Accelerating Poverty and Vulnerability Reduction: Trends, Opportunities, and Constraints

Asep Suryahadi, Umbu Reku Raya, Deswanto Marbun, and Athia Yumna
1. Background

- The social safety net program was launched in mid 1998 to alleviate social impact of the crisis and now become major poverty reduction programs in the country.

- The poverty rate decreased from 23.4% in 1999 to 13.3% in 2010, but the number of poor population is more than doubled if taking into account the vulnerable.

- While there has been significant progress in reducing monetary poverty, Indonesia lags behind its neighbours in reducing other dimensions of poverty.

- There are favourable factors that provide opportunities to expedite poverty reduction in the future, but at the same time there are constraints that need to be addressed effectively.
2. Multidimensional Poverty Profile & Trends (1)

- High and stable economic growth during 1976-1996 reduced poverty by 1.44 percentage point per year
- Moderate economic growth during 1999-2009 reduced poverty by 1 percentage point per year
2. Multidimensional Poverty Profile & Trends (2)
- During 1976-2009, there has been widening gap in poverty incidence between urban and rural areas

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Definition</th>
<th>Rural (%)</th>
<th>Urban (%)</th>
<th>Gap (% point)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of sanitation (toilet)</td>
<td>Percentage of population living in house without proper toilet</td>
<td>50.42</td>
<td>15.05</td>
<td>35.37</td>
</tr>
<tr>
<td>Low education of the head of household (HHH)</td>
<td>Percentage of population living in household in which HHH do not finish 9-year basic education</td>
<td>83.65</td>
<td>50.47</td>
<td>33.18</td>
</tr>
<tr>
<td>Lack of access to clean water</td>
<td>Percentage of population living in household without proper access to clean and protected source of drinking water</td>
<td>56.53</td>
<td>30.55</td>
<td>25.98</td>
</tr>
<tr>
<td>Low education of youth</td>
<td>Percentage of population living in household in which youth (18-24 years) do not finish 9-year basic education</td>
<td>40.70</td>
<td>15.97</td>
<td>24.73</td>
</tr>
<tr>
<td>Unhygienic floor</td>
<td>Percentage of population living in earth-floor housing</td>
<td>15.79</td>
<td>5.03</td>
<td>10.76</td>
</tr>
<tr>
<td>Monetary Poverty</td>
<td>Percentage of population below official poverty line</td>
<td>17.35</td>
<td>10.72</td>
<td>6.63</td>
</tr>
</tbody>
</table>
2. Multidimensional Poverty Profile & Trends (3)

- GDI indicates that women are lagged behind men when purchasing power and capabilities are simultaneously taken into account.
2. Multidimensional Poverty Profile & Trends (4)

- Another distinct profile of poverty in Indonesia is the occurrence of simultaneous movements between those who move out and those who move into poverty.

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>2008</th>
<th>2009</th>
<th>Total row</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Poor</td>
<td>Near Poor</td>
<td>Non-Poor</td>
</tr>
<tr>
<td>2008</td>
<td>Poor</td>
<td>46.71</td>
<td>20.28</td>
<td>33.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50.98</td>
<td>26.77</td>
<td>6.51</td>
</tr>
<tr>
<td></td>
<td>Near Poor</td>
<td>22.32</td>
<td>21.53</td>
<td>56.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20.19</td>
<td>23.58</td>
<td>9.18</td>
</tr>
<tr>
<td></td>
<td>Non-Poor</td>
<td>5.37</td>
<td>7.65</td>
<td>86.98</td>
</tr>
<tr>
<td></td>
<td></td>
<td>28.83</td>
<td>49.65</td>
<td>84.31</td>
</tr>
<tr>
<td></td>
<td>Total column</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
2. Multidimensional Poverty Profile & Trends (5)

- A large proportion of population live only slightly above the poverty line.

![Graph showing poverty levels](image)

- 5.9% = below 1USDPPP (2008)
- 42.6% = below 2USDPPP (2008)
3. Opportunities for Poverty Reduction (1)
3.1 Economic Expansion Due to Globalization

- Exposure to globalization brings economic expansion and thus rapid growth to developing countries (Dollar and Kraay, 2001; Henderson, 2005; Winters, 2001)

- Accompanied by targeted investment in education, health, and infrastructure, trade reforms in Indonesia bring benefits to the poor (Lucas and Timmer, 2005)

- Trade liberalization in Indonesia has contributed to a decline in child labour through reduction in poverty (Kis Katos and Sparrow, 2009)

- To ensure globalisation brings benefit to the poor, several complementary policies need to be put in place, including investments in human capital and infrastructure, access to credit and technical assistance, and social safety nets (Harrison, 2006)
3. Opportunities for Poverty Reduction (2)

3.2 Demographic Dividend

- The first baby boom generation occurred in 1960s-1970s due to high fertility & low mortality in 1950s
- Family planning program during 1970s-1990s resulted in a decrease in proportion of U-15 population
- As a result, Indonesia gains a demographic dividend, where the working age population reach twice of the U-15 population
- The age dependency ratio decreases from 86/100 in the 1970, to 54/100 in 2000, and 44/100 in 2020-30 (Adioetomo, 2005)
- Indonesia needs to accelerate its efforts to utilise its workforce in the production sectors to reduce poverty
3. Opportunities for Poverty Reduction (3)

3.3 The Adoption of Participatory Development Approach

- Democratization opens up doors for communities, e.g. the poor, to participate in development process
- E.g. Musrenbang, an institutionalised multi-stakeholder consultation forum involving the state and non-state actors to voice their aspirations and needs
- The effectiveness of *Musrenbang* is rather limited due to: elite capture, absence of local governments’ commitment and support to participatory development, and limited role of civil society (Bebbington et.al., 2004; USAID and LGSP, 2008)
- Another avenue for the poor to participate more actively in development programs is through the community empowerment program (PNPM Mandiri)
3. Opportunities for Poverty Reduction (4)

3.4 Global Commitment to Poverty Reduction

- There is increasing support from international community to achieve MDGs, including poverty reduction

- Even in the midst of GFC in 2009, the international community maintained total ODA commitment (USD 119.8 billion in 1998, USD 119.6 billion in 1999)

- For Indonesia, there is a 34% increase of net ODA and official aid from USD 391 million in 2007 to USD 593 million in 2008

- On the other hand, it is important to note that Indonesia is not an aid dependent country. Aid represents less than 1% of GDP and ODA per capita is US$ 11 compared to US$ 23 in Vietnam and US$ 38 in Cambodia
4. Constraints in Accelerating Poverty Reduction (1)

- Slower rate of poverty reduction
  - Lack of productive opportunities
    - Low levels of private Investment and entrepreneurship (follow the growth diagnostic framework)
  - Weak human capabilities
    - Unequal access to education
    - Unequal access to health
    - Unequal access to other social services
  - Inadequate social protection
    - Uneven playing field (unequal access to infrastructure and productive assets)

- Exclusion
  - Geographic exclusion
  - Economic exclusion
  - Social exclusion

- Market failures
  - Inadequate public service delivery
    - Limited resources
    - Poor targeting
    - Poor governance
4. Constraints in Accelerating Poverty Reduction (2)

4.1 Insufficient Productive Opportunities

- Low level of economic growth: pre-crisis growth 7.5%, post-crisis growth 5.15% annually

- Low growth elasticity of poverty: share of agriculture in GDP has lagged behind other sectors

- Labour market distortions: regulations on minimum wages, contract work, severance pay, outsourcing
4. Constraints in Accelerating Poverty Reduction (3)

4.2 Weak Human Capabilities

- Low access to basic services hampers the poor to move out of poverty and causes the near poor to easily fall into poverty
- Low access of the poor and near poor to education and health services is due to constraints in both supply and demand sides
- The supply constraints are poor infrastructures, poor staff quantity and quality, and unaffordable services
- The demand constraints are lack of financial capacity and high opportunity cost in accessing services
- In addition, the poor also face the problems of lack access to sanitation and clean water
4. Constraints in Accelerating Poverty Reduction (4)

4.3 Inadequate Social Protection

- There are always some groups which are left behind from development. It is important to develop social protection to maintain people’s standard of living.
- Poverty reduction efforts should not only aim at reducing people who live below the poverty line, but also people who are vulnerable to fall into poverty.
- One of the crucial issues to ensure the effectiveness of social protection program is targeting the beneficiaries.
- Evaluations of social assistance programs show that they suffer from being too sectorally oriented, lack of coordination across programs, and high degree of leakage and under coverage.
5. Conclusion and Recommendation (1)

5.1 Conclusion

- Poverty remains a significant problem in Indonesia and will continue to do so in the future because:
  - There will always be some groups in the society who are left behind from the growth process
  - As the economy develops, the causes of poverty become more complicated, making poverty becomes more complex and more difficult to solve.
  - As standard of living increases, people’s expectation also increases, pushing up the socially acceptable poverty threshold
- There are opportunities that can help making poverty reduction more effective in the future. But there are also critical constraints that need to be addressed effectively.
5. Conclusion and Recommendation (2)

5.2 Recommendation

Expanding productive opportunities for the poor and near poor

- Labour law reform: high levels and frequent changes in minimum wages, complicated process in worker dismissals, restrictions on contract workers and outsourcing, high levels of severance payments

- Reform to increase provision of economic infrastructures that are crucial for the development of micro, small, and medium enterprises

- Additional efforts are needed to push the growth of labour intensive industries and the micro, small, and medium enterprises (access to capital, management capacity, promotion and marketing capabilities)
5. Conclusion and Recommendation (3)

5.2 Recommendation

*Strengthening human capabilities of the poor and near poor*

- Investments in social infrastructures are crucial, hence need to rehabilitate, rebuild, and expand these infrastructures, which requires budget sharpening

- The implementation of PKH program requires correct preparation, planning, and design to: (i) reduce dependence on transfer, (ii) develop criteria for beneficiaries graduation, (iii) support empowerment to move out of poverty sustainably

- Identification of combination between assistance to households and subsidy to providers that give the biggest impact on welfare improvement
5. Conclusion and Recommendation (4)

5.2 Recommendation

*Expanding and strengthening social protection for the poor and near poor*

- Inclusion of the poor in social security schemes and improve targeting of social assistance programs
- Social protection mechanism needs to be directed toward building the poor’s capability to accumulate human capital
- Expanding and strengthening social protection requires a commitment from the government to allocate a portion of the state budget for subsidies
- To reduce distortions due to subsidy requires gradual reforms through careful repeated adjustment process
Thank You