

Regional Poverty 1993-2012: Poverty in the New Indonesia

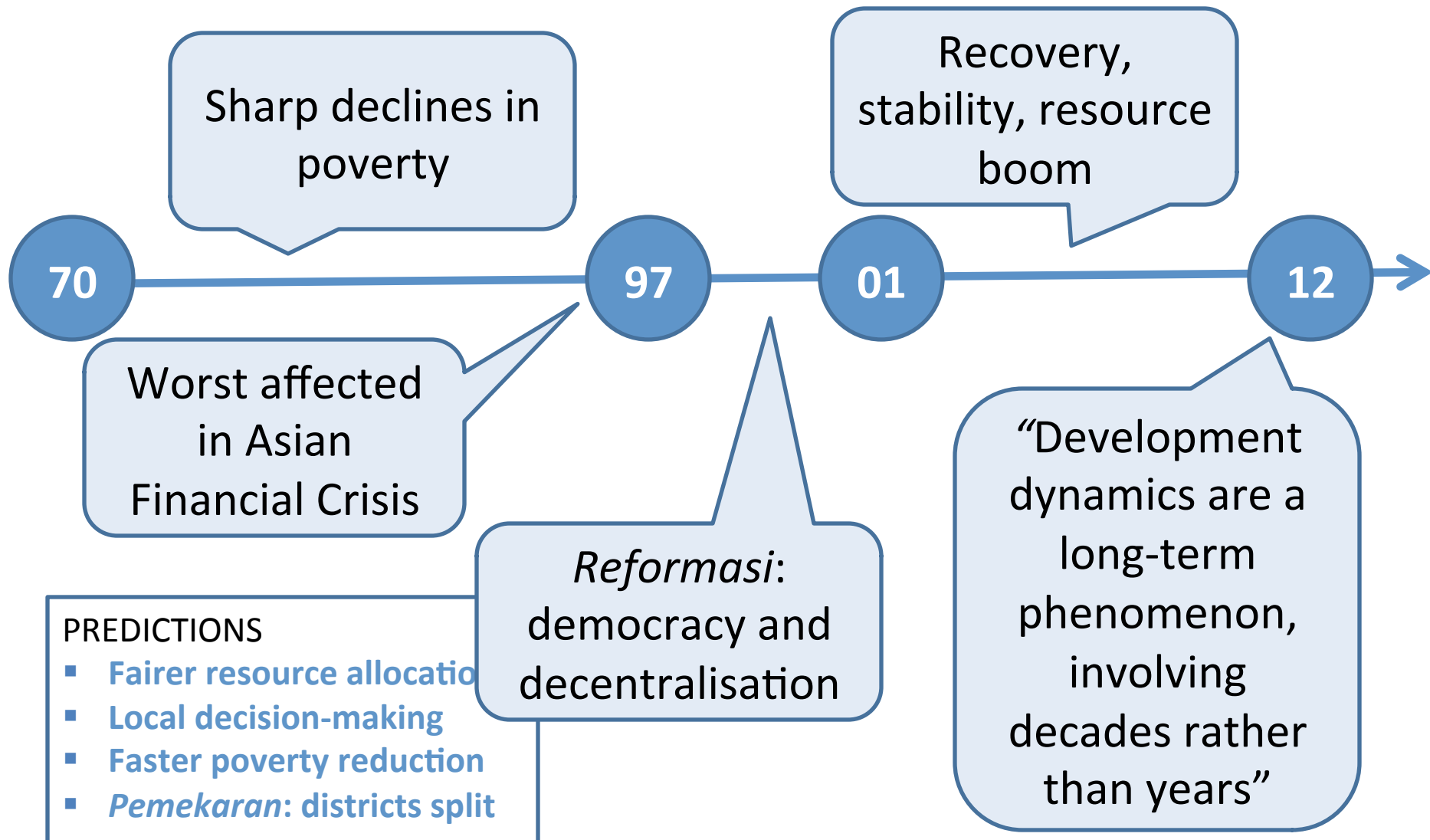
Amri Ilmma and Matthew Wai-Poi

Indonesia Update
September 2013



THE WORLD BANK | BANK DUNIA
Sharing Development Solutions
for an Emerging Indonesia

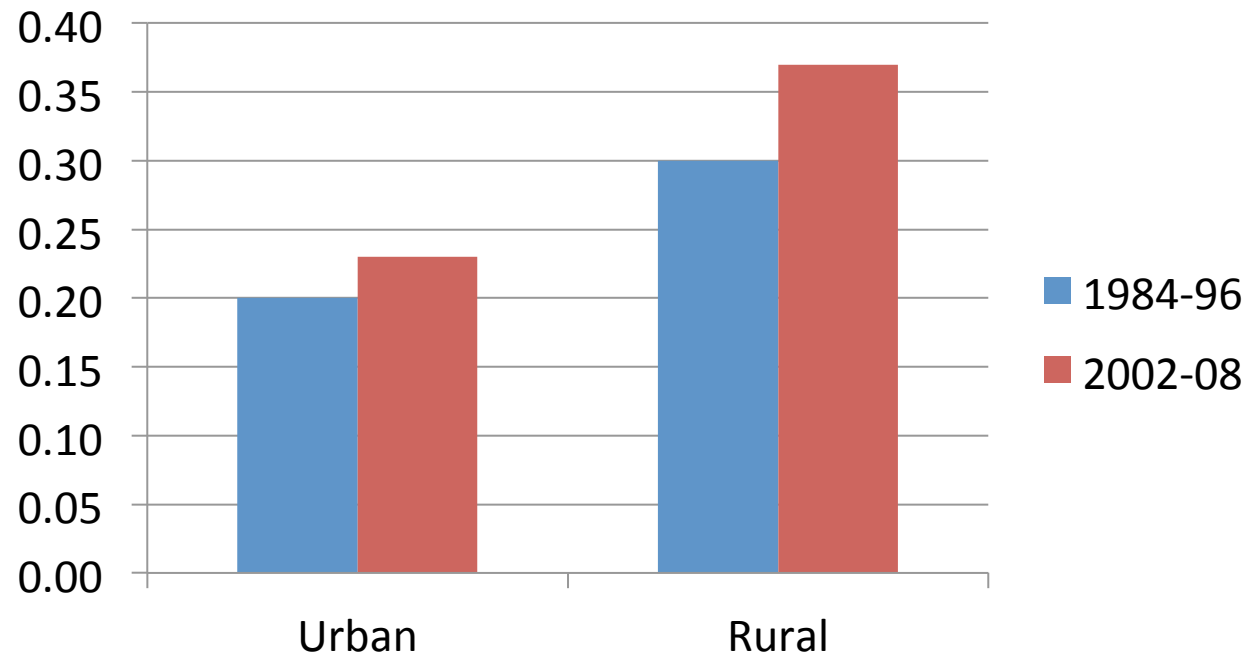
Indonesia has seen considerable change over the last 20 years



What do we know already?

1. Poverty is falling at the same speed now as before

Growth Elasticity of Poverty



Source: Suryahadi, Hadiwidjaja and Sumarto 2012

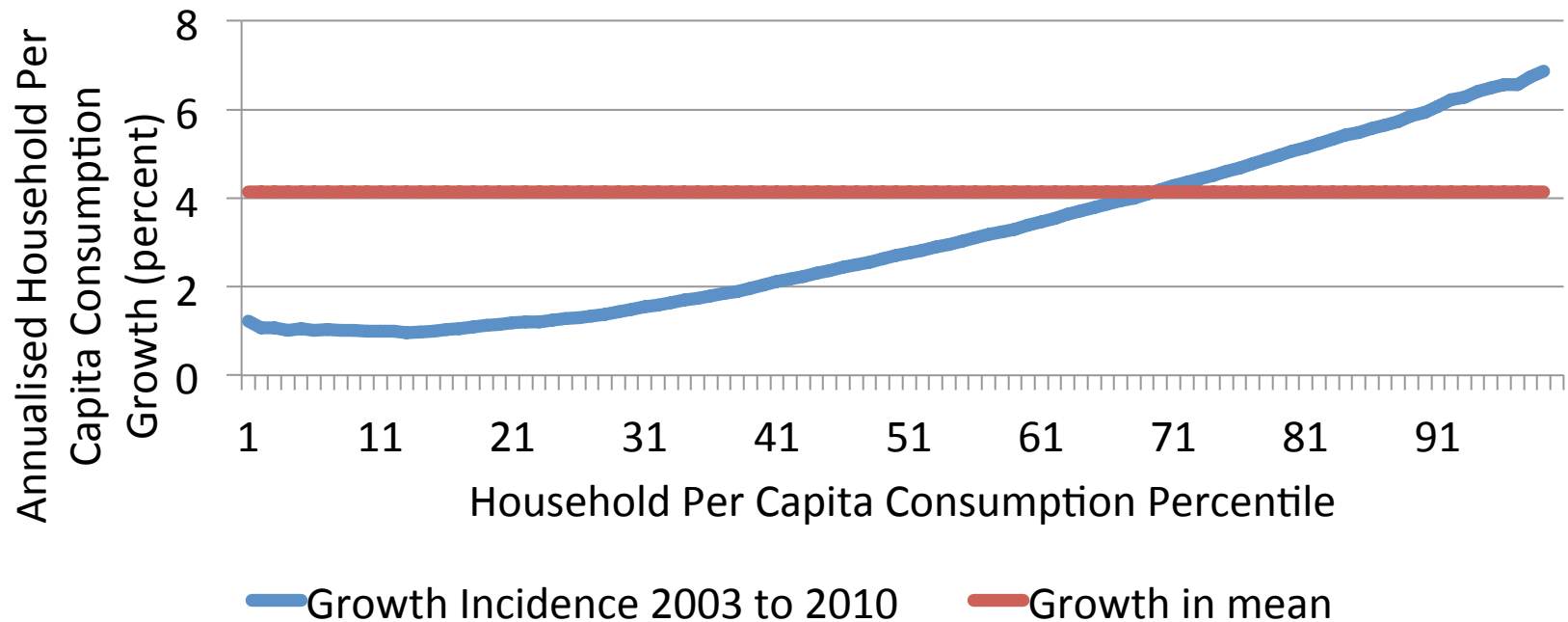
Note: Growth elasticity of poverty represents percentage point change in poverty per percentage point of economic growth



What do we know already?

2. Nationally, we are seeing unequal growth...

Growth Incidence Curve 2003-10



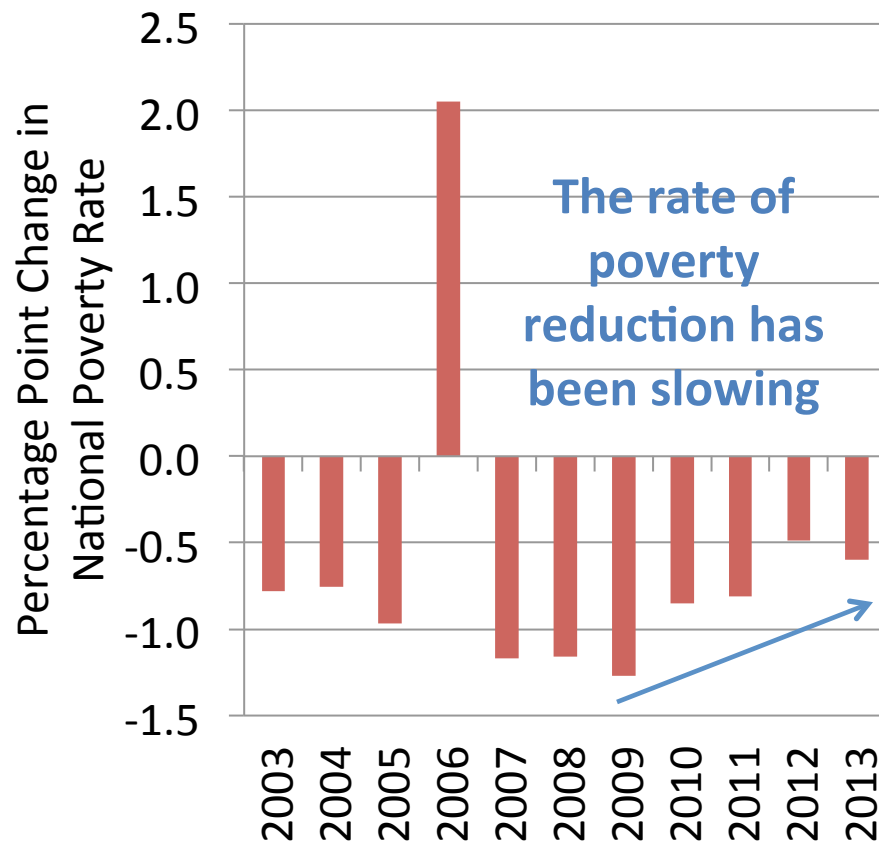
Source: World Bank 2011

Note: Growth Incidence Curve represents annualised growth in per capita household consumption between end points. Household consumption is spatially adjusted using the ratio of national poverty line to local poverty line

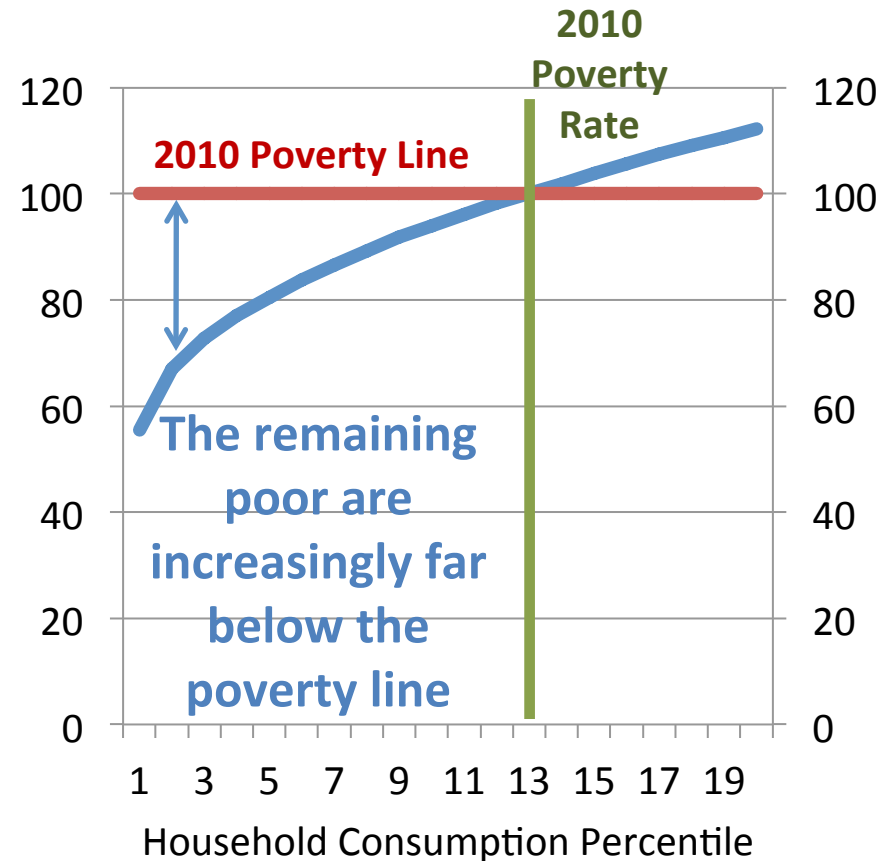
What do we know already?

3. ...slowing poverty and a deeper gap

Change in Poverty, 2003-10



Poverty Gap, 2010



Source: BPS and World Bank 2012

What do we know already?

4. Provincial poverty rates had been converging

- **1984 to 2002 shows convergence of provincial poverty rates**
 - Miranti (2007, 2009)
 - However, this could be sensitive to the end point
 - In 2002 some provinces were still recovering to pre-Crisis poverty levels
 - The same provinces which experienced slight increases over this period had declines between 1993 to 1996

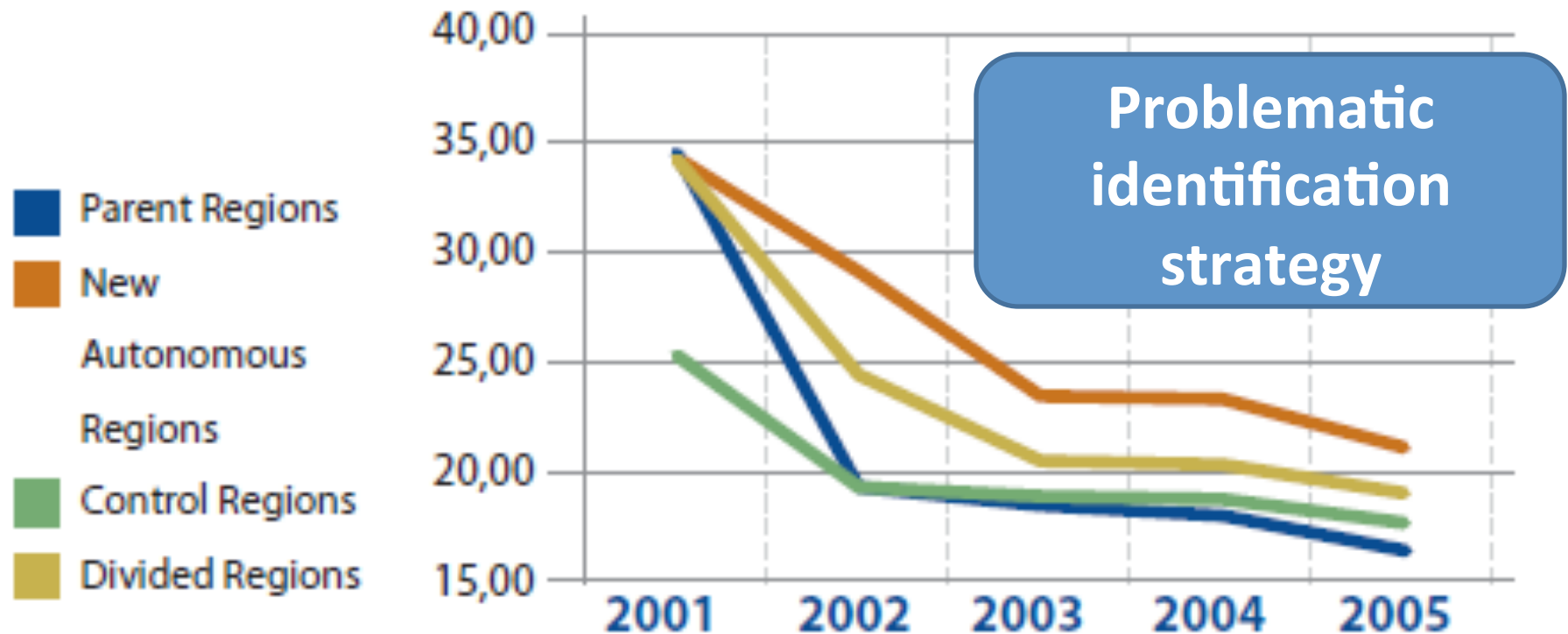
- **Natural resource wealth did not seem to drive poverty reduction at a district level in the 1990s**
 - Balisacan *et al.* (2002)



What do we know already?

5. Unclear impact of *pemekaran* on poverty

Average District Poverty Rates, 2001-05



Source: Bappenas and UNDP 2008

Research Question

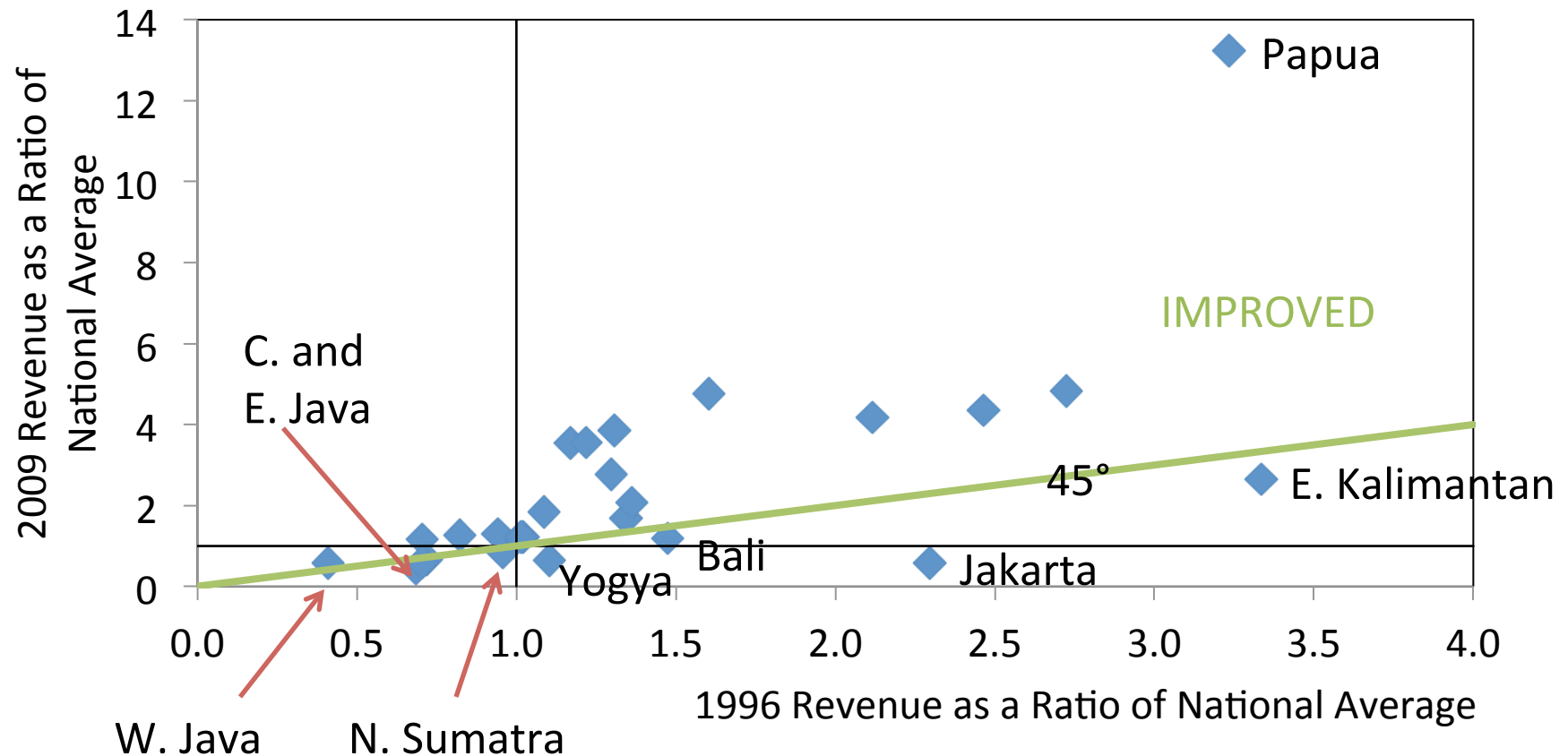
1

Have patterns of provincial poverty reduction changed since the massive changes of the late 90s and early 2000s?



Smaller provinces receive more revenue per capita after decentralisation, at the cost of large ones

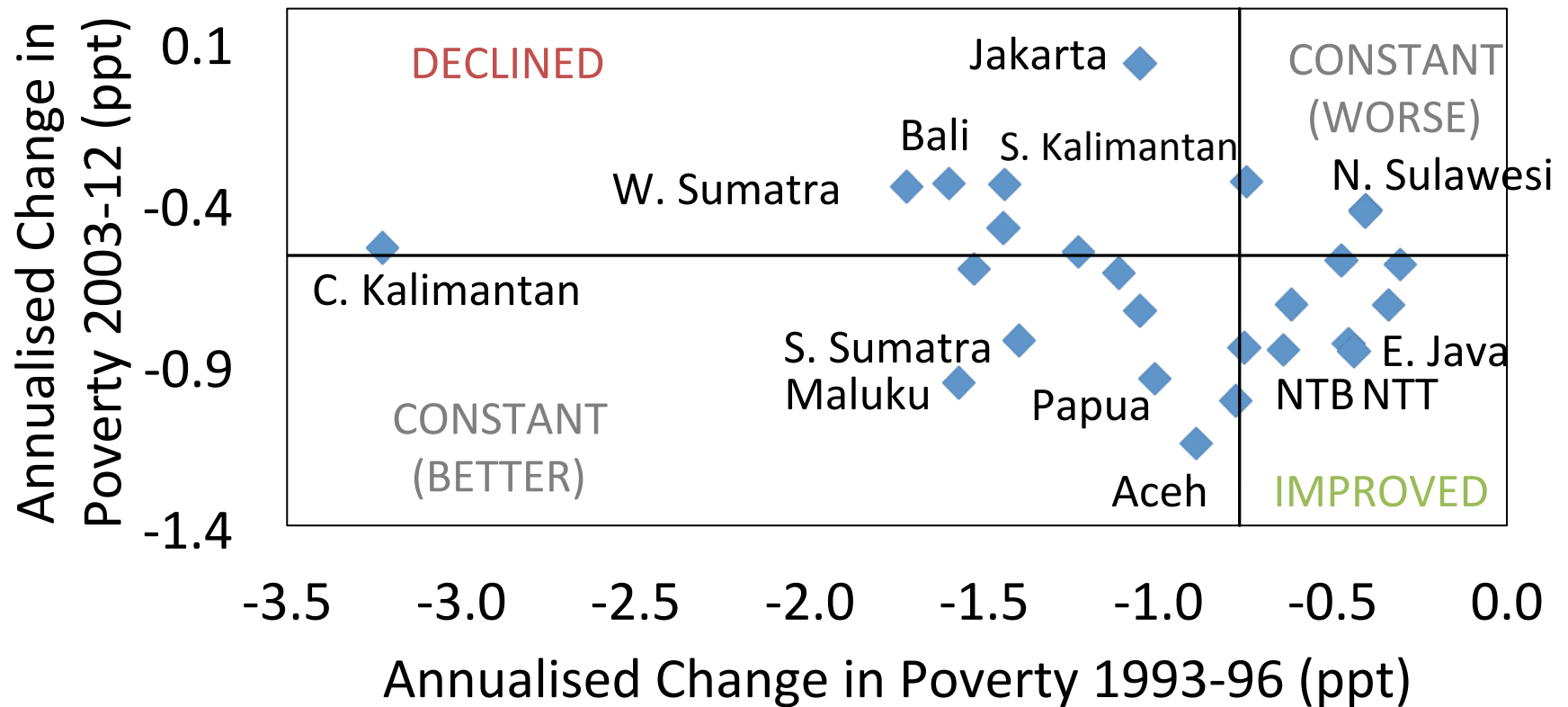
Local Government Revenues (per capita), 1996 and 2009



Note: Local government revenues (per capita) are provincial plus district revenues

Poverty reduction patterns have not been stable, but are generally consistent with convergence

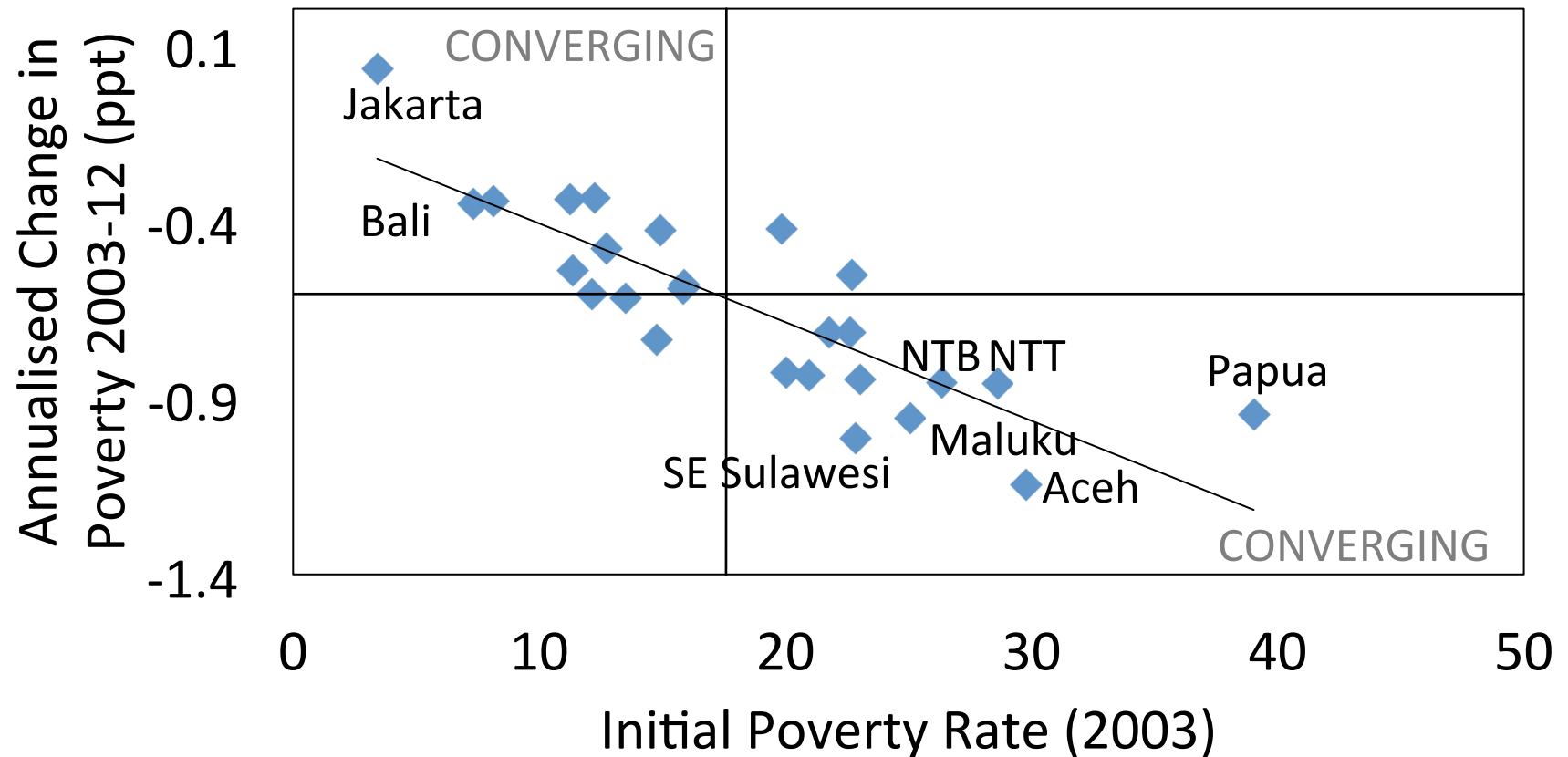
Provincial Poverty Reduction, 1993-96 and 2003-12



Note: Local government revenues are provincial plus district revenues

And convergence has clearly continued since decentralisation

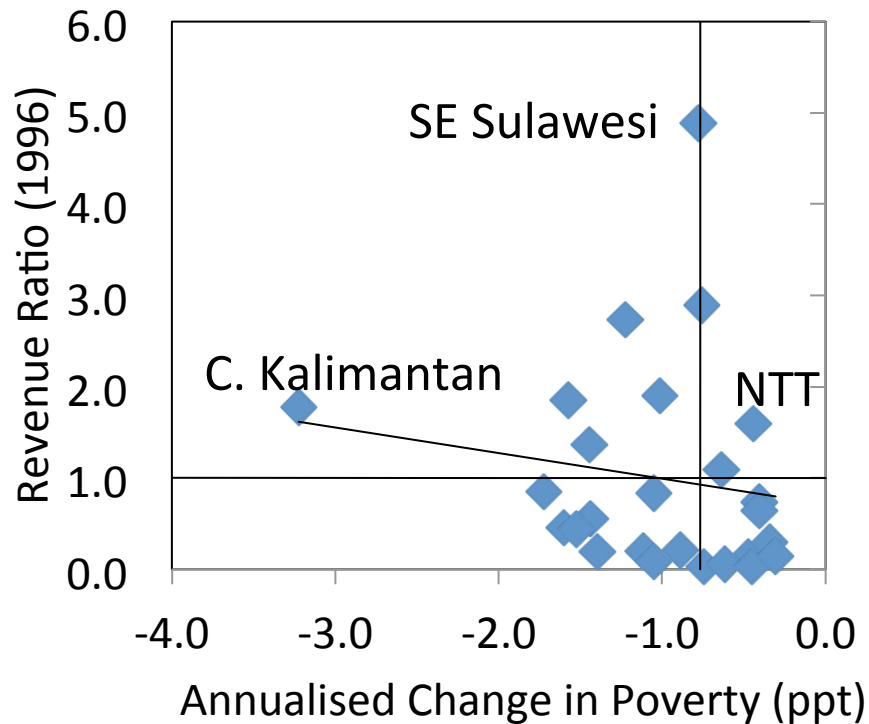
Provincial Poverty Reduction, 2003-12



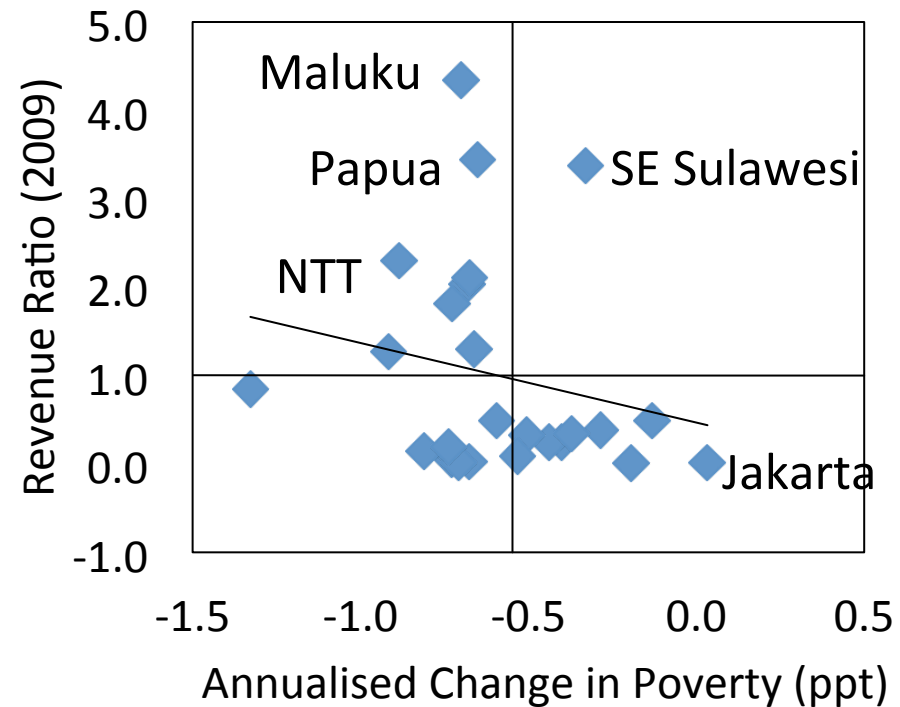
The relationship between local revenues and poverty reduction has remained weak...

Poverty Reduction and Local Revenues (per capita)

1993-96



2003-09

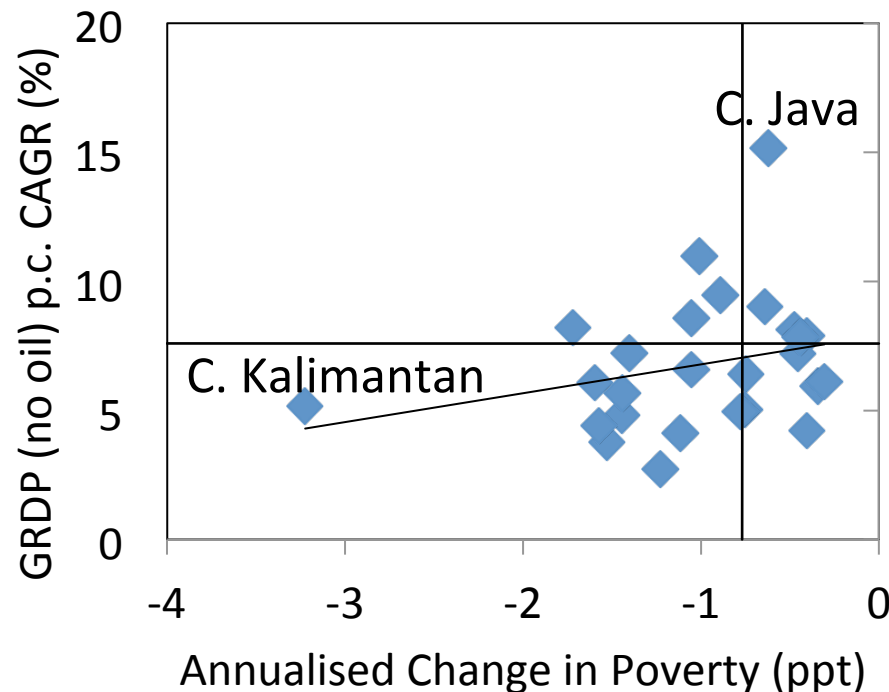


Note: Local government revenues (per capita) are provincial plus district revenues. Revenue ratio is total local government revenue as a ratio of the national average

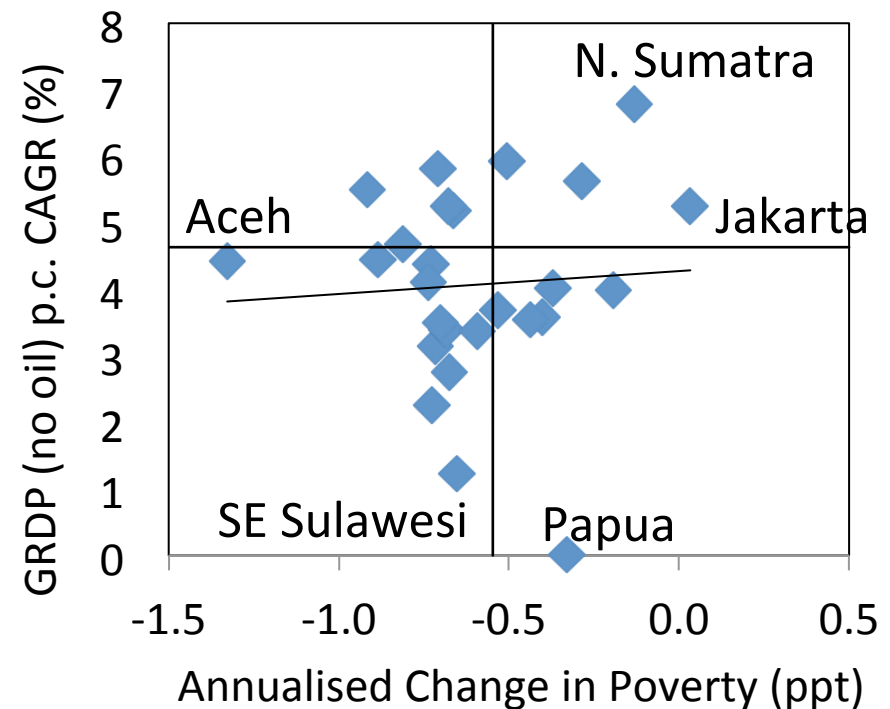
...while GRDP per capita growth has a perverse relationship with poverty reduction in both periods

Poverty Reduction and GRDP per capita*

1993-96



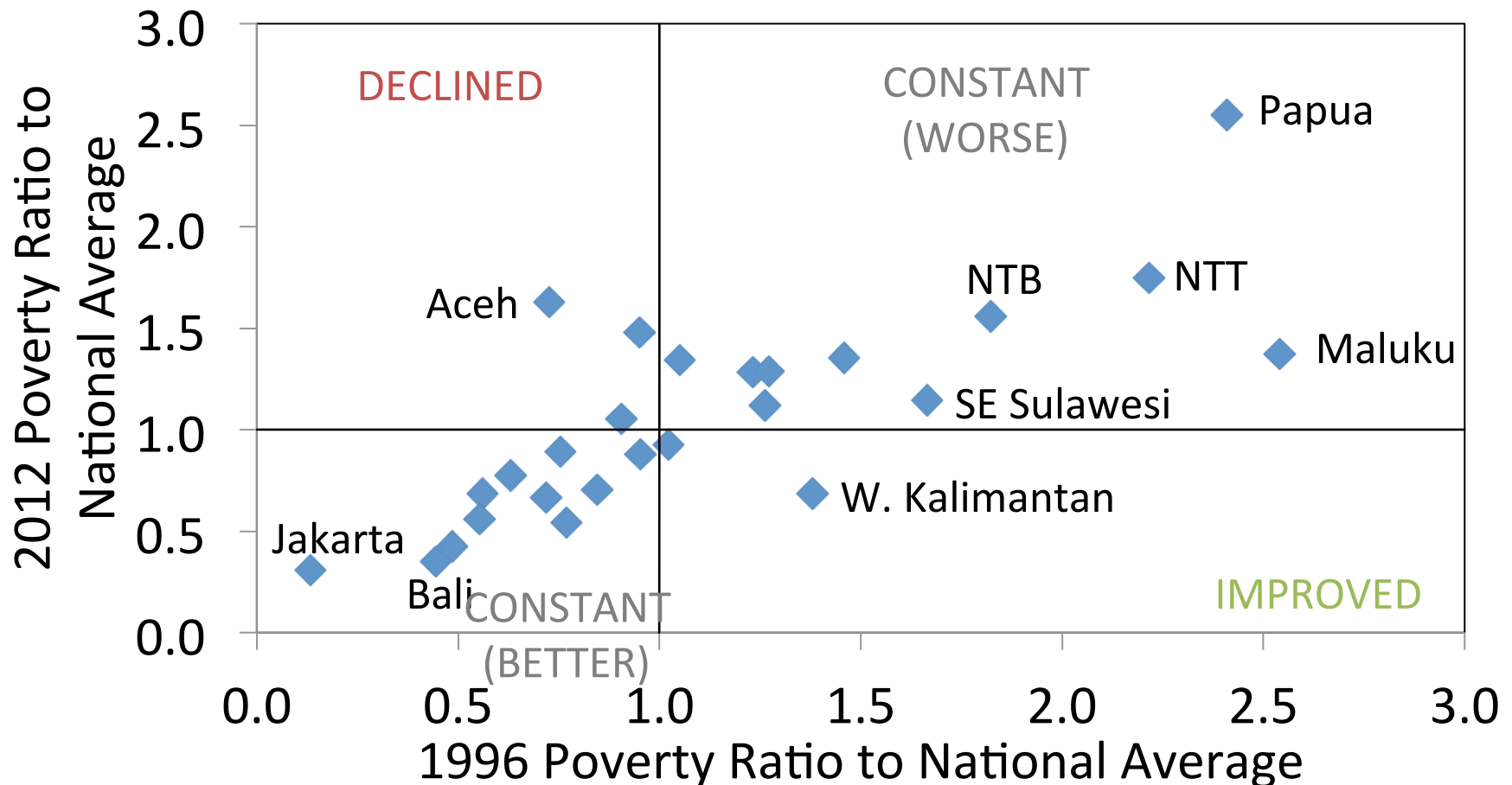
2003-10



Note: GRDP excludes oil and gas. Results remain qualitatively the same when oil and gas are included

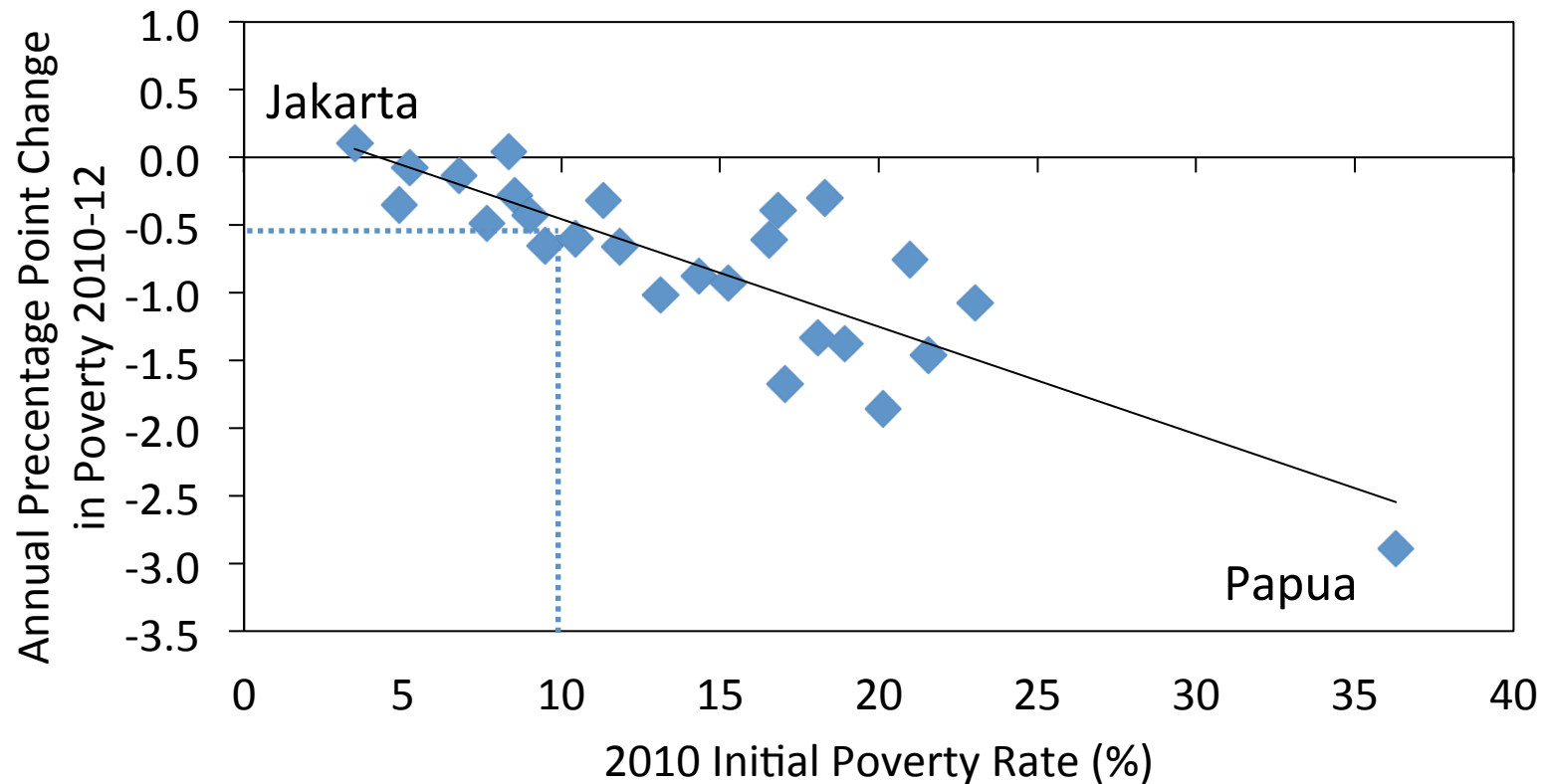
Ultimately, despite economic and political change, relative poverty rankings remained unchanged

Provincial Poverty Rates, 1996-2012



Moreover, the recent slowing pace of poverty reduction may well continue

Provincial Poverty Reduction, 2010-12



Provincial Conclusions

- **Convergence in poverty rates continues after decentralisation**
 - 1984-02 and 1993-96 data indicate convergence
 - 2003-12 data show the pattern continues
- **However, poverty rankings remain largely unchanged**
- **Prospects for future poverty reduction are more limited**
 - Convergence suggests continued improvements in poorer provinces
 - Limited reductions in other locations
 - Need for new approaches to addressing extreme poverty
 - Need greater sharing of growth



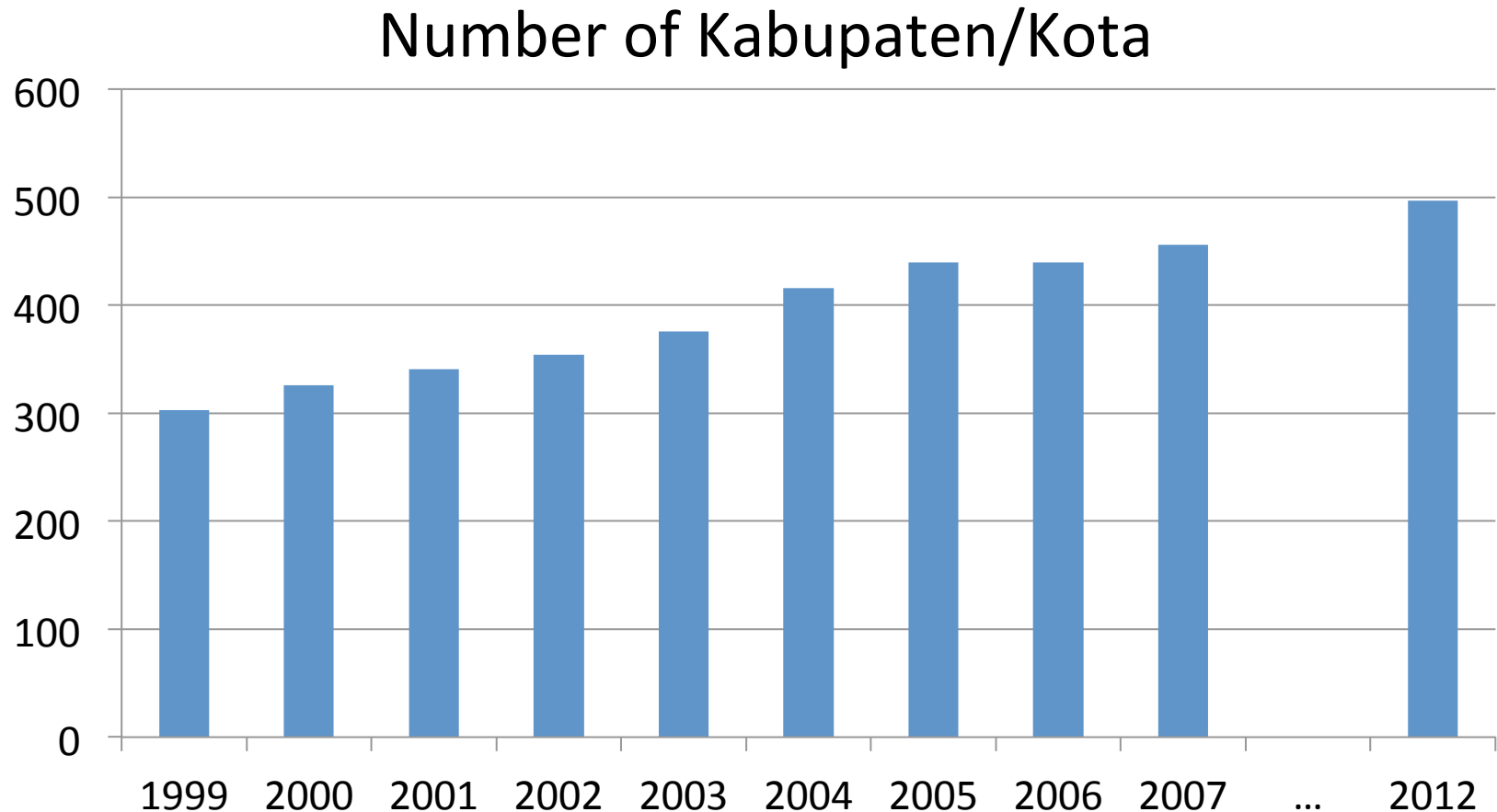
Research Question

2

Has decentralisation and *pemekaran* affected district level poverty outcomes?



As expected, decentralisation resulted in significant fragmentation of districts (*pemekaran*)



Source: Bappenas and UNDP (2008)

Which districts split? On average, districts which split were initially poorer

District Characteristics 2000

		Poverty	Mean Household per capita Consumption	Gini	Net Junior Secondary Enrolment
	Districts	Rate			
Early Splits	88	22.0	185,507	25.4	53.2
Late Splits	16	26.4	167,819	24.9	54.8
No Splits	194	17.3	196,869	24.8	62.5
All Districts	298	18.9	192,504	25.0	59.4

Note: Early splits are districts splitting in 2005 or earlier; late splits are after this date. All figures are estimated at original 2000 boundaries



What happened? Split districts saw greater improvements in poverty, but increased inequality

	Mean Change, 2000-2010				
	Poverty (ppt)	Mean Household pc Consumption (%)	Median Household pc Consumption (%)	Gini (ppt)	SMP Enrolment (ppt)
Early Splits	-7.3	30.1	20.0	4.4	10.8
Late Splits	-9.7	28.5	19.9	2.5	9.5
No Splits	-4.6	19.8	12.1	4.0	5.2
All Districts	-5.5	22.8	14.5	4.0	6.8

	Mean Change, 2003-2010				
	Poverty (ppt)	Mean Household pc Consumption (%)	Median Household pc Consumption (%)	Gini (ppt)	SMP Enrolment (ppt)
Early Splits	-6.6	26.4	17.8	4.1	6.5
Late Splits	-6.2	21.0	15.5	3.0	5.4
No Splits	-3.4	16.2	9.8	3.6	2.1
All Districts	-4.5	19.5	12.5	3.7	3.6

Note: Early splits are districts splitting before 2005; late splits are after this date. All figures are estimated at original 2000 boundaries



Districts which split saw greater upward mobility, as did commodity-intensive districts

Mobility Matrix: 2003-10

	Split	No Split	Commodity-intensive	Not Intensive
Mean Per Capita Consumption*				
Better Off	59	48	19	88
Same	24	51	8	67
Worse Off	18	90	8	100
Poverty Rate				
Better Off	41	50	25	66
Same	42	77	6	113
Worse Off	18	62	4	76

Note: Household consumption is adjusted for spatial purchasing power by the ratio of the national poverty line to the local poverty line



More formal analysis confirms district convergence, improvements for splits and commodity districts

Change in Poverty 2003-10

Initial poverty rate	Convergence	-0.89***
Growth in GRDP pc	Survey versus national accounts	-0.13
Growth in mean pc household consumption		-0.67***
Growth in total district revenue		0.00
District splits before 2005	Splits do better	-9.05**
District splits after 2005		11.76**
Commodity-intensive district	Commodities do better	-14.00***
<hr/>		
Regional dummies		Yes
Local revenue growth		Yes
Capital exp. as share of total exp.		Yes
Personnel exp. as share of total exp.		Yes

Note: District-level regression. Dependent variable is percentage change in poverty rate

District Conclusions

- Poorer districts split in the 2000s, and saw greater poverty reduction, even after accounting for convergence
 - What are the underlying mechanisms?
 - How do parent-child districts fare?

