

BALI UPDATE



Confronting Crisis:

Impacts & Response to the Bali Tragedy

January 2003

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Impacts and Response to the Bali Tragedy**

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Executive Summary

The October 12th terrorist bombing in Kuta resulted in a tragic loss of lives and triggered an unprecedented crisis in Bali. The sudden mass exodus of tourists altered its economy overnight. While the effects have been most visible on the economy, the potential for social tensions has also increased. The impacts go beyond Bali's borders. Regions with strong migration and trade links – such as East Java and Lombok – are also reeling from the shocks.

The immediate reaction to the attack was swift. The locals in Kuta made a major contribution to the emergency response. The Balinese responded in peaceful prayer, highlighted by the mass cleansing ceremony on Nov 15, 2002. Governments and international and domestic organizations worked in close cooperation for relief efforts. The efficiency of the investigation and the swift arrest of the suspects was remarkable. All of these efforts mark a positive step towards Bali's future recovery, yet they do not ensure it.

The fallout after the bombing painfully highlighted Bali's acknowledged reliance on tourism. Hotels and restaurants alone employed 58,000 people (3.3% of the labor force), but contributed 21% to Bali's provincial economy. If retail trade, manufacturing, and construction are included, tourism can be argued to generate over half of Bali's income. The week before the bombing occupancy rates at starred hotels ranged from 65 to 100%, by the end of October 2002 they had plummeted to 10% as the exodus ensued.

International support builds on an initial assessment presented at the interim CGI meeting on November 1, 2002.¹ Donors have responded by introducing new recovery and development programs to Bali, and expanding or accelerating existing commitments.² The

¹ *Vulnerabilities of Bali's Tourism Economy: A Preliminary Assessment*, Informal World Bank Staff Paper, Interim Consultative Group on Indonesia, 1st November 2002 and preliminary donor response matrix.

² Survey assessments were conducted in collaboration with the Provincial Bureau of Statistics (BPS-Bali), the University of Udayana-Denpasar, and the Provincial Planning Board (Bapeda)/Regional government as part of a

responses are summarized on the attached donor matrix.

Preliminary baseline results on the impacts of the Bali bombings for November and December have been derived from targeted surveys of hotels, tourism related industries, village/kecamatan level impacts, schools, and social assessments. Rapid assessments were also conducted in East Java and Lombok. Responses have been assessed based on on-going coordination among donors, regional, and central government agencies.

Evidence suggests that those affected on Bali are still largely able to meet their basic needs through various coping strategies and community solidarity. However, more individuals and firms may find it difficult to manage if the island's tourism economy fails to recover. Off-Bali impacts – from industry, tourism, and employment links – are more diffused, but still affecting highly vulnerable groups and regions.

Bali Impact Highlights

- Direct international tourist arrivals declined dramatically. Direct arrivals to Bali dropped from 150,747 in September 2002 to 31,497 in November following the bomb. December arrivals increased to 64,352, but this likely reflects a bounce from peak season holiday travel, rather than a sign of recovery. The initial impacts have been more acute, and the recovery is expected to take longer than past shocks such as the 1990 Gulf War, the May 1998 riots in Jakarta, and September 11.
- Aggressive marketing towards domestic tourists have helped off-set the declines in foreign arrivals, but occupancy rates remain low. Estimates of occupancy rates for November (9.4%) and December (19.4%) are down significantly from September rates (68%) before the bombing. Many in the hotel industry are hopeful for business to recover close to pre-bombing rates by June or July, but admit the tenuousness climate their optimism rest.

joint assessment with UNDP, USAID and World Bank. Figures cited are based on preliminary returns.

- Approximately 67 percent of the key respondents from Bali's 53 sub-districts (*kecamatan*) – including village heads, midwives, head of schools, and other traditional leaders -- indicated declines in income as a result of the bombing. Roughly 75 percent of school respondents experienced a decline in community economic conditions in the past 3 months.
- The key respondents identified a number of coping strategies at the village level including reducing expenditures, selling assets (16%), scaling down remittances to villages, and return migration to the home villages as a social safety net (32%). Only 14 percent of key village respondents believed the communities have sufficient employment opportunities to absorb the in-migration. The initial impacts have been higher in the more prosperous south, due to its stronger tourism base. However, reflecting a long-standing concern about the lagging north and eastern regions, these areas may be more vulnerable in the upcoming quarters.
- At this stage, only 1 percent of respondents from of a survey of 424 schools in Bali (just under 20% of total) reported that children were being withdrawn from schools as a result of the declines in household income. Further, no increase in dropouts or declines in student attendance were reported. 25 percent of school respondents report parents were experiencing difficulties in paying public or private school fees in the past 2 months (November and December), with around 36 percent of schools reporting untimely payment of school fees. Such figures may not be unexpected in normal circumstances, and repeat assessments will be needed to determine the effects of the bombings. The reported problems were highest in Badung and Gianyar.
- The bombings have brought latent social tensions into the open. Around 60 percent of key respondents across Bali reported that they were concerned about security disturbances and social unrest over the next six months, highlighting tensions that could result from economic hardship, unemployment and community relations. However, community responses and proactive civil society dialogues appear to have responded effectively to-date.

Off-Bali Impacts

Impacts off of Bali are distributed over a wider geographic area, but in many cases are hitting areas that are economically less fortunate and more vulnerable. The Lombok tourism industry has been in the doldrums since local disturbances in January 2000. The bombings have wiped out a nascent revival in the tourism sector, although the overall importance of this sector is more limited compared to Bali. The levels of social tensions on the island continue to be high, and improved human security appears to be the highest priority and will have positive economic spin-offs.

Clusters of industries in East Java are being hit. Over 35 percent of the SME production in East Java is reportedly bound for the Bali market. Following the bombing, a survey of 100 SMEs in East Java found their sales had decreased 70 percent for traders and 55 percent for producers. Compounding this migrants from Bali are returning to their home villages to uncertain prospects. However, impacts are more diffused than on Bali, which suggest there will be constraints and challenges to response initiatives.

Opportunities for International Support

Local citizens, governments, and the international community responded swiftly to the crisis. The attached matrix summarizes the international response so far. Going forward, it is recommended that support be targeted towards the following areas (further details are available upon request).

Consolidate the implementation of existing donor initiatives and mechanisms while strengthening support for on-going monitoring and assessments

- Existing facility mechanisms and commitments, especially those with flexible response mechanisms should continue to meet emerging needs (e.g., UNDP Community Recovery Project(CRP), WB Kecamatan Development Program (KDP), USAID, and Ausaid's Bali Rehabilitation Fund, etc.). To the extent possible, existing facilities should also be utilized to target more diffused impacts off of Bali.
- Additional targeted resources could be provided in areas where gaps are identified or where the

government requires technical assistance and support. Overall commitment levels should be assessed on a quarterly basis in the CGI working context.

Ensure that adequate and proven social safety net mechanisms are available for when vulnerable communities require further assistance

- A high priority is for the government at the national and regional levels to ensure that effective social safety net programs are in place that can effectively handle worse case scenarios by the second and third quarters of 2003. *Both government and donors need to be ready should the crisis not show signs of tempering quickly.* This would ensure that financial provisions and mechanisms (e.g., DIP/DIPDAs) are in place.
- Governments should ensure that access to basic services in health and education is ensured for all those experiencing impacts from the crisis, for example of a roll-out of a school grants programs (e.g., WB/Netherlands) or health cards. Donor stand ready in providing technical assistance in identifying mechanisms that ensure effective targeting.
- Donors should, however, ensure that both crisis and longer-term capacity building measures are pursued with consistency.

Restore the necessary conditions for sustainable recovery in Bali and beyond

- Measures to enhance security on and off-Bali will need to form the basis of any recovery of the tourism sector. Donors can assist in promoting longer-run strategic development measures, both in tourism and more general efforts. These should ensure that regional governments and civil society was widely consulted regarding their priorities in the context of decentralization. Assistance could be developed, given demand, for more effective strategic actions plans and capacity for implementation, especially to enhance longer-term sustainable development on the island and more diversified tourism growth throughout Indonesia.

- Bali and Indonesia should jointly use the crisis as a chance to address some hard choices about strategic tourism development and environmental strategies on the island in particular. Recent examples of recommendations include those by the Pacific Asia Travel Association (PATA)³ and the results of Study on Cumulative Environmental Impact (under World Bank's Bali Urban Infrastructure Program). Highlights include:
 - Improve efforts to develop an effective national tourism strategy and effective image building for Indonesia as a whole, encompassing regional, central, and private sector/civil society actors. Build cooperation at the provincial level, especially with regards to an integrated tourism and development diversification strategy.
 - Implement recommendations for environmentally sound land use planning and development to avoid risking the loss of Bali's natural charm.
 - Consider "hardening" security at key tourist areas.
 - Heighten awareness and allow communities to report suspicious events and promote local security, while ensuring that this is not perceived to discriminate against specific social groups.
- The capacities of regional governments in land use planning could be strengthened while encouraging regional cooperation and coordination of planning efforts.
- Efforts should be promoted that would help alleviate possible social tensions, including intensifying inter faith/ethnic dialogues, peace journalism training, support to the media, and support for peaceful elections in 2003 and 2004.
- Donors should find ways of assisting the private sector in recovery, growth, and diversification efforts. The IFC's Eastern Region SME facility, which is currently establishing offices in Denpasar and Surabaya, could build on the existing tourism related industry baseline assessment (e.g.,

³ PATA, 2003, Indonesia/Balinese Tourism Recovery Post October 12th 2002, mimeo, 17th October

handicrafts), along with other donors working in the field (e.g., JICA, GTZ, UNDP).

Continue strengthened support for on-going monitoring and assessments

- The baseline assessments on Bali need to be continued for (a) monthly monitoring of visitor numbers and the hotel sector, (b) a bi-monthly surveys of schools, (c) a quarterly village level impacts survey for all kecamatans, (d) and social tensions assessments on Bali. Some funding will be required, as complementary expertise, especially if some of these instruments are to be strengthened at least through the end of 2003 (e.g. in terms of sample sizes). Consideration should be given to adding crisis related household respondents sampling, either by a quarterly addition to the 106 village survey and/or a mid-year special round of the national socio-economic household survey (SUSENAS).
- Donor coordination through the CGI group should be maintained, with UNDP agreeing to assume the lead coordinating role for Bali from the WB. UNDP should consider securing support for the placement of one international position for six months in Bali to assist in supervision of monitoring work, liaising with regional government, assisting in response facilitation, and keeping abreast of impacts off-Bali. The position should report periodically to a small advisory group, drawing from the present donor coordination matrix. Outcomes of this work would be quarterly reports (e.g., with assistance from UNDP and WB), as well as succinct policy briefs, in English/Indonesian to government and the donor community.

1 Introduction

The October 12th terrorist bombing in Kuta resulted in a tragic loss of lives and triggered an unprecedented crisis in Bali. The sudden mass exodus of tourists altered its economy overnight. While the effects have been most visible on the economy, the potential for social tensions has also increased. The impacts go beyond Bali's borders. Regions with strong migration and trade links – such as East Java and Lombok – are also reeling from the shocks.

The immediate reaction to the attack was swift. The locals in Kuta made a major contribution to the emergency response, especially the Muslim community, a fact that was widely reported to signify that this tragedy was not about religion. The Balinese responded in peaceful prayer, highlighted by the mass cleansing ceremony on Nov 15, 2002. Governments and international and domestic organizations worked in close cooperation for relief efforts. The efficiency of the investigation and the swift arrest of the suspects was remarkable. All of these efforts mark a positive step towards Bali's future recovery, yet they do not ensure it.

The attack exposed Bali's vulnerabilities. Unlike September 11th where the public was afraid to fly, following Oct 12th, people were afraid of Bali. In the past Bali had been almost immune from the various crises surfacing around it. Foreign governments often issued travel warnings for Indonesia that explicitly excluded Bali. Despite being viewed as "the exception," Bali also has the seemingly contradictory role as the barometer of outside perceptions of Indonesia. For many foreigners, Bali is their first impression of the country. Now Bali's peaceful reputation has been tarnished. It is likely that its image – for better or for worse – will be more closely associated with greater events throughout Indonesia.

Bali's recovery partially hinges on national and even global stability. Bad press from demonstrations – even concerning domestic issues – could ward off tourist. The reaction to the trial of the suspected bombers, as well as the political transition from the upcoming 2004 elections will also be a factor. The most pressing concern voiced by government officials and taxi drivers alike is the looming confrontation in the

Persian Gulf. Another war would halt Bali's fragile recovery to a standstill, and into deeper crisis.

The fallout after the bombing painfully highlighted Bali's acknowledged reliance on tourism. Hotels and restaurants alone employ 58,000 people (3.3% of the labor force), but contributed 21 percent to Bali's provincial economy. If retail trade, manufacturing, and construction are included, tourism can be argued to generate over half of Bali's income. The week before the bombing hotels were booming with occupancy rates ranging from 65 to 100 percent. By the end of October 2002 they had plummeted to 10% as the exodus ensued.⁴ Direct tourist arrivals to Bali decreased from 150,747 to 31,498 between September and November 2002.⁵

Observers contend that the second goal of the attack was to create social unrest. While the initial reaction to the bombing was peaceful, there are concerns that growing economic hardship could fuel social tensions and increase the propensity for conflict. Keeping social tensions in check and maintaining law and order are key aspects of Bali's recovery.

Many have seen this event as a wake-up call to diversify Bali's economy. Segments of East Java and Lombok have similar desires, realizing the need to reduce their own economic dependency on Bali's tourism economy. It is not a matter of simply disbanding Bali's tourism industry or merely reviving it. Much of the response requires finding ways to make it less vulnerable to shocks, to promote and integrate other sectors, to make tourism's impacts more benign, to increase public participation in the process, and to ensure that all segments of the population benefit from development. This requires striking the balance between immediate and medium term recovery, and more long-term planning.

Recent efforts through a joint project of the World Bank, UNDP, USAID, and the University of Udayana have examined the issues of impacts, response, needs, and a call to action. Particular focus was given to vulnerable groups and the main productive sectors affected by the event. This effort will provide baseline

⁴ Interview with Jamal Hussain, General Manager of the Hard Rock Hotel. Jan 14, 2003.

⁵ From Dinas Pariwisata, Kanwil Kehakiman & HAM Prop Bali.

data to develop effective and appropriate program responses for government and other donors. Equally important, the data and future assessments will assist the Indonesian government and its development partners in monitoring its programs. The efforts utilize existing networks and monitoring tools (where available) to highlight the nature of the socio-economic impacts, to identify and assist vulnerabilities by area and groups, and to reduce social and economic tensions before they fully develop. The utility of the information obtained from this on-going effort already demonstrate the case for a standard – but flexible – crisis impact protocols to respond to future events in Indonesia.

2 Overview of Context

Bali's early development plans were designed to bring economic growth to the island and the national economy. Tourism has unambiguously increased the average living standards of its residents. Bali has also gained prominence as the "window shop" for Indonesian products, and its role as a trade center has fostered economic, employment, and social links with E. Java, NTB, and beyond. Despite the benefits, the impacts of tourism have not been benign. Economic gains have not been distributed evenly, and many Balinese feel it has come at a cost of their culture and heritage. Tourism remains Bali's most viable development option, but both policy makers and the public are seeking to distribute its benefits more widely and to soften its negative impacts through economic diversification. Many challenges lie ahead for Bali, not just for its immediate recovery, but for its longer term development strategy.

2.1 Tourism Development

For the last thirty years Bali has developed as one of the world's premier tourist destinations, receiving over 2 million visitors annually. The main attractions are the Islands' Hindu culture and its beauty as a "tropical paradise." These factors have led to the promotion of the concept of "cultural tourism" (Picard 1996) with the intention that visitors can experience the culture of Bali without it being destroyed through commercialism.

The original tourism development plan in 1971 (conducted by Societe Centrale pour l'Equipement

Touristique Outre-Mer [SCETO], financed by the UNDP and carried out under the auspices of the World Bank), concentrated on mass tourism. Development was focused in the south of the island (Nusa Dua, Sanur, Kuta, and Legian) to minimize the impacts of tourism on the island's cultural life. A review of the plan in the early 1990s later shifted the focus to "quality" tourism – trying to capture a market with high spending power and longer stays.⁶ Over time, efforts to concentrate tourism development were loosened, especially as other regions in Bali sought to benefit from this growth.

The advent of tourism has altered the structure of the Balinese economy, marked by a rapid decline in the relative importance of agriculture and shifting prominence in industry, construction, trade, and hospitality. In some ways this economic shift has actually helped preserve Bali's rural character, allowing it to absorb the surplus or rural workers that subsistence farming can no longer support. However, it has also had negative economic and social impacts.

One unintended consequence of the initial development strategy was the economic inequities that developed between Bali's districts. While many have seen higher than average incomes from the boom, the distributions of tourism's benefits through "trickle down" have come into question. Many Balinese also feel that their island had been developed, "by outsiders, for outsiders." The original development strategy was largely designed by foreign consultants working with the central government. A principle aim was to redress the (negative) national balance of payments. Many of the initial economic gains went back to the national level, and there was often little regard for the local culture.

Many of the debates following the bombing on Bali's future development seek to diversify the economy. One of the challenges is Bali's lack of resources. It has few mineral deposits, not enough land for large-scale farming, and mass-industrialization is not really a viable option.⁷ Calls for replacing tourism with agriculture are unrealistic, but sectors such as agriculture, higher end manufacturing and crafts, or

⁶ Interview with I Gde Pitana, Director of Bali Tourism Authority (Dinas Pariwisata Propinsi Bali), Jan 14th, 2002.

⁷ Michael Picard, Bali: Cultural Tourism and Touristic Culture

community based tourism could be promoted to decrease the dependence on the current model and achieve greater prosperity for Bali as a whole.

A recent survey by IRI (see text box 3) illustrates Balinese perceptions on restructuring its economy. Only 23% of the respondents thought that shifting to manufacturing would be successful. A majority (60%) of the sample population thought that focusing on SMEs would work. While not surprisingly, more rural respondents (56%) thought switching to an agricultural economy would be successful, compared to urban respondents (43%). Altering its economic mix is just one of the issues that Bali will have to confront.

The source of some of Bali's new challenges do not stem from top-down central government planning, but from decentralization (Law 22/1999). Now the spatial planning authority rest with the *Kabupatens*, who's plans are not subordinate to the province. Regencies are trying to increase revenues by collecting hotel and restaurant taxes (PHR), which are a large source of income for some tourism-based local governments. As local governments encourage growth to increase their PHR, development is taking place in an loosely regulated manner absent of coordinated regional planning. Amplifying the problem is that many local governments have been tasked with decentralization mandates that they do not have the financial or technical resources to carry out. Some government leaders feel Bali needs special autonomy for tourism and culture to address this issue.

2.2 Tourism Data

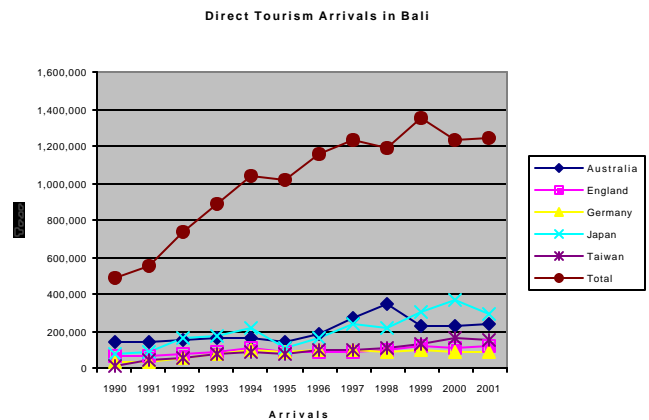
2.2.1 Visitor Arrivals

Tourism has emerged as an increasingly important business in Indonesia, and one that is particularly important for Bali. An estimated 5.1 million tourist visited Indonesia in 2001, contributing 5.3 billion dollars to Indonesia's balance of payments (about 9.2% of total exports). A majority of these tourists appear to eventually stop in Bali.

Direct international tourism arrivals to Bali were 1.28 million in 2002, more than double than in the past decade, but slightly down from a peak of 1.4 million in 2000.⁸ Further, Bali's share of Indonesia's direct

⁸ Table from Dinas Pariwisata, "Distribution of Visitor Direct Arrival to Bali by Air & Sea."

arrivals has increased substantially over the years – from 13% in 1969 to 26% in 2001.⁹ Many more visitors, as the hotel statistics suggest, arrived from



other locations in Indonesia.

2.2.2 Markets and Spending

The top three markets (measured by direct arrivals to Bali) in 2001 where Japan (21%), Australia (18%), and Taiwan (11%). Spending patterns also vary by markets. Foreign visitors tended to stay for longer periods of time and spend more money. In 2001 foreign visitors stayed an average of 11 days, compared to 4.5 days for domestic tourist. Over 67 percent of the average daily expenditures (\$74) of foreign tourist are spent on accommodations and restaurants.¹⁰ Domestic tourists spend an average of \$18 per day, roughly 50percent of daily expenditures on accommodations and restaurants.

Average daily expenditures vary by nationality – ranging from \$110 for Japan, \$55 for Australia, and \$62 for the US.¹¹ There are also variations within the domestic market – tourist from Yogyakarta (\$38) and Jakarta (\$23) spend the most, and those from East and West Java the least (\$10). These figures became significant after the bombing, as the tourist industry aggressively targeted the domestic market to offset declines in foreign arrivals.

Direct arrivals to Bali dropped quickly after the October bombing, from 150,747 in September to 31,497 in November. Bali often acts as the hub for

⁹ Bali tourism Statistics 2001, Bali Tourism Authority, p2.

¹⁰ Survey results from Dinas Pariwisata Bali.

¹¹ Survey results from Dinas Pariwisata Bali.

many tourists, with their secondary trips branching to other major Indonesian destinations such as Lombok, Yogyakarta in Central Java, and even Toraja in South Sulawesi. These areas are expected to also suffer and the magnitudes will have to be assessed.

2.3 Living Standards, Poverty, and the Vulnerable

Bali's poverty rate was only 4 percent in 2002 -- compared to 15.9 percent in Indonesia. Initial data from the 2002 SUSENAS suggests that the rate of urban poverty in Bali was 1.9 percent and rural poverty 6.2 percent. The data suggests that it will not initially be the poor that will 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 directly impacted by the bombing.

The development of tourism has been concentrated in the south, leaving regions in the north lagging behind. Earlier data used for the map illustrates poverty levels by districts. The southern districts of Bandung,

Denpasar and Gianyar represent the main concentrations of the tourism and related industries and had some of the lower concentrations of poverty. The highest incidences of poverty are found in eastern Karangasem, Bangli, Klungkung, and Buleleng, with poverty rates over ten percent respectively.

Workers in hotels were almost exclusively formal wage earners (97.5 %) in 2002, as are those in the restaurant sector (78.2%). Almost two thirds of construction workers were wage earners. In contrast, those in the retail trade were predominantly informal (75.5%) (See Table 1: Bali's Employment by Sector)

Strategies to assist the poor, particularly those most vulnerable to the anticipated shocks from the decline in the tourism sector will therefore have to be varied. For wage earners, this may entail stemming layoffs, providing opportunities for temporary employment, or smoothing opportunities to find alternative income sources in the informal sector. For the less fortunate, it may entail leaving Bali for opportunities elsewhere.

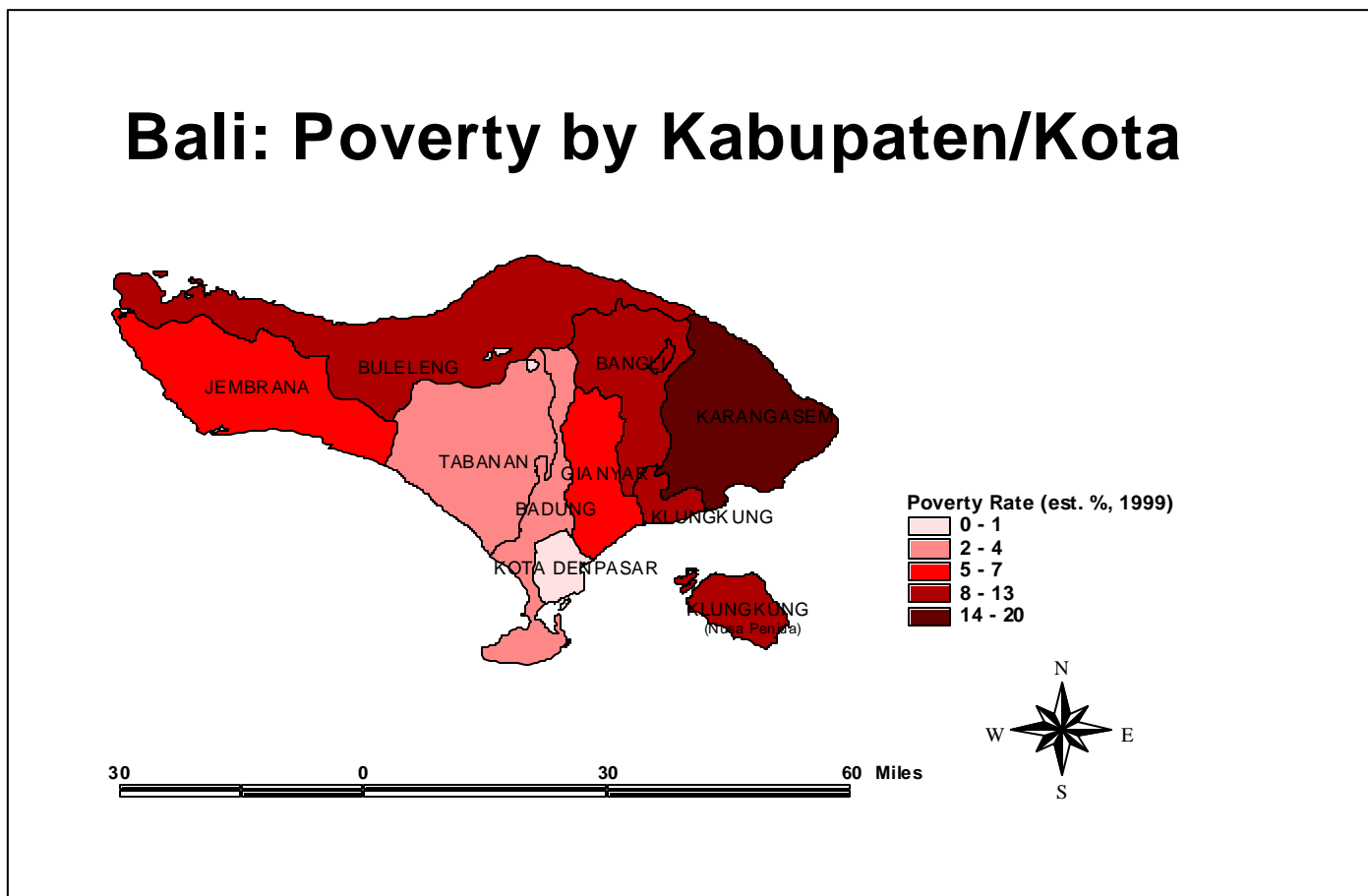


Table 1: Bali's Employment by Sector

	Bali				Total	Average Wages Levels (PC Rps/month)	
	Formal		Informal			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	-
- Business 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

If employers perceive the shock to be more temporary, they may refrain from immediate layoffs. A rapid revival of Bali's image as a safe and secure destination will contribute to this. The average wage in hotels was Rps 822 thousand per month in 2002. Wages in the manufacturing sector were Rps 433 thousand per month (unadjusted for worker characteristics). The minimum wage (UMP) for Bali was Rps 341,000 per month in 2002 and Rps 309,750 in 2001. The UMP for 2003 is not yet clear. Although these wages appear well below average wages, an increase in the minimum wage at this stage may accelerate layoffs, especially for those at the lower end of the wage scale.

But income opportunities in the informal sector may also be impacted. Appropriate strategies to assist these groups will have to be developed, not just in Bali but in other impacted areas (see World Bank, *Possible Poverty Effects of the Bali Bombing*).

Migration: How significant are migrants – and hence potential remittance and/or return flows – in terms on Bali's economy? Just over 7 percent of Bali's residents were migrants in 2000. These were predominantly concentrated in urban areas (12.9%), with comparatively few life-time migrants in rural areas (1.3%). In comparison, the national average was 10 percent. Eighteen of Indonesia's thirty provinces had higher in-migrant shares.

Recent migration is somewhat more prevalent for Bali than the national average, but only marginally so. 3.1 percent of Bali's population lived in a different province five year previous to 2000, compared to a national average of 3.0 percent. The concentration of in-migrants was far higher in urban areas (5.5%) than in rural areas (0.6%).

The 2000 Population census details which *kabupatens* or *kotas* migrants come from. This measures the extent

to which these regions may lose remittances if family members still remain there. or if migrants return to their homes if they lose their jobs in Bali.

The share of migrants in Bali relative to its population shows the dependence of a local jurisdiction on Bali's migrants. In 21 localities, lifetime migrants in Bali represented more than one half a percentage point of the current population. This was the case for eight localities for recent migration. The highest rates of lifetime (3.14%) and recent (0.83%) migration were found in Kabupaten Banyuwangi in East Java. Other leaders in recent migration relative to own population were Mataram (0.35%) and Ambon (0.33%).

Religious and Ethnic Composition: Open tensions between different ethnic, religious or migrant groups in Bali have been limited. This is not to say that future economic strains may not heighten frictions. 87.4 percent of Bali's population was Hindu in 2000, compared to a national share of 88.4 Moslem in Indonesia as a whole. Rural areas were more Hindu (94.6 %) than urban areas (80.2%), in part explained by the greater presence of in-migrants in urban areas.

2.4 Ex-Bali Linkages

2.4.1 Migration patterns

Bali's history has always been intertwined East Java and Lombok. In 1930 almost 99% of the population of 1,080,000 in Bali were Balinese Hindus, with more than 4,000 Balinese living in Lombok.¹² By 2000, official data indicate that more than 330,000 people (11% of the population) in Bali were migrants from other areas.¹³ Most were from Java (6.8% of the population in Bali), and migrants accounted for 30% of the population in Denpasar, and over 20% in Jembrana.

The Balinese have also migrated widely, especially through government sponsored transmigration programs. There are now more Balinese living outside of Bali, mostly concentrated in Central Java, East Java, Lampung, South Sumatra, NTB, and Central Kalimantan. More than 100,000 Balinese Hindus now reside in Lombok, primarily in Mataram and in the west.

¹² Goooszen, H. (2000) A demographic history of the Indonesia archipelago, 1880-1942. Institute of Southeast Asian Studies, Singapore.

¹³ BPS (2002) NTB Dalam Angka 2001.

The development of tourism in Bali has attracted migrants and seasonal laborers to the urban centers in the south of the island. Many workers come from Java, Lombok, or other parts of Bali – especially the north. Additionally, tourism industry establishments recruit directly from East Java (notably in Banyuwangi, Jember, Lumajang, Pasuruan, and Probolinggo).¹⁴

Downturns in the national economy tend to increase migration, as workers seek jobs in Bali's more "protected" economy. Bali fared better than most areas during the 1997 economic crisis, prompting an influx of in-migration. Now, as the bombings impacts have been hardest felt in Bali, many migrant workers have had to return home.

2.4.2 Other Links with Lombok and E. Java

Bali's business infrastructure has made it the "window shop" for products produced in East Java and in Lombok. "Balinese" products – furniture, handicrafts, textiles, and agricultural products – are often produced outside of Bali. Many industries in East Java and Lombok are dependent on Bali for marketing their products. For example, it is typical for furniture to be made in East Java, sent to Bali to for sale, and then back to Surabaya, East Java for export abroad. The areas with commercial links have benefited from Bali's thriving export business, but the reliance on Bali is increasingly being questioned prompting calls for developing new local and export markets. (see section 4.2 on East Java)

3 Bali Impacts

This chapter reviews recent evidence on the socio-economic impacts of the Bali bombings and coping mechanisms by individuals and firms derived from tourism data, tourism related industries, villages level key respondent surveys, and schools based evidence on Bali. The chapter concludes with an assessment of the main social tensions dynamics on the island.

3.1 Tourism Industry and Linkages

The impacts of the bombing have been unprecedented on Bali's economy. Recent comparable shocks, such

¹⁴ Rapid Appraisal Interview, SR Devy, Airlangga University

as the Gulf War (1990), the Jakarta riots (May 1998), and Sept 11, have paled in comparison.

Over 90 percent the managers from a survey of 200 hotels (January 2003) said the impacts were more serious than the May 98 Jakarta riots.¹⁵ Comparative data on direct tourist arrivals confirms this. Tourist arrivals dropped 29 percent, from 92,936 to 66,326 in May. However, tourist arrivals (105,355) quickly rebounded and surpassed pre-riot levels within 3 months. Direct tourist arrivals following the Kuta bombing plummeted roughly 80 percent from September 2002 (150,747) to November (31,497). Occupancy rates at starred hotels dropped 85 percent during the same period, from 68 to 9.9 percent. There has been a slight recovery, with December arrivals reaching 64,352 and occupancy nearing 20 percent, but this jump resulted from the peak holiday season.

There are few instances of direct attacks on tourist to the magnitude of Kuta. The most comparable event was the killing of 58 tourists in Luxor Egypt at the temple of Queen Hatshepsut in November 1997. The attack followed a three year period of 20 percent annual expansion in the tourist industry. Tourism initially fell by 13 percent in 1998, but growth quickly returned to 30 percent in 1999 (ILO 2001). Evidence from Israel and Greece suggest that the impact of shocks is temporary. (Aly, Hassan Y. and Mark C. Strazicih).

While Bali is expected to recover, the impacts will likely not be as ephemeral as in the past. Hotel prices still have not increased to original levels after rates were cut (25-50%) following Sept 11. Barring additional events, many in the tourist industry remain optimistic and forecast that tourism will return near the pre-bombing levels by June or July. However they all note the catastrophic consequences of a war in the Gulf, and feel that if the recovery does not happen this summer, it will not happen this year.¹⁶

A forecast report by JICA and Bapenas used an econometric model to predict the possible loss of visitors due to the bombing in 2003. The best case scenario assumed the international direct arrival and

¹⁵ VHTS-2 Survey, conducted by BPS Bali (Dec 02 –Jan 03) and the World Bank.

¹⁶ Data from interviews with several General Managers of 3 and 4 star hotels who wanted to remain anonymous.

visitor numbers will return to predicted levels in June 2003, resulting in a loss of 196,394 visitors (12% of the 1,572,507 initially predicted). The less optimistic cases assumes that tourist arrivals will not rebound to predicted levels until December 2003 – a loss of 414,433 (or 26.%). The report uses the 1995 I-O table, suggesting growth rate loss for Indonesia to lie in the range of 0.25 to 0.56 percent (Yoshioka, Shinji 203).

The latest Pacific Asia Travel Association (PATA) forecast estimates an 11.8 percent loss in tourism – from 5,127,648 million to 4,523,831 – in Indonesia as a result of the bomb. Bali will likely experience a disproportionately larger loss of this market relative to its normal capture. The (2000) IO table indicates that tourist expenditures impact over 50 percent of Bali's value added. Over 80 percent of the impact is accounted for by foreign tourist. The repercussions on growth and employment will be significant from the projected losses.¹⁷

Box 1. The Moped Barometer

The ubiquitous masses of mopeds buzzing Bali's streets reflect its wealth and higher living standards relative to other areas of Indonesia. Equally, the recent shocks to the economy and the resulting effects on the moped business shed light on the economic behavior and the challenges facing businesses and individuals.

Moped dealers reported drastic declines in sales (70%) immediately following the bombing, despite reducing prices by 15 percent. The few buyers have tightened their budgets, so the demand for once popular high-end models has been replaced by second-hand or stripped-down new models. Before the bombing, buyers were typically taking out 2 year loans, now payments are being spread over 4 years – and this is for the more fortunate who can buy.

Bank credit is more difficult to obtain, so many do not qualify for loans despite their willingness to buy. Many dealers have noted a boom in people desperate to sell back their mopeds for quick cash, often because they can no longer meet their payments. It is a small industry, but it captures the broader economic problems and behaviors in Bali – slumping sales for businesses, reduced spending, difficulties obtaining credit, longer debt payments, over-extended borrowing, and selling of household assets for financial survival. One dealer summed up the bigger picture noting, "even though my business is mopeds, I am dependent on tourist too."

Box 2. Kuta's Beach Vendors

There are over 2,000 vendors on the beaches of Kuta licensed to sell products and services ranging from manicures and massages, to sarongs, food, and fake tattoos. The self-employed vendors represent the most vulnerable sectors of the population. The World Bank, UNDP, USAID, and the University of Udayana conducted a rapid survey of 100 vendors – the results show how swift and severe the impacts were, vendor's reactions, and hints of the future.

Almost 60% of the vendors are Balinese -- those not from Bali had lived there for an average of 5 years. The average vendor had worked on the beach for roughly 6 years. Before the bombing they were able to make a good living. Over one third of the respondents made an average daily profit of over 150,000 Rp, only 27% reported making less than 75,000 Rp, and none reported making less than 15,000 Rp. Now only 1% reported daily profits over 150,000 Rp, 96% made less than 75,000 Rp, and 28% made less than 15,000 Rp. On average, their income represented 69% of the total share of household income – and almost 40% of the respondents reported it was their only source. Almost a third of those surveyed thought that they would have to quit their job if the tourist slump continued, yet over half of those who might have to quit said that they don't have other employment options.

Many vendors have already left – returning to their *kampung* to rely on their familial safety nets and agrarian subsistence. But “returning to the farm” and riding it out is not an option for those originally from “town.” They have dealt with the income shocks by taking second jobs, selling household assets, having their spouse start work, or living off of savings. If tourists do not return to Bali in the immediate future the situation will only get worse, as the marginal utility of their initial coping mechanisms inevitably fizzle-out.

Additionally, the future does not look bright for those still buffered from the downturn by employer provided safety nets. At current levels the numbers cannot sustain these benefits forever, and many hotels and restaurants have already reduced or dropped their benefits, docked wages, transferred staff, or not renewed contracts. A significant amount of the workforce in the tourism industry could soon find themselves -- like the vendors are now -- exposed to the market's tumultuous whims. If tourism levels do not increase soon, they can look at the experience of the vendors for a possible glimpse of things to come.

The economic shocks have affected businesses in various ways, and it is difficult to typify the responses. The hotel industry felt the impact first, as planes were literally landing empty and flying out full. The primary responses have been shifting marketing

strategies, providing incentives to attract guests, and cutting expenses.

Many hotels have softened the blow by focusing on the domestic market. Before the bombing, typical 3 to 4 star hotels had 25 percent domestic guest -- now the figure has increased to as high as 85 percent. As long as there are travel advisories in primary foreign markets (Australia and Japan), the domestic markets will be the primary business target.

Hotels have tried to maintain the same prices, but provide upgrades or bonus days as incentives. Managers were hesitant to drop prices, knowing that once reduced, it could take years to return to original levels. However, a survey started hotels found 75 percent dropped their prices by an average of 37 percent.¹⁸

Hotels have also cut cost by letting go expatriate staff, closing off empty wings to save on utilities, reducing staff benefits and pay, and not renewing contracts. Many employers have made significant efforts to keep all of their permanent staff, hoping business will pick up in early summer. Some hotels have cut all of their staff hours, but let employees maintain their health benefits until they can be hired back on.

3.2 Tourism Related Industries

In addition to hotels, restaurants, and tour operators – another cluster of SMEs depends indirectly on tourism for its business. A survey conducted by the University of Udayana examined the economic impacts on 65 SMEs in the wood, material, garment and textile, food, stone, and silver and metal industries.

The survey found that two months after the bombing, 56 percent were still making profits, 18 percent were breaking even, and 24 percent were losing profit. Over 40 percent of the SME's reported decreased production (between 20 and 80 percent), the remaining reported constant output. However, 82 percent reported marketing difficulties, and 41 percent problems paying their suppliers and employees. Most had not laid-off permanent staff, but many of the part-time workers were released.

¹⁸ VHTS-2 Survey, conducted by BPS Bali and the World Bank. (Dec 02 –Jan 03).

3.3 Banking Sector Links

The Bali bombings are not anticipated at to have serious negative impacts on outstanding bank loans from Bali based businesses.¹⁹ The direct loan exposure of the banking sector in Bali has historically been small. Bank Indonesia (BI) data show that as of end-October 2002, total lending in Bali amounted to Rp5.6 trillion or only 1.5 percent of total bank loans. However, given that many of the larger businesses operating on the island are domiciled elsewhere, the BI data is not believed representative of domestic banks' total loan exposure to businesses operating in Bali.

Bank Indonesia only records loan data for Trading, Restaurant and Hotel industry. This makes assessing the impact of the bombing to the quality of bank loans to the tourism industry nationwide difficult. Latest data show that bank loans to this industry reached Rp 64.5 trillion by end-October 2002, or 18 percent of total bank loans. However, taking into account that the bombing may be affecting other 'tourism-related' industries, the adverse affect could be reaching much larger portion of bank loans. Given the way loans (and business transactions) payments are made, the real impact on banks' debtor's cash flow would only be evidenced in upcoming quarters.

The small portion of loan exposure to the industry that were already non-performing before the bombing has been adequately provisioned. Still, in anticipation of deteriorating quality of bank loans, Bank Indonesia announced in November 2002 that it had postponed the implementation of its 5 percent maximum NPL ratio requirement from end-2002 to end-June 2003. BI also indicated that it would soon issue new regulations that would give special treatment to SME loans and restructurings of Bali borrowers. Under this new regulation, Bali would be considered a "distressed area" and hence is to be entitled special treatments in terms of how banks can classify their portfolio.²⁰

¹⁹ Based on informal inquires with large banks.

²⁰ The quality of bank loans in the Bali province with a loan facility of less than IDR 1 billion (about USD \$ 1 million equivalent) will be assessed only by payment ability and thus, will not be subject to an assessment of 'business prospects' and financial conditions as mandated by existing BI regulations. Restructured loan will be classified as "current" (or Category 1) for the period of one (1) year if the loan meets the following criteria: (1.). The loan was given

Box 3. Public Opinions and Priorities

As part of the international relief effort in Bali after the October 11, 2002 tragedy in Kuta, the International Republican Institute (IRI) conducted a series of focus groups and a provincial survey in Bali during December, 2002. Over 1000 people were interviewed – Hindus and Muslims.

The survey assess tensions and potential for violence, the economic impact of the tragedy, and assists the Balinese provincial government in creating priorities for incoming aid monies. It also provincial government with a means of showing the Balinese people that their concerns are being sought out and needs addressed.

The questionnaire was developed from 3 focus groups, consultations with Balinese leaders and from the Bali provincial government's response plan for the crisis.

Many of the survey's results are found throughout this text. The results of this public opinion analysis have been distributed to local and national officials, as well as the international aid community. IRI believes that this type of exercise in gauging needs of the people through public opinion research can be valuable in relief efforts of any type.

Contact: IRI, Steven Moore at +62-21-571-3041 or via email at smoore@iri.org.

BI not yet stated why the decree has not been implemented. Because the NPL ratio requirement for all banks (which applies to all type of loans) has been postponed, the importance of such SME measure has been reduced. BI may feel the situation is not as bad as it initially anticipated (and thus may postpone or cancel the plan), or it may need more time to assess the full impact of the bombing. On the whole, the impact of that regulation would not appear to be that significant.

to debtors with business located in Bali. (2). The quality of the loan was "current" or "special mention" (category 1 or 2) prior to the Bali bombings (3). The loan is expected to experience difficulties in making payments (principal and interest) resulting from the bombings.

For new loans, banks will still use the usual loan review factors. Forbearance in loan classification will not affect the loan granting decision much. Moreover, new bank loans nowadays are working capital and consumer loans. BI reports that new working capital loans typically have an amount above Rp50bn and thus cannot be grouped as SME loans (<Rp5bn). Consumer loans typically grouped as retail loans with amounts less than Rp1bn.

The banking sector has yet to show any major indications of consumer loan foreclosures. Initial reports suggest that many Balinese are facing problems in meeting consumer loans (see Box 2 on Mopeds), but large scale defaults have not yet been reported. If anything, more extensive impacts will likely occur as the year progresses.

3.4 Kecamatan Level Impacts

Village respondents to a survey conducted in 2 villages in each of Bali's 53 kecamatan were almost unanimous (94%) in their expectation that incomes would decline at the community level as a result of the bombing. The highest levels of perceived income declines were registered in Gianyar, Badung, Buleleng and Klungkung.

Approximately, 67 percent of the village key respondents surveyed recorded experiencing a reduction of salary/wages, along with reduced sales of agricultural products. However, less than 2 percent of respondents suggested that individuals were being

force to forgo basic foods. The limited exceptions were found in Klungkung and Karangasem.

The decline in tourism (mostly concentrated in more developed districts such as Gianyar, Badung and Denpasar) has reduced the amount of remittances returned to the village. The survey revealed that 62 percent of villages in Karangasem report a decline in remittance, while more than 50 percent of villages in Klungkung and Buleleng show a similar pattern. This may explain the spillover effects experienced by the poorer districts, located away from the main tourist center activity, but still affected by the recent bombing.

Coping Mechanisms. The key respondent survey revealed several coping mechanisms in the wake of the bombings. These include reducing expenditure and maintaining income/revenue, by utilizing the existing productive assets owned in the household. 13 percent respondents reported reduced participation in Arisan (rotating savings credit associations) and reduced contributions to the village. Around 13 percent reported the addition of family members to the workforce. This figure warrant closer monitoring as children often join the workforce in lieu of studies. Only 1 percent of respondents reported families taking children out of school.²¹

Other coping mechanisms were found. Approximately 15 percent of villages surveyed noted the closing of shops, while 16% reported the selling of assets. Examining distribution by district, around 39% of villages in Gianyar indicated that vendors were closing shops, while 36% and 23% respectively, in Bangli and

Table 2: Coping Mechanisms

No		Selling assets	Closing shops	Pawning assets	Send family members to work	Take kids out of school	Reduced participation in arisan
1	Denpasar	6%	6%	19%	0%	0%	6%
2	Gianyar	12%	39%	17%	15%	0%	15%
3	Bangli	36%	16%	28%	24%	0%	28%
4	Klungkung	13%	17%	13%	21%	4%	n/a
5	Karangasem	7%	20%	9%	4%	0%	13%
6	Buleleng	17%	12%	15%	13%	0%	19%
7	Jembrana	22%	0%	17%	9%	4%	4%
8	Tabanan	10%	10%	15%	10%	0%	3%
9	Badung	23%	3%	29%	20%	6%	3%
	Total	16%	15%	17%	13%	1%	13%

Source: Kecamatan Key Respondent Survey

Badung reported families selling personal assets. These mechanisms illustrate the destabilizing economic affects, which could have more sever long-term implications.

Approximately 94 percent of villages acknowledge the existence of special programs to alleviate the impact of the crisis in their district.

Migration. Over 30 percent of key respondents reported migration back to the village, but levels varied by district. Bangli (48%), Klungkung (42%), Jembrana (48%) and Buleleng (40%). In times of economic prosperity, these poorer districts have the greatest outward migration.

The primary reasons given for returning are unemployment (23%), insufficient income (20%) and security (9%). Entire families may return to the village, but often only the women and children return. Only 14 percent of villages believe that the *kampung* will be able to provide sufficient employment opportunities. Underlying this perception is the potential for greater unemployment if the situation does not improve in the near future.

As consistently indicated throughout all of the surveys, inbound migrants primarily derive from Gianyar and Badung, the two areas most closely tied to the tourism sector. Around 17 and 8 percent, respectively, of respondents recorded outward migration from Gianyar and Badung. In addition to worker movement within Bali, workers are also returning to East Java (4%) and Lombok (3%).

3.5 Educational Impacts

The school survey was fielded in December to five primary and two junior secondary schools in each of the 53 Balinese sub-districts (kecamatan). At this stage, neither an increase in dropouts nor a decline in student attendance was reported. The findings indicate that schools are affected, but currently to a minor degree. Migration to rural areas and a decrease in timely payment are prevalent, but to date, coping mechanisms appear sufficient, although likely unsustainable. The respondents tend to employ a ‘wait-and-see’ attitude toward the crisis, prompting the need to conduct the school survey again in mid-February for closer monitoring.

Although the survey does not reveal a significant decline in education outcomes (such as dropouts and school attendance), parents are having more difficulty sending children to school. This is especially acute in districts with close ties to the tourism sector.

Approximately 75 percent of school respondents reported a decline in economic conditions at the village level in the past 3 months. About 25 percent of school respondents reported that parents were experiencing difficulties in paying school fees (BP3 for public school and SPP for private school) in the past 2 months (November and December), with around 36 percent of schools reporting untimely payment of school fees. However, these levels may also be reflective of normal conditions.

Public SD students appear to be more affected than

Table 3: Schools reporting late fee payment by districts

No		SD			SLTP			Total
		Public	Private	Total	Public	Private	Total	
1	Denpasar	25%	0%	25%	0%	n/a	0%	18%
2	Gianyar	22%	n/a	22%	36%	27%	64%	38%
3	Bangli	33%	n/a	33%	63%	25%	88%	55%
4	Klungkung	33%	0%	18%	0%	n/a	0%	18%
5	Karangasem	35%	0%	35%	62%	0%	62%	44%
6	Buleleng	27%	7%	33%	25%	13%	38%	35%
7	Jembrana	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8	Tabanan	14%	n/a	14%	13%	13%	25%	17%
9	Badung	48%	4%	52%	43%	14%	57%	53%
	Total	29%	1%	30%	35%	14%	48%	36%

Source: Kecamatan Impact and Schools Survey

children attending private SD, but SLTP is the hardest hit by the crisis as demonstrated in table 3. Roughly 48 percent of SLTPs reported untimely fee payment. SLTPs in Badung, Bangli, Karangasem and Gianyar were particularly impacted. Gianyar and Badung were immediately affected by the bomb as the decline in tourist revenue was instantaneous.

Other indirect indicators of household purchasing power, such as pocket money given to students, revenue from school canteen and student involvement in tutorials, follow the same pattern as direct indicators, but are slightly less severe. This may reflect the coping mechanisms employed and priorities of the family, i.e., pocket money is not reduced, but fees are paid later, and thus the direct impact on the child is not as great.

When crosschecked with local economic conditions, the districts reporting the greatest impact were most closely tied to the tourist industry. Badung and Gianyar rely heavily on services and tourism. Distribution of parental occupation by sector demonstrates that the restaurant and hotel trade is the dominant sector of parent's employment in Badung. Gianyar possesses a high percentage of home industry closely related to tourism (arts, painting, etc). This pronounced link to the tourist sector explains why these districts were most impacted by the recent bombing tragedy. However, when examining household education expenditure per student, these two districts are among the more financially sound (in Badung and Gianyar education expenditure is Rp. 166,169 and Rp. 178,155 respectively). In terms of real GDP per capita, Badung has the highest real GDP per capita in the province. Therefore, although these two districts were affected, they remain stronger than the other districts in Bali, and education determinants do not appear to falter.

Student mobility: Thirty-four schools, or 15% of schools, report the movement of students to other districts. The figure is particularly high for Badung, Gianyar and Buleleng as illustrated in table 2. The main reasons indicated for this movement were loss of employment (35%), job transfer (41%), and other reason/family reason (24%). The movement does not imply that the student quit school, but in most cases, that the student moved to another school in a new location. This hypothesis is supported by the low dropout rate observed. In times of economic hardship,

a usual coping mechanism enacted is the return of the family back to the village of origin in order to ease burdens due to the higher living costs in larger cities. Three districts, Bangli, Karangasem and Jembrana reported high inward migration (15%). Two out of three of these districts are agriculturally based. This reflects the fact that the agricultural sector remains the main supporting sector. When the tourism industry is waning, many return to the village to work in the fields.

Teacher performance: A decline in teacher's attendance was not reported. Teacher motivation remains high, as only 3 percent of school respondents reported a decline and 10 percent reported an increase in teacher motivation. 14% of school respondents reported teachers currently seeking a second job. Klungkung and Buleleng, in particular, reported high figures in this category. This may be linked to a decrease in the involvement of students in extra lessons, usually serving as extra income for teachers.

Conclusion: Household economic conditions were affected by the bombing, mainly through a decline in income. HMost families appear to value education highly and will maintain a child's enrolment by adjusting other areas of spending and by migrating back to the village. The school level survey needs to be conducted again in February to ensure that conditions do not continue to deteriorate.

Table 4: Students migration

No		Outbound migration	Inbound migration
1	Denpasar	9%	18%
2	Gianyar	21%	7%
3	Bangli	15%	25%
4	Klungkung	n/a	9%
5	Karangasem	15%	26%
6	Buleleng	17%	17%
7	Jembrana	13%	25%
8	Tabanan	7%	10%
9	Badung	23%	7%
	Total	15%	15%

Source: Kecamatan Impact & Schools Survey

3.6 Post Bombing Social Tensions

Bali has not experienced the recent social conflict seen in other parts of Indonesia, but it does have its own history of disputes, some of which occasionally lead to violence. Almost 20 percent of *kecamatan* respondents indicated that there had been social conflict in their *kecamatan* since 1998.

Prior to the bomb, the majority of disputes were between *adat* communities, primarily over land and cultural issues. The most notable past cases occurred in Kuta in April 1999, when the local community burnt 1,500 carts belonging to small traders, and in Singaraja in October 2000, when mobs destroyed government buildings following Megawati's defeat in the Presidential election. These two cases illustrate that (a) differences in potential conflict exist between different parts of the island, and (b) violent conflict in Bali in recent years has tended to manifest itself more in terms of the destruction of property rather than lives.²²

The assessment indicated that the bombing has resurfaced previously latent social tensions. Of the people surveyed who were concerned about security and social disturbances, 45 percent attributed this to community / inter-group relations, and 22 percent to economic pressure. The assessment also identified security as a main concern of the community.

3.6.1 Community Relations

Urbanization and immigration have altered the character of several urban centers in Bali, resulting in weakened social ties. There are numerous reports of deteriorating community relations in a number of areas since the mid-1990's. Interestingly, 62 percent of respondents in the *kecamatan* survey indicated that community relations have improved since that the bomb, probably reflecting the responses of community leaders after the bomb and positive attitudes of the majority of Balinese to community relations. However, there remains 15 percent of respondents who reported increased suspicion between migrants and Balinese (notably in Denpasar). IRI found similar results and characterized 'Bali's tense 20%' as more likely being

²² Respondents in the *kecamatan* survey and other assessments stated that political issues were the most common source of conflict in the north and west, while social and *adat* issues were the most frequently mentioned in the south.

students and workers with expenditures of less than Rp. 500,000 per month.²³

3.6.2 Economic Pressure and Unemployment

The economic crisis in Bali has increased economic hardship and unemployment. An assessment by University of Udayana identified labor disputes as a potential source of conflict if layoffs occur, and demonstrations by employees could lead to local violence as has occurred in the past.²⁴ ²⁵ Effective social support mechanisms rather than security approaches would play an important role in mitigating these tensions.

Security concerns have prompted the local government to promote community security through the *pecalang* – the local community security groups under the authority of the *desa adat*. Although the *pecalang* have improved the local Balinese community's sense of security, their association with Balinese *adat* and religion has increased tensions within the non-Balinese community.²⁶ Security in public spaces, such as markets and bus terminals, is also provided by civilian groups, and the provincial authorities have formed a civilian team (TP5BB) to secure the trial of the suspected bombers. The use of untrained civilians, often with certain 'group affiliations,' to maintain law and order clearly has its weaknesses, but reflects the need for Bali to ensure security following the bomb.

As part of the security response, the district governments in Bali are continuing with the policy of regulating residency through issuance of temporary residency cards for migrants (KIPP/KIPEM). Identity cards checks and sweeping operations are increasingly common. Those who do not have sufficient evidence of identity and reason to be in Bali are returned to their homes. The KIPP/KIPEM is a requirement for all people crossing district borders, including Balinese. The policy is being most systematically implemented in Denpasar and Badung. In Denpasar in particular, many Balinese and non-Balinese migrants have complained over the cost of the card and the implementation of the administration process (see Box 4).

²³ IRI (2003) Bali Bombing Impact Survey: Key Findings.

²⁴ [Bali Post, April 2002 – Bali Golden Hotel, Kuta](#)

²⁵ Geriya, W. et al. (2003) Conflict Potential and the Impacts of the Kuta Bomb. University of Udayana.

²⁶ Interviews with community leaders in Denpasar.

Box 4: Work and Residency Permit Issues

The temporary residency permit (KIPEM or KIPP) has become a major issue in Bali, especially in the south where migration has led to overcrowding and competition for limited jobs amongst unskilled, informal sector workers. In Denpasar, the regulation of residency has been one of the five major policy areas of the local government for some time, and is legislated by several local laws (Perda Denpasar No. 6/1996; Perda Denpasar No. 5/2000; SK Walikota Denpasar 593/2000, SK Walikota Denpasar 610/2002). Migrants are required to surrender their identity card (KTP), provide an official letter of the intention to move (Surat Keterangan Pindah), provide a Letter of Support (Surat Jaminan) from a local resident, a Travel Permit (Surat Jalan) and Certificate of Skills from their village head, and pay an administrative charge. Similar regulations and policies exist in other districts, but the details and charges vary as a result of regional autonomy.

Although there is wide support for the policy as a security measure, there is a notable difference in support between the Balinese and migrant communities (Kuta beach vendor survey: 92% vs. 64%), with migrant communities in particular believing that the temporary residency permit creates social tensions (beach vendor survey: 10% vs. 45%). A number of demonstrations against the administrative cost and implementation of the policy have been held since December. In particular, sweeping operations at night and the conduct of certain field staff and *pecalang* have been criticized.

Confusion exists about the rationale behind certain aspects of the policy. In particular, variation in administrative costs between districts as allowed under regional autonomy. Further, there seems to be some discrimination in charges between the Balinese and migrants, who in Denpasar are charged Rp.100,000 and Rp. 200,000 respectively. Although the latter reflects the differential costs in paying travel costs for their return, this is socially divisive and is a sharp increase in past policies which (before the bomb) charged a refundable guarantee of Rp. 20,000 for the Balinese and Rp. 68,000 for migrants from East Java and Lombok. The beach vendor survey in Kuta, Badung, where the official cost is Rp.30,000, shows that actual fees paid varied between Rp. 25,000 (50% of respondents) to Rp. 50,000 (10% of respondents), with respondents not being clear about the duration their temporary residency permit is valid.

The residency permit issue is also making waves in East Java and Lombok. One driver from Jember remarked: "The plan of the Bali government to charge Rp. 250,000 per 3 months for the KIPEM is not appropriate because it is not in accordance with the low earnings of migrant workers in Bali." In Lombok, there have been small demonstrations and threats from local organizations of beginning to control residency in Lombok, with a focus on the Balinese. Co-operation between provincial governments to help clarify the rationale and administrative process of the residency policy would help potential migrants understand the basis for the rules and what they need to come to Bali.

The residency issue remains difficult in terms of balancing the need for security and residency regulation, and the rights of Indonesian citizens to choose where to live. The improvement of the residency control policy and its implementation has been highlighted as the second highest priority for the local government (IRI Priority Setting Study), and there is indeed a need for greater information provision, an effective complaints procedure, greater standardization between districts, and a public review of the policy. Local governments in Bali are currently undertaking such as review. Effective public consultation would help ensure that any new policy and administrative process has widespread public support.

National issues also affect Bali in various ways, from the recent price rises in basic goods and services to the political fortunes of PDIP. These tend to increase political tensions, and the forthcoming elections were identified by a number of respondents as being a period of higher social tensions. Sub-nationally, the outbreak of violence in Maluku in 1999 led to worries amongst community leaders in Bali, who responded by forming an Inter-faith Communication Forum in Bali.

4 Off-Bali Impacts

Whereas the most direct effects of the decline in the tourism industry can be found in Bali, many other areas are linked. But the impact depends not only on the degree of linkages, but also initial conditions. That

means that the challenges differ significantly depending on areas.

4.1 Lombok

The bombings have had definite, but diffused impacts on Lombok's economy and social stability. Lombok's already struggling economy – that has yet to fully recover from the January 2000 riots – and the smaller scale of its economic links have made the impacts less acute than in Bali, or in segments of East Java. However, the economic and security situation remains tenuous and should not be overlooked. The Centre for Population and Development Studies at the University of Mataram conducted a rapid appraisal of the impacts on Lombok's tourism/hotel industry, cottage and

small-scale tourism related industries, and within communities.²⁷ Both the economic and social impacts were found to be related to greater security issues.

A survey conducted at 16 hotels (5 starred, and 11 non-starred) in the main tourism areas of Batu Layer and in Kuta highlight the immediate impacts on Lombok's tourism industry. Occupancy rates dropped from 50 percent in September to 18 percent in November.²⁸ Over 5,000 reservations were immediately cancelled – with average daily tourism expenditures near \$70 US, this was a substantial loss of income to the local economy. December occupancy rates increased to over 30 percent in December – more than in Bali. However, this is likely reflective of peak season demand, not a quick recovery.

Hotels have reacted by reducing prices (by an average of 23%), staff hours, and salaries. However, the large staff lay-offs that followed the Jan 2000 riots have yet to occur. Almost 40% of the hotels indicated that they had changed their marketing strategy to focus on domestic tourist. Most of the hotels (43%) expected a partial recovery within six months to a year, while others estimated 1-2 years (31%), and the rest were uncertain.

A significant amount of hotels indicated that they will likely have to lay-off more staff (31%). When asked what steps the government should take, the two priorities were to improve security/community relations (25%) and to diversify the economy (31%). The hotels have recently (Jan 15th) organized to lobby the provincial government to provide relief by temporarily dropping taxes (PHR's) – the government has yet to respond.

Lombok's tourism related industries (handicraft or export oriented goods) are significantly smaller in size and number than in Bali or in E. Java. Those surveyed reported a 50 percent average drop in sales following the Bombing. Roughly 75 percent of the products made in Lombok are sold in Bali, with the rest either in Lombok or exported overseas. The impacts have been hard on the producers, but have not resounded through Lombok's economy. Even the largest industries in Lombok are small, typically with less than 20

employees. However, most are home or cottage industries with little debt or payroll obligations. Many of the small producers have been able to soften the affects by finding work in agriculture during the rainy season.

Interviews with 24 key community leaders living in tourism areas indicated that the outfall from the bombing has not been devastating. This is likely because many of the affects are still being felt from the 2000 riots. The leaders indicated that there have been no noticeable *new* social tensions within the community as a result of the bombing. Additionally, the impact of the few reported migrants retuning from Bali was insignificant, and copping mechanism common in Bali – such as selling household assets – are not widely reported. The community leaders also noted that the rainy season has provided job opportunities.

The bombing has impacted social tensions well beyond Bali. The riots in Mataram in January 2000 had a greater impact on tourism and the local economy in Lombok than the Bali bomb. While Bali, which is generally more prosperous than Lombok, is now getting significant attention from government and the international donor community, some respondents in Lombok note that there were no special programs for Lombok in 2000. Although the situation is different, these broader regional tensions highlight that social and economic responses to the bombing need to cover Lombok and East Java as well as Bali.

In Lombok, there have been tensions before the bomb between the Balinese and Sasaks in Cakranegara, Ampanan and West Lombok. Social tensions in these areas were reported to increase after the bomb, especially after Sasak workers in Bali were sent back to Lombok. Although not widespread, there were some small demonstrations against the residency policy in Bali and return of Sasak workers.

There are many civilian security groups in Lombok, and there are concerns about tensions in the run up to the election for governor in August 2003. Although it is not clear yet how tensions between the Balinese and Sasaks may be affected by this, given the likely increase in tension in mid-2003 in Lombok, it is important that support to reduce tensions is provided in Lombok. Both the Balinese and Sasak communities have PAM Swakarsa groups, and the Hindu religious

²⁷ The rapid survey was conducted in cooperation with the World Bank and the UNDP.

²⁸ Occupancy rates based on Univeristy of Mataram survey.

holiday of Nyepi in April 2003 may also be a time when extra vigilance and efforts on the part of community leaders is required.

4.2 *East Java Economic Impacts*

East Java's economy is closely linked with Bali through trade and labor migration. The population of East Java is 39 million, yet there are over 6 million SME's (mostly household industries) producing \$337 million US in goods. Over 35% of the SME production in East Java is for the Balinese market, and 50% of food produced is exported to Bali.^{29 30} Further, many of Bali's raw materials or partially processed products come from East Java. The sharp downturn in the Balinese economy had proportional affects in East Java.

An assessment of the economic impacts and trade for the largest 10 commodities exported for Bali (wood, rattan, silver, metal, stone, bamboo, leather, clay, garments, processed food, and fresh food) was conducted by PUSKOWANJATI. The study found the drop in Bali's economy led to cancellations of orders, payment delays for goods already delivered to Bali, large surpluses of stock, and unemployment. For the 100 SMEs interviewed, sales decreased by 70 percent for traders and by 55 percent for producers following the bomb.

Some of those surveyed are expecting the market conditions to recover in around three months. Others, concerned about their dependency on Bali's market – have already started to explore potential domestic and international markets (such as the Middle East, and Eastern Europe).

4.3 *East Java Social Tensions Impacts*

In East Java, 30 percent of people interviewed experienced worry and fear after the bomb, 56 percent of people thought that the bombing has damaged the image of Islam, and 41 percent felt they needed to be cautious when discussing community relations issues. The primary sources of regional tension in East Java

²⁹ Joint Research on SMEs Export potential, Balitbangda, Institut Teknologgi Surabaya and Universitas Brawijaya, December 2002.

³⁰ Sembilan Bahan Pokok (9 staple foods), researcher interview with ASDP, Dinas Perhubungan.

are political issues, trade patterns, migration, and religion.

Unemployment and economic factors were considered to the most important cause of tensions in East Java (54% of respondents) and many workers who formerly worked in Bali have returned to their village either because of a lack of work or because issues with their KIPP/KIPEM. National and local political issues in East Java were also highlighted as factors increasing tensions by 55 and 43 percent of respondents respectively, as well as social jealousy between migrants and local for 24% of respondents.

The bombing reminded many in East Java of its economic dependence on Bali, and there are undercurrents of resentment over perceptions that they have been subsidizing Bali's growth. Conversely, many Balinese believe that the East Javanese are taking over their employment opportunities. There are indicators that these feelings have led to the mistreatment of Javanese migrant workers, many of whom have been rejected when trying to enter Bali even if they have the required documentation.³¹

Bali's population is mostly Hindu, and East Java's primarily Muslim, but sectarian conflicts have historically been kept in check, or remained very localized. East Java has 2,413 out of the total 7,434 *pesantren* in Indonesia, and the Muslim majority in East Java is known as moderate. The Kyai and Ulemas play an important role of maintaining peace and harmony in East Java. Following the bombings, though, respondents stated that religious leaders in major *pesantrens* have not been especially responsive to the fact that the accused were from East Java. The IRI poll found that 81% of those interviewed believe the lack of response by Muslim leaders is increasing social tensions in Bali – this includes 50% of the Muslims surveyed.

5 **Response and Outlook**

Any crisis requires a range of responses. Donors and local and national government agencies were quick to react to the initial impacts of the crises. As the more immediate needs are addressed, longer run actions and policies are required to assist those still affected, and to make the region less vulnerable. Many populations – either too diffused to target, or whose needs were too

³¹ Jawa Pos

immediate to address – developed their own coping strategies. The business community also adapted to try to survive the harsh environment, often reluctantly contributing to current labor woes. Despite the initiatives and survival strategies of affected groups, there is still much that can be done to assist. A large part of future efforts will be to find ways to remove or work around the barriers to recovery.

5.1 Donor Responses

Donors were able to respond in a number of ways to the Bali Tragedy. Some provided direct crisis assistance, not only to their own citizens, but others that had been impacted by the crisis. The attached donor matrix highlights some of the main initiatives. This section provides more background.

To The donor response to the bombing was swift. Initial efforts focused on crisis assistance and relief, but are currently moving into recovery and development. IRI's survey found that 85% of the Balinese surveyed felt that aid was reaching the right place, and over 65% felt the process was transparent.

The initial reaction from the community, government, and donor agencies was overwhelming as parties rushed in to assist. A few of the numerous crisis assistance programs included providing long-term medical assistance for Indonesian victims (Switzerland, 20,000 SF), psychosocial support (UNICEF, \$55,000 US), and providing supplies and enhancing coordination at Sanglah hospital (AUSAID, \$1 million US).

As the medical crisis subsided, donor efforts shifted towards recovery. A few examples are, grants for employment, tourism and security (Japan Embassy, \$20 million), community recovery program (UNDP, \$2 million) support to CRP (DFID, \$300,000), supporting emergency and medium term income generation activities (UNDP), conducting rapid assessment of impacts on social tensions (UNDP), rapid assessment of economic impacts (World Bank), and grants targeting awareness, facilitation, and bridging (USAID/OCPR, \$1.2-2 million).

Longer term development efforts include the introduction of the Kecamatan Development Program (KDP) program to 51 kecematans (World Bank, \$16-17 million), continuation of the Bali Urban

Infrastructure Development Program (World Bank, \$3.2 million), long-term handicraft business development (JICA), and providing scholarships to at risk children through the School Grants Program (World Bank/Netherlands, \$4 million).

5.2 Central Government

The government's strategy has two broad components. The first is coordinating the central and local governments, and donor efforts to encourage Indonesian and foreign tourists to visit Bali. In particular they are working to eliminate the threat of terrorism by improving national security. The second component of the government's strategy is to assist the Balinese community through programs designed to provide social safety nets for the vulnerable

The government is addressing the security threat in several ways. The first is to bring those responsible to justice. Second, the government has budgeted for additional police and vehicles in Bali, as well as new security equipment at sea and airports. There are also plans for additional tourist police and counter-terrorism training.

The government has planed several activities in 2003 to assist Bali's recovery. Some are already underway. Promotional activities have been sponsored (Bali for the World in 2002) and more are planned for 2003, including international sporting events. Local government infrastructure (including water, drainage, sewerage systems and pavements projects) have also been accelerated for 2003 in an around Kuta and Legian. The government is working with the Asian Development Bank to enlarged and accelerate education and health programs, including scholarships for children at risk of dropping out.

5.3 Provincial & Local government

The provincial government rapidly prepared an extensive response inventory,³² including working group to assess the social and economic impact of the crisis.³³ It has also sought to establish a Crisis

³² Bappeda Propinsi, *Program Pemulihan Kondisi Sosial Ekonomi Pasca Tragedi Kuta*.

³³ P. 6, *Institusi / Tim Koordinasi Pemulihan Kondisi Sosial Ekonomi Pasca Tragedi Kuta*.

Response group housed out to the Bapeda to assist in the coordination among different donors and agencies.

The vice-governor recently presented 6 priorities, in line with those provided by Bapeda: (1) Tourism development; (2) Security systems including at community level, (3.) Transportation including flights, (4.) Infrastructure, (5.) Economic incentives for small business and cooperatives, and (6.) Social safety net. The provincial government will focus on social safety next issues.

One of the challenges facing the provincial and local governments is finding ways to effectively help those faced with significant losses in revenue following the bomb, while at the same time tackling longer term development challenges.

The central government has established two response coordinating teams. The first group is the Coordination Team for National Tourism Recovery (29th November 2002, Chaired by the Coordinating Minister for People's Welfare, with a steering committee of the three Coordinating Ministers). The second group is the Task Force for Economic Impact Rehabilitation of the Bali Tragedy (13th December 2002, steering by the 3 coordinating ministers, 15 ministers, and six governors).

A coordinating meeting with donors and government was held on 20th December 2002 at UNDP in Jakarta.

5.4 *Perceived Barriers to recovery*

Most Balinese – government officials, business leaders, and residents – feel that the travel ban many countries have placed on Indonesia and Bali is the largest barrier to recovery. The IRI survey asked respondents to name the top two people or organizations responsible for tourist not returning to Bali. Over 70 percent blamed foreign governments for the travel ban, while only 41 percent blamed the domestic terrorist network.

Warranted or not, travel restrictions/bans have a severe impact on tourism arrivals. Many travel insurance companies will not insure travel to a country under a ban. Another spin-off is the reduced demand for flights, prompting airlines to drop their routes to Bali. Conversely, the foreigners who do want to go to Bali are finding it very difficult to book seats.

The second most frequently cited reason (47% of respondents) in the IRI poll for tourist not returning to Bali was perceptions about Bali's safety.

Looking into the immediate future, many people express their concern over the possibilities of increased military conflict in the Gulf. While this has yet to happen, the impacts are expected to stall Bali's short-term recovery.

The two most pervasive concerns expressed by Balinese about their recovery are policies and events that are largely beyond their influence. Optimistically, this may indicate greater societal sentiment in its confidence to successfully address the barriers within their sphere of control.

5.5 *Social Tensions Responses*

The regional governments, security forces, community leaders and media all played a role in easing social tensions and maintaining security following the bombing.

Regional governments reduced social tensions by a variety of means. For example, residency checks were temporarily suspended in Denpasar, the village-level early warning system in Tabanan was strengthened, and meetings were facilitated between Balinese and Sasak community leaders in NTB. The police immediately increased their level of alert following the bomb, focusing on strategic areas such as ports, key infrastructure and economic installations, and areas known for past social tensions.

Local community leaders and existing inter-faith forums³⁴ became more active as the issue of community relations became more prominent, especially in Bali and East Java. In all three provinces, the assessment showed that community and religious leaders (especially the Kyai and Tuan Guru in East Java and Lombok respectively) play a key role in managing social tensions and preventing conflict.

The media was active in promoting calm by highlighting (i) the importance of the legal process in bringing justice following the Bali bomb, (ii) progress

³⁴ For example, Forum Komunikasi Klungkung Bersatu, Forum Diskusi Kebangsaan in Kec. Genteng, Banyuwangi, Forum Komunikasi Antar Umat Beragama in Bali

and issues in the regulation of residency and improvement of security, (iii) the needs for economic and other assistance in Bali, and (iv) promoting unity and peace³⁵. Similarly, civil society organisations have been active in conducting dialogues and campaigns for peace and unity.

In Bali, people's sense of security has been increased through the regulation of residency and community security groups such as the *pecalang* and other civilian security groups. The *kecamatan* survey showed that 94% of respondents thought the KIPEM increased security, and that there was greater support for security involving various civilian groups than just the police alone. Given the importance of security, community relations and economics as underlying causes of social tensions, these measures need to be moderated and complimented by various policy initiatives to address economic and human security. It is vital that these are realised to support vulnerable groups across Bali, East Java and Lombok.

6 Priority Action Plan

Significant efforts have gone into identifying the impacts and needs of the affected populations. This includes individuals, communities, schools, and businesses in Bali, East Java, and Lombok. There is a solid base of information for donor and government agencies to effectively target their programs. A key part of the effort is to restore confidence in Bali's economic and security environment. The optimum course is for local institutions and government agencies to take the lead in the recovery efforts. When appropriate, foreign governments, aid agencies, and NGOs should play a role. Ideally all parties should work in close cooperation with the community to ensure assistance is effectively targeted. The main action priorities are to coordinate donor activities, ensure adequate social safety nets, restore conditions for sustainable recovery, and to continue and strengthen on-going monitoring efforts.the team).

Consolidate the implementation of existing donor initiatives and mechanisms and strengthened support for on-going monitoring and assessments

³⁵ Lembaga Konsumen Media (2003) Report of Media Analysis: Social, Political and Economic Impacts following the Bali Bomb. World Bank, UNDP and USAID - Bali Crisis Response Assessment.

Exiting facility mechanisms and commitments, especially those with flexible response mechanisms should continue to meet emerging needs (e.g., UNDP CRP, WB KDP, USAID, and Ausaid's Bali Rehabilitation Fund, etc.). Additional targeted resources could be provided in areas where gaps are identified or where the government requires technical assistance and support. Overall commitment levels should be assessed on a quarterly basis in the CGI working context.

Ensure that adequate and proven social safety net mechanisms are in place in preparation that vulnerable communities require further assistances

- A high priority is for the government to ensure that effective social safety net programs are in place at the regional and national levels that can effectively handle worse case scenarios by the second and third quarters of 2003. Governments should ensure that access to basic services in health and education is ensured for all those experiencing impacts from the crisis, for example of a roll-out of a school grants programs (e.g., WB/Netherlands) or health cards.
- Donors should consider building on existing programs (e.g., CRP or KDP) based on their proven track records of providing effective response and targeting in crisis situations. Efforts should also be made to utilize and adapt existing crises related facilities to be able to target more diffused, but equally critical, crisis situations – such as East Java.

Restore the conditions for sustainable recovery in Bali and beyond

- Measures to enhance security on and off-Bali will need to form the basis of any recovery of the tourism sector. Donors can assist in promoting longer-run strategic development measures, both in tourism and more general efforts. These should ensure that regional governments and civil society was widely consulted regarding their priorities in the context of decentralization. Assistance could be developed, given demand, for more effective strategic actions plans and capacity for implementation, especially to enhance longer-term sustainable development on the island and more diversified tourism growth throughout Indonesia.

- Improve the capacities of local governments in land use planning, and encourage regional cooperation and coordination of planning efforts.
- Efforts should be promoted that would help alleviate possible social tensions, including intensifying inter faith/ethnic dialogues, peace journalism training, support to the media, and support for peaceful elections in 2003 and 2004.
- Bali and Indonesia should jointly use the crisis as a chance to address some hard choices about strategic tourism development and environmental strategies on the island in particular. Recent examples of recommendations include those by the Pacific Asia Travel Association (PATA)³⁶ and the results of Study on Cumulative Environmental Impact (under World Bank's Bali Urban Infrastructure Program). Highlights include:
 - Improve efforts to develop an effective national tourism strategy and effective image building for Indonesia as a whole, encompassing regional, central, and private sector/civil society actors. Build cooperation at the provincial level, especially with regards to an integrated tourism and development diversification strategy.
 - Implement recommendations for environmentally sound land use planning and development to avoid risking the loss of Bali's natural charm.
 - Consider "hardening" security at key tourist areas.
 - Heighten awareness and allow communities to report suspicious events and promote local security, while ensuring that this is not perceived to discriminate against specific social groups.
- Donors should find ways of assisting the private sector in recovery, growth, and diversification

efforts. The IFC's Eastern Region SME facility, which is currently establishing offices in Denpasar and Surabaya, could build on the existing tourism related industry baseline assessment (e.g., handicrafts), along with other donors working in the field (e.g., JICA, GTZ, UNDP). Donors should, however, ensure that both crisis and longer-term capacity building measures are pursued with consistency.

Continue strengthened support for on-going monitoring and assessments

The baseline assessments on Bali need to be continued for (a) monthly monitoring of visitor numbers and the hotel sector, (b) a bi-monthly surveys of schools, (c) a quarterly village level impacts survey for all kecamatans, (d) and social tensions assessments on Bali. Some funding will be required (e.g., ADB, UNDP or WB), especially if some of these instruments are to be strengthened at least through the end of 2003 (e.g. in terms of sample sizes). Consideration should be given to adding crisis related household respondents sampling, either by a quarterly addition to the 106 village survey and/or a mid-year special round of the national socio-economic household survey (SUSENAS).

Donor coordination through the CGI group should be maintained, with UNDP agreeing to assume the lead coordinating role for Bali from the WB. UNDP should consider securing support for the placement of one international position for six months in Bali to assist in supervision of monitoring work, liaising with regional government, assisting in response facilitation, and keeping abreast of impacts off-Bali. The position should report periodically to a small advisory group, drawing from the present donor coordination matrix. Outcomes of this work would be quarterly reports (e.g., with assistance from UNDP and WB), as well as succinct policy briefs, in English/Indonesian to government and the donor community.

³⁶ PATA, 2003, Indonesia/Balinese Tourism Recovery Post October 12th 2002, mimeo, 17th October