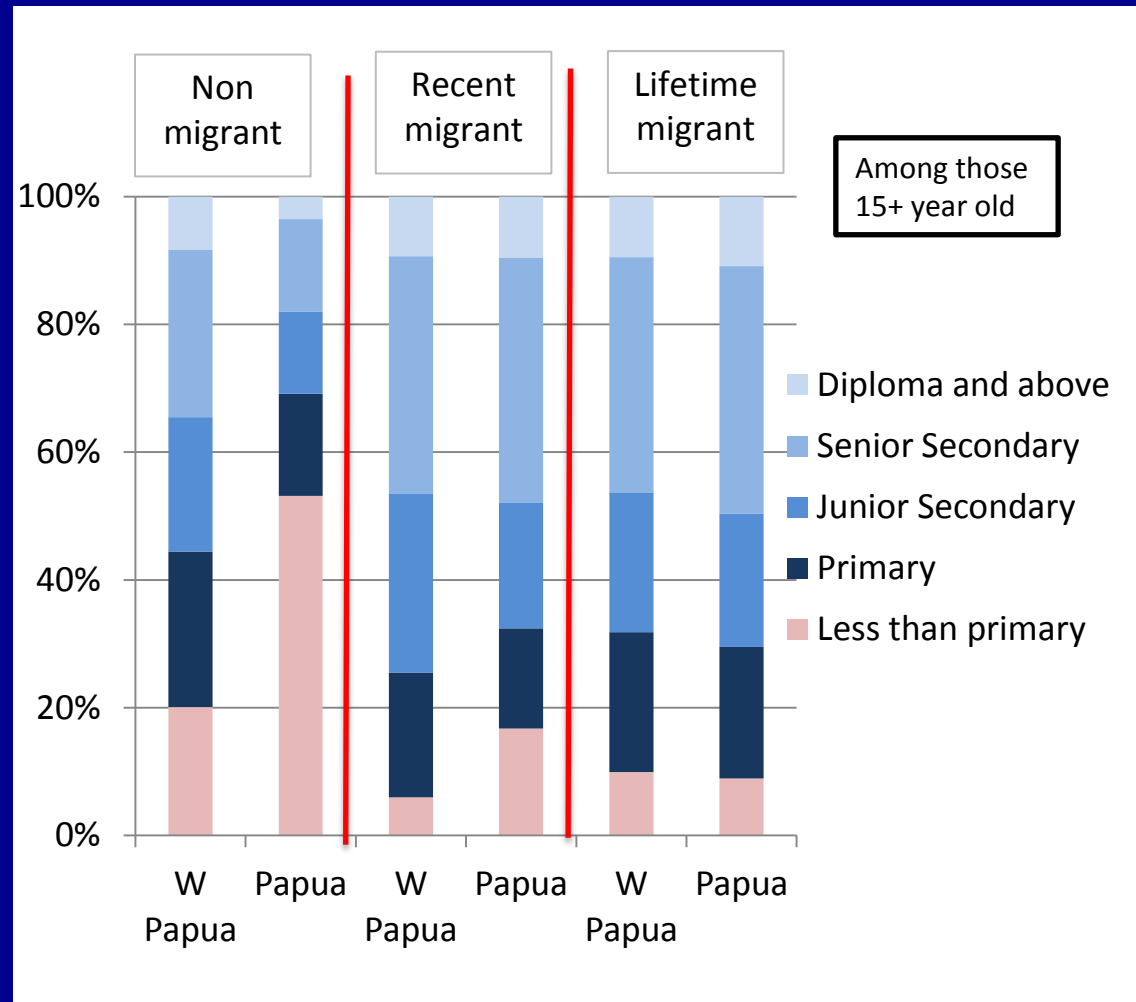
Education facilities

In general, non-migrants are less well educated than migrants

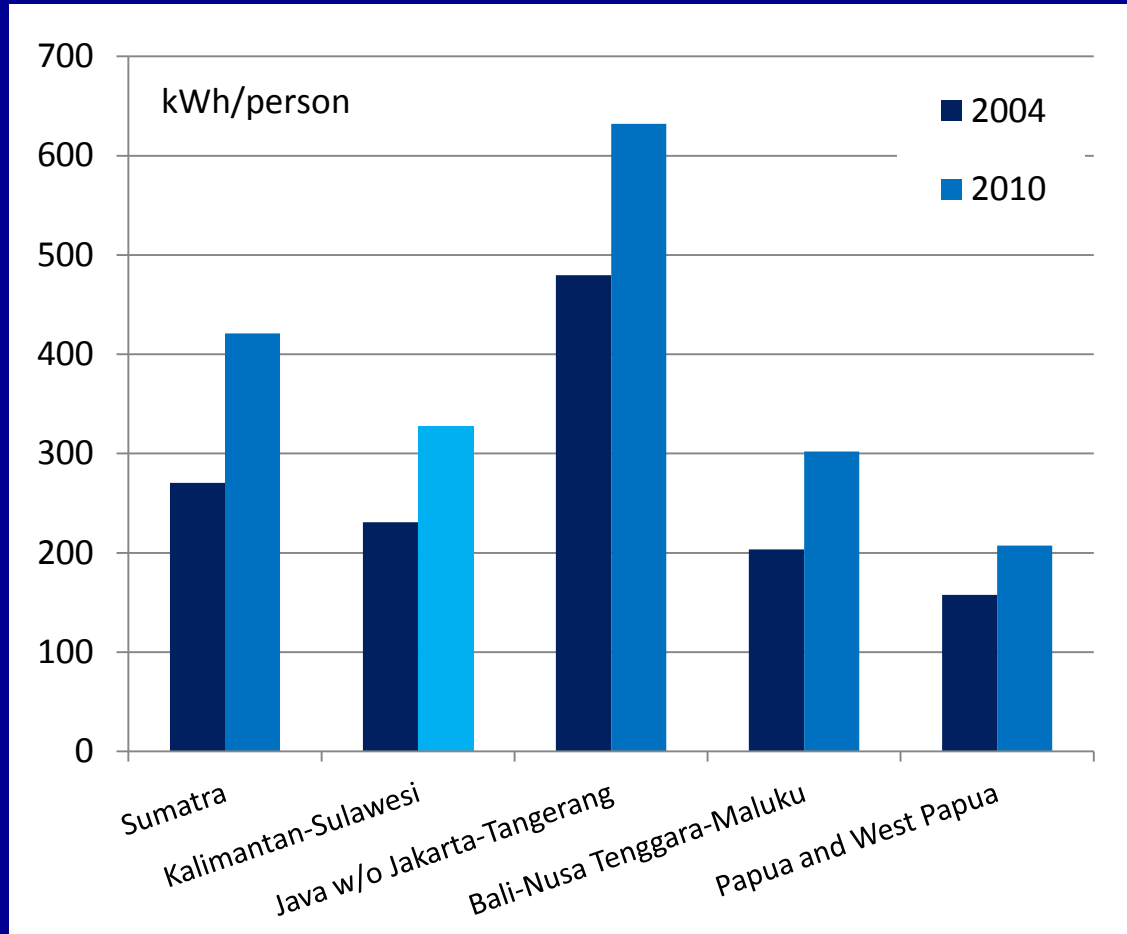
Approximately 50% of non-migrants in Papua and West Papua either have not completed elementary school or only finished elementary school

Note non-migrant is still the majority in Papua and West Papua

- Indicating low level of education facilities;
- in particular in rural areas



Infrastructure: Electricity



Electricity use per person in Papua and West Papua has been relatively low compared with other islands

Its growth is lower than other islands

- Infrastructure for economic development is relatively limited in Papua and West Papua
- Particularly in rural areas

Government expenditure

- Proportion of spending on general services is relatively higher than the national average (53% vs 33% in 2010)
- Education budget is relatively lower than the national average
 - 13% for Papua and 10% for West Papua vs 30% at the national average (2010)
- Health budget is quite comparable with the national average, but low
 - 5% for W Papua and 8% for Papua (2010)
- Though the social protection budget is already higher than that of the national average, it needs to be higher
 - Approx. 2 % in both Papua and West Papua (2010)



Urban agglomeration

In Papua, economic growth has mostly been in Jayapura and surrounding areas

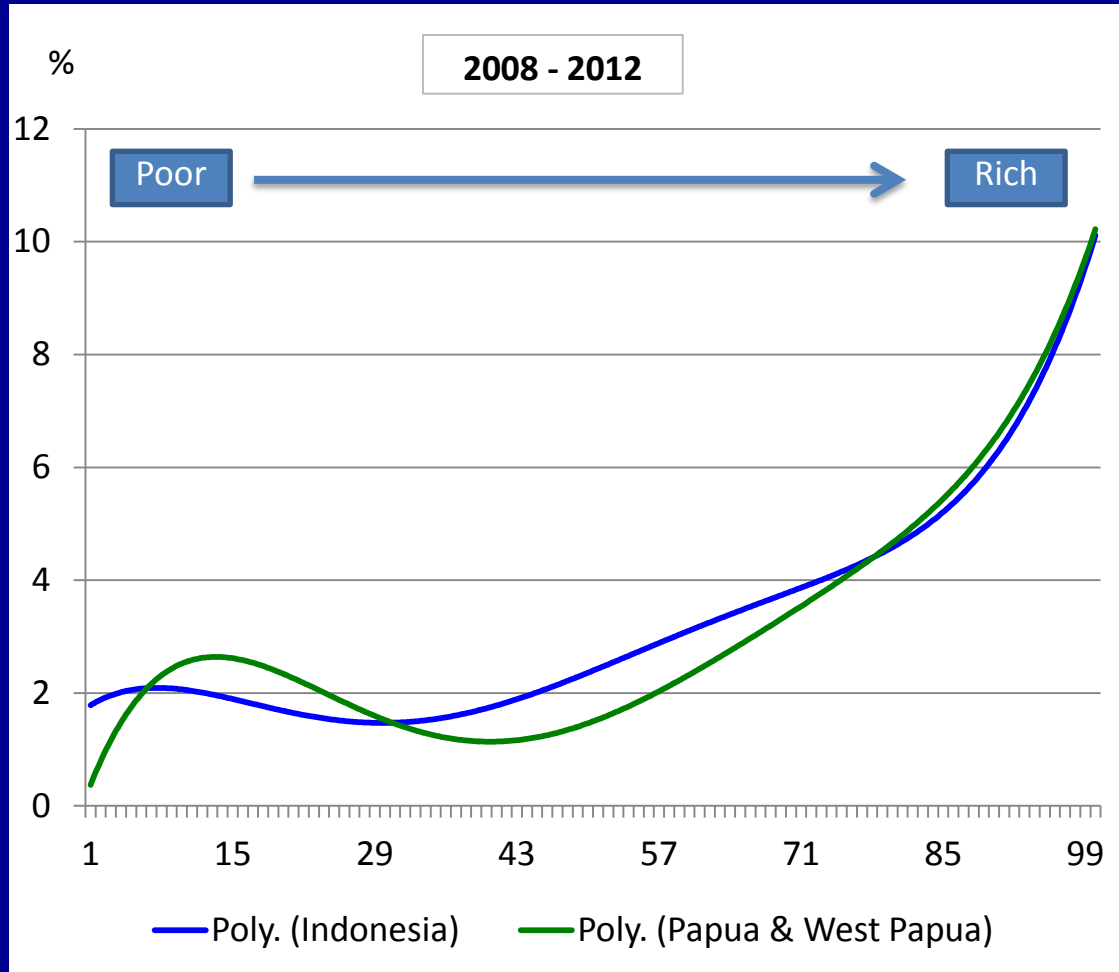
On a per capita basis, rural Papua grew negatively

Welfare in Jayapura, Sorong, Manokwari and Merauke (all having a large urban area) is better than in other districts without rich natural resources

	Growth of GDP	Growth of GDP per capita	GDP per capita	HH Expenditure per capita
	2003-2011	2003-2011	2011	2011
	(% annually)	(% annually)	(Rp 000/year)	(Rp 000/year)
West Papua				
Sorong Greater Area*	4.6	2.0	36,209	8,450
Manokwari district	8.7	5.3	18,049	8,128
Teluk Bintuni district	39.5	33.6	298,731	11,555
Other districts	8.7	5.2	22,880	6,634
Papua				
Jayapura Greater Area*	12.0	8.3	31,050	9,960
Mimika district	-7.1	-12.0	239,083	10,354
Merauke district	6.9	4.8	21,234	7,135
Other districts	5.8	-4.5	7,035	5,315

Greater area = kabupaten + kota

Distributional growth of expenditure



Average annual growth per capita household expenditure for each percentile from 2008 to 2012 shows that the richer the household the greater the increase in household expenditure

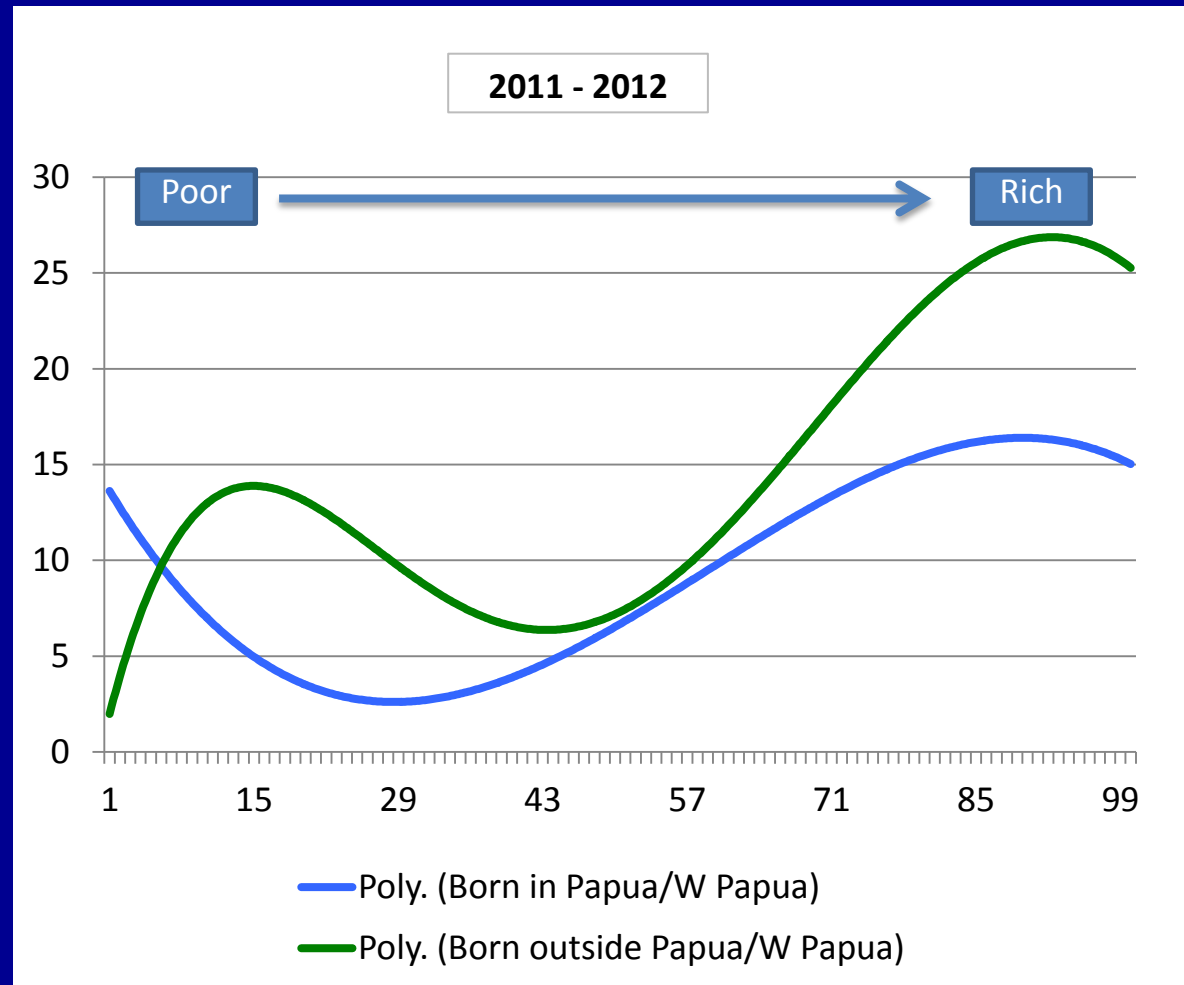
- Worsening income distribution
- Indication of the need for better targeting

Born in Papua/West Papua

Average annual per capita household expenditure for each percentile from 2011 to 2012 shows that those not born in Papua/W Papua experience higher expenditure growth

But very poor people not born in Papua/W Papua experience the lowest expenditure growth

- The need to target Papuans
- and the very poor non-Papuan



Final remarks

Issue 1:

- Reducing reliance on NR by promoting development in other sectors, particularly the agricultural sector, should be considered

Issues 2 & 3:

- Population growth control is needed, particularly in rural areas
- Human quality needs to be vastly improved; in particular attention to improving education and health facilities for local Papuans in rural areas is important
- Continue to improve infrastructure including ensuring good connectivity within the province and with other provinces
- Fiscal effectiveness to target development in rural areas; might need greater budget spending in rural areas targeted to the poor
- Might need to ensure participation of local Papuans in economic activities; however, any affirmative action that might create a disincentive among Papuans to be more competitive should be avoided

