

RESEARCH REPORT

# Review of Government's Poverty Reduction Strategies, Policies, and Programs in Indonesia

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**The SMERU Research Institute**

**Jakarta**

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# ABSTRACT

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Poverty reduction has become a major policy initiative in Indonesia since the advent of the economic crisis in 1997/98. When the economic crisis hit Indonesia started in mid 1997, the government established the social safety net (JPS) program, covering food security, health, education, employment creation, and community empowerment. This JPS program becomes the initial undertaking of various poverty reduction and social protection programs implemented by successive governments in the post-crisis period. Currently the government strategy in poverty reduction is formulated through a clustering of poverty reduction programs into three clusters based on the objectives and targets of these programs. The first cluster is social assistance, with the objective of providing direct assistance to poor households to ease their burdens in meeting basic necessities. The second cluster is community empowerment, with the objective of providing social fund to poor communities that they can use to improve basic social and economic services according to their own priorities. The third cluster is microenterprise empowerment, with the objective of providing access to credits for microenterprises without being hindered by the requirement of having to provide collaterals. Evaluation of the effectiveness of these programs in achieving their stated objectives, have shown mixed results. Among the efforts to increase the effectiveness of poverty reduction program, the government has recently established a national team for accelerating poverty reduction, chaired by the Vice President. This shows the level of commitment of the government in achieving its target in poverty reduction.

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# I. BACKGROUND

Indonesia, the world's largest archipelago of 17,000 islands and one of the countries with the richest natural resources in the universe, is a home for 230 million people or 3.4 percent of world population. Despite its abundant resources, Indonesia is listed among the lower middle income countries with only USD 2,254 per capita incomes in 2008 (World Bank, 2009a; 2009b). Since the Asian economic crisis in 1997-98, efforts on protecting the poor through targeted social safety net on health, education and rice consumption as well as the newly introduced community empowerment programs and micro-enterprise empowerment programs have signified Indonesia's development policy agenda. However, recent poverty condition has not yet confirmed if Indonesia is on efficient track at achieving MDG1 to MDG5 and MDG6b in reducing multidimensional poverty covering extreme poverty, food consumption, universal 9-year education, gender-equality, maternal and neonatal health and child survival, and combating malaria and other communicable diseases.

In the National Medium-Term Development Plan of 2004-09, the Yudhoyono administration targeted to reduce the percentage of Indonesian living below poverty line<sup>2</sup> from 17.42 percent in 2004 to 8.20 percent in 2009, a 9.22 percent point decrease in 5 years time. The 2009 government own poverty data however show that 14.15 percent population or 32.53 million people still live below the national poverty line, a deviation of 5.95 percent point from the government's target. The newly launched National Medium-Term Development Plan of 2010-2014 has targeted a poverty rate of 8 percent in 2014, leaning its hope to an integrated and inclusive development that accommodates localities and equality in the distribution of infrastructure and economic development that foster equality in human development (Bappenas, 2009).

Indonesia proclaimed its independence in 1945 and has since struggled with improving national income and the eradication of poverty. During the 1945-1960s, the country experienced the war against Japan and the Netherlands, against local separatisms, civil conflicts, and political reconstruction, resulting in the damage of assets, natural resources and human lives, national unstable governments, low GDP, and high poverty levels. Beginning in the early 1970s, Indonesia enjoyed a rapid economic growth averaging 7 percent annually, until the Asian economic crisis in 1997-98 grounded it to a halt. In 1998, the Indonesian economy contracted by more than 13 percent. Post-crisis recovery has been relatively quick, but a decade later the economic growth has not returned to the high growth during the pre-crisis era, averaging around 5 percent annually or around 70 percent of the average growth level during the pre-crisis period.

The high economic growth during the pre-crisis period was accompanied by improvements in various social indicators. During the period, life expectancy increased, infant mortality rates fell, and school enrollment rates rose. In addition, the provision of basic infrastructure – water supplies, roads, electricity, schools, and health facilities – also rose substantially. More significantly, even though the total number of population increased from around 135 million in 1976 to around 200 million in 1996, the number of population living below the national poverty line decreased markedly from around 54 million people to around 22.5 million people during the same period (BPS, various years).

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<sup>2</sup>The poverty lines equal to 2100 calorie per capita per day for the food component plus basic non food consumption i.e. housing, apparel, health, education, utilities and transportation. The average composition is 76% for food consumption and 24% for non-food consumption; in urban area 70% vs. 30% and in rural area 79% vs. 21% (Avenzora & Karyono, 2008).

However, beginning in mid 1997 Indonesia was struck by a currency crisis, which by the first half of 1998 had already developed into a full blown economic and political crisis, exacerbated by a natural disaster (*El Nino* drought). During this crisis period, the Indonesian people witnessed the value of their currency fell to as low as 15 percent of its pre-crisis value in less than one year, an economic contraction by an unprecedented magnitude of 13.7 percent in 1998, skyrocketing domestic prices (the general inflation rate was 78 percent in 1998) and particularly those of food (inflation rate of food was 118 percent in 1998), mass rioting in the capital Jakarta and a few other cities, and culminated in the fall of the New Order government – which had been in power since mid 1960s to May 1998 (Sumarto, Suryahadi, and Widyanti, 2005).

The social impact of the crisis, in particular on poverty, was substantial. The official estimate indicates that the national poverty rate increased from around 17.3 percent in February 1996 to 24.3 percent in February 1999 (BPS, 2002). During the period, the number of urban poor doubled, while the rural poor increased by 75 percent. A study by Suryahadi, Sumarto, and Pritchett (2003) which tracks down poverty rate over the course of the crisis shows that the poverty rate increased by 164 percent from the onset of the crisis in mid 1997 to the peak of the crisis around the end of 1998.

To reduce the adverse social impact of the crisis, in 1998 the Indonesian government introduced a social safety net (*Jaring Pengaman Sosial* or JPS) program aiming to prevent the poor from falling more deeply into poverty and reducing the exposure of vulnerable households to risk. The social safety net involved four strategies: (i) ensuring the availability of affordable food, (ii) improving household purchasing power through employment creation, (iii) preserving access to critical social services, particularly health and education, and (iv) sustaining local economic activity through regional block grants and the extension of small-scale credits. It was hoped that the implementation of the JPS programs would prevent or at least significantly reduce the worst effects of the crisis (Sumarto, Suryahadi, and Widyanti, 2002).

From 1998 to 2010, the government has shifted its development agenda, not only relying heavily on economic growth but also creating poverty reduction efforts to ensure the achievement of development goals. JPS, that was commenced as an effort to mitigate the impact of financial crisis that severely hit the poor a decade ago, has now evolved into wider poverty reduction efforts. Today, poverty reduction has become one specific objective that is formally stated in the national development planning documents.<sup>3</sup>

This study is an attempt to review the government's poverty reduction strategies, policies, and programs during 1998-2010 and offer possible pathway to strengthen its poverty reduction power. In doing so, it reviews various studies and surveys on poverty dynamics and analyzes the documents on national and local poverty reduction strategies, policies, and programs.

The rest of the paper is organized as follows. Section two reviews the government's poverty reduction strategies and policies. Section three explores the three clusters of major government's poverty reduction programs. Finally, section four concludes and offers policy recommendation.

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<sup>3</sup>For example, Poverty Reduction is the first chapter in the Mid Term Development Plan (RPJM 2004 - 2009) section for achieving a prosperous Indonesia. This chapter reflects the national Poverty Reduction Strategy Paper (PRSP 2005)) which essentially adopts the rights-based approach.

## II. RECENT DEVELOPMENT IN POVERTY REDUCTION STRATEGIES AND POLICIES

### 2.1. Poverty Reduction Strategies and Policies

Despite the fact that poverty alleviation in Indonesia achieved a great success in the period of 1970s until mid 1990s, the term ‘poverty’ has not placed in the top priority of the country’s development agenda until the early 1990s. There was no specific chapter on poverty alleviation in the first five of Five Years Development Plan (REPELITA), the national medium-term development plan in the New Order Era. The Sixth REPELITA 1994/1995 – 1998/1999 was the first document that mentioned poverty alleviation and equality of development. These two issues were also integrated in other chapters of this document.

Nonetheless, it should be noted that during the pre-crisis high growth period, the Government of Indonesia (GoI) under Suharto had actually carried on a number of poverty reduction programs. In the early New Order era for example, several departments including the Department of Home Affairs run an experimental savings and loans projects; the Department of Social Affairs conducted projects focused on increasing the welfare of the poor and needy; and the Department of Agriculture managed programs aiming to increase the income level of small farmers (Leith et.al, 2003). Furthermore, in the 1990’s Suharto’s administration took important steps on what later was the inspiration of PNPM. The GoI poverty reduction initiatives in the late New Order era includes: (i) Presidential Instruction on Disadvantaged Villages (IDT); (ii) Disadvantaged Village Infrastructure Development Program (P3DT); (iii) Urban Poverty Reduction Programme (P2KP); (iv) Takesra/Kukesra; (v) Small Farmers/Fisherman Income Expansion Project (P4K); and (vi) sub-district Development Program (PPK/KDP) (Leith et.al, 2003).

In post-crisis era, what was started as a response to the Asian economic crisis that swept the country a decade ago, a set of social safety net (*Jaring Pengaman Sosial*, JPS ) programs have now become institutionalized in the poverty reduction programs in Indonesia. From the onset of the crisis, the government employed a social protection system that was a mixture of universal subsidies and targeted safety net programs. The aim of this initiative is to prevent the chronic poor from falling more deeply into poverty and reducing the exposure of vulnerable households to risks.

JPS had four-pronged strategies: (i) ensuring the availability of affordable rice, (ii) improving household purchasing power through employment creation, (iii) preserving access to critical social services, particularly health and education, and (iv) sustaining local economic activity through regional block grants and the extension of small-scale credits. It was hoped that the implementation of the JPS programs would prevent or at least significantly reduce the worst effects of the crisis (Sumarto, Suryahadi, and Widyanti, 2002).

After the crisis, successive administrations maintained some of the JPS programs and attempted to restructure the extremely regressive subsidies fuel products (mainly kerosene, automotive diesel fuel, and gasoline, known as BBM from *Bahan Bakar Minyak*) and to channel budgetary savings into targeted social protection and poverty reduction programs. These savings then used to fund social undertakings known in general as the Fuel Subsidy Reduction Compensation Program (*Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak* or PKPS-BBM). The PKPS-BBM programs have since helped to maintain the post-crisis gains despite periodic bouts of economic fluctuations and, more importantly, have enabled the central

government to make the transition to a more progressive public spending regime (Sumarto, Suryahadi, and Bazzi, 2008).

In the following years, successive administrations has taken a politically difficult but economically rational and pro-poor step in allocating resources more effectively in sectors that matter to the social welfare. Today, however, Indonesia's budgetary allocations to social and human development priorities as a proportion of gross domestic product (GDP) still remain among the lowest in Southeast Asia. Obviously, the policy makers face a critical trade-off between balancing the state budget and making necessary social investments (Sumarto, Suryahadi, and Bazzi, 2008).

It should be noted however, despite the relatively low investment in poverty reduction, politically, the GoI took an important initiative by preparing and launching the first national grand strategy to reduce poverty across the country. This strategy then formally documented in Interim-Poverty Reduction Strategies Paper (I-PRSP). To prepare this document, the GoI, under President Abdurahman Wahid, set up an inter-ministerial agency which was named: the Coordination Agency for Poverty Alleviation (*Badan Koordinasi Penanggulangan Kemiskinan* or BKPK).

With the removal of Abdurahman Wahid and the appointment of Megawati Soekarnoputri as the President, BKPK was dissolved and changed into Poverty Reduction Committee (*Komite Penanggulangan Kemiskinan* or KPK) through Presidential Decision No.124/2001. This agency was led by the Coordinating Minister for People's Welfare and based in BAPPENAS (National Planning Board). The function of the KPK is to provide policy advice, produce the PRSP, and to monitor and report on poverty alleviation directly to the president. To do its job, KPK accommodated inputs from various stakeholders including civil societies. This was the first time the GoI sat down together with civil societies to prepare a nation wide development policy focusing on poverty reduction. Nonetheless, commitment to the PRSP at both the political and bureaucratic levels remains elusive (Leith et.al, 2003).

The GoI finally finished an Interim-Poverty Reduction Strategy Papers (I-PRSPs) in 2003 (Committee for Poverty Alleviation, 2003). This I-PRSPs is a document that sets out a preliminary poverty reduction strategy as a precursor to a full PRSP (*Strategi Nasional Penanggulangan Kemiskinan* or SNPK).

### **2.1.1 A Road to the National Strategy for Poverty Reduction**

I-PRSP which was completed in March 2003 stated that the national strategy for poverty reduction document should be formulated through several steps: (1) identification of poverty problems, (2) evaluation of poverty reduction policy and program, (3) strategy and policy formulation, (4) program formulation and its delivery system and (5) evaluation of policy and program. After a completion of I-PRSP, the government started to develop the SNPK and completed the document by 2004. In the end of 2004, draft of SNPK submitted to the Poverty Reduction Committee. Aspirations from wide stakeholders were accommodated in the process of finalizing I-PRSP. This is shown from integration of participatory poverty assessment result and gender analysis, policy priorities and five years action plan, targeting, job division, and monitoring and evaluation.

While outdated perspective examines poverty as a problem of lack of income and perceives the poor as an object who have no power in delivering voices in development process, SNPK reforms this view and formulate poverty alleviation program based on right based approach. Poverty is multidimensional problems, it is not only a monetary problem of the poor but also

a problem of their vulnerability moving into and out of poverty and a problem of how difficult they are to access the decision process of a policy that have an effect on their life. The assertion of the poor basic rights—social, culture, economic, and political rights—become a central understanding on how to overcome the poverty problems. Furthermore, the right-based approach also induces a new definition of the relationship between the government and the people especially the poor. On this view, the state (means government, parliament, military and all state institutions) have an obligation to respect, protect, and fulfill the basic right of the poor systematically and in a progressive way.

SNPK also acknowledges the interrelated factors involved in the condition of the poor's powerlessness and restlessness in meeting their basic rights, their vulnerability to business competition, exposure to conflict and violence, demography problems, gender inequality, and wide disparity of economic conditions between those who live in lagged behind and more developed regions. Besides, the poverty problem is slightly different in rural, urban, coastal, and lagged area. The SNPK also reveals that some of the poor face difficulties in acquiring assets especially land and capital, limited access to public services particularly education and health, and poor participation in public decision making process. Moreover, a consolidation study of Participatory Poverty Assessments (PPAs) conducted by SMERU (2003) exhibits that limited education and skills, lack of employment opportunities, lack of access to capital as well as an adequate income are among the issues were dominantly came up in PPAs.

SNPK recognizes the need to create a greater opportunities for the poor, strengthen community's institutionalization, raise community's capacity, improve social protection, and connect the global partnership. These five items are the main strategies in poverty alleviation as formulated in the document. Furthermore, the action plan in the SNPK documented policy priority emphasizing the importance of progressive and systematical realization on the respect, protection as well as the fulfillment of people's basic rights in: (1) food, (2) basic health service, (3) education, (4) job opportunities and business development, (5) housing, (6) clean water and sanitation, (7) land ownership, (8) natural resources and environment, (9) security, and the last, (10) participation in decision making process.

The new understanding that combating poverty is not only the government's concerns has produced an initiative to grasp all development actors to participate in this effort. Therefore, the success of the poverty alleviation strategy and policy implementation is depended on the relationship, partnership and active efforts of central and local government, parliament, private sector, civil society<sup>4</sup>, academicians, as well as international agencies. The last but important point in the implementation of any program is monitoring and evaluation system. The SNPK highlights this issue in the last chapter with acknowledgment of the importance of good data and information on timely, accurate, relevant, complete and comprehensive to do monitoring and evaluation.

As seen in the Figure 1, the SNPK is integrated in Medium Term Development Plan (RPJM). The strategy and action plans of poverty alleviation become one of the main priorities in the RPJM and have a specific chapter in the document. Therefore, we can consider the SNPK as a main guidance in mainstreaming policy and program of poverty alleviation for the time being.

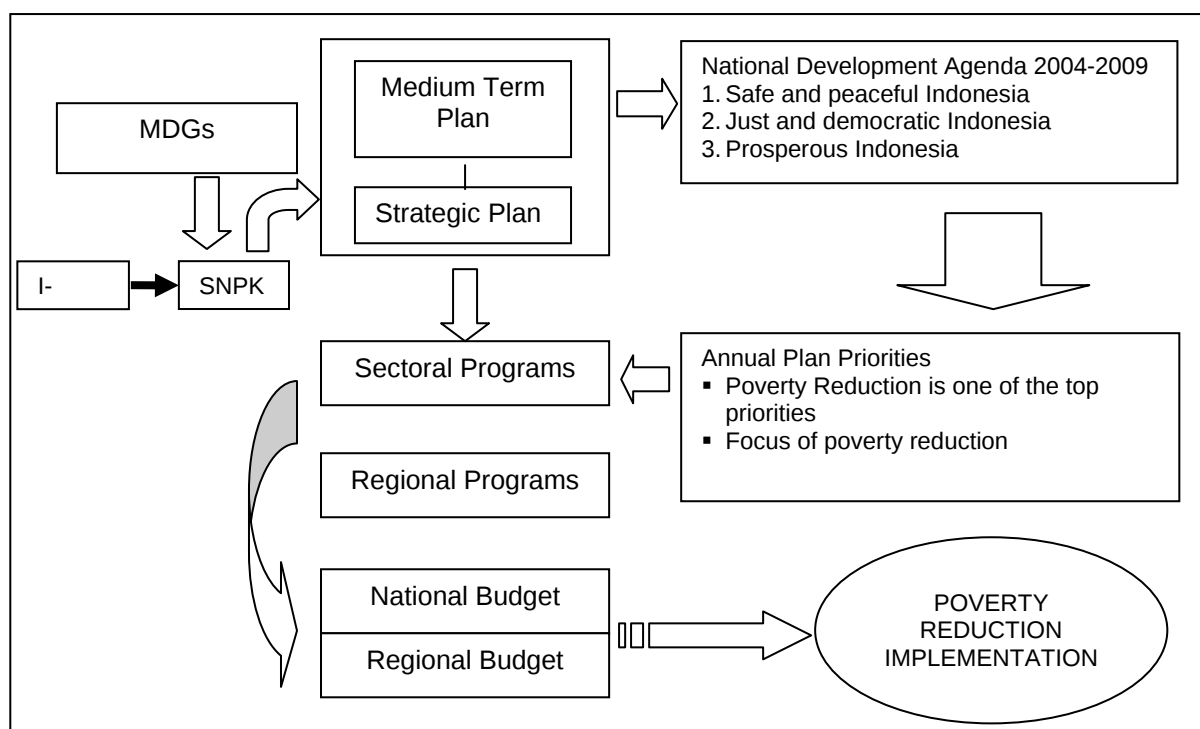
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<sup>4</sup>Mass organization, according to the Law 8/1985, is an organization that enacted by the citizen of Indonesia voluntarily based on similarity of activity, profession, function, religion and faith to participate in the country's development.

## 2.1.2 Review of the Medium Term Development Plan 2004-2009

The RPJM provides policy guidance and programs for five years for both national and local governments, based on the vision and mission of the elected president. The 2004-2009 RPJM has put the poverty reduction as a top priority, i.e. reducing the number of poor to 8.2 percent by the end of 2009. Multidimensional poverty reduction has been integrated into the RPJM's three priority agendas:

- *Prosperous Indonesia*: reduce the number of poor people, focus on pro-poor growth and creating employment opportunities, whilst improving access to quality health and education services, reducing regional disparities, and improving natural resources and environmental management.
- *Just and Democratic Indonesia*: improve justice and law enforcement, with a priority to eradicate corruption, improve the implementation of decentralization, and enhance people's participation in the development process.
- *Safe and Peaceful Indonesia*: enhance a sense of safety, security, and peace as reflected in the reduction of tension and threats among disparate groups, and the actual reduction of the crime rate in urban and rural areas.



**Figure 1. Poverty Reduction in the Framework of National Development Plan**

Source: Bappenas (2006)

Also from Figure 1 above, it shows that to achieve the poverty reduction targets by the end of 2009, the RPJM is implemented through the annual government work plan (*Rencana Kerja Pemerintah* or RKP), sectoral ministry work plans, and district/municipal sectoral plans. The National Development Planning Agency and Ministry of Finance propose indicative ceilings at the sector and program level to Cabinet at the commencement of the budgetary process. The parliament will give the budget approval after further discussion with the central and regional governments based on the final RKP.

Poverty reduction has a particular chapter on the RPJM, e.g. Chapter 16. This chapter articulates the problems of poverty which can be seen from the basic needs fulfillment, population burden, and gender inequality problems. Other thing discussed here are the targets of poverty reduction agenda, policy direction, and development programs which in fact is a shorter explanation of the same idea pointed out in the SNPK. We should also note that poverty reduction agenda also attach with other chapter in the RPJM. Firstly poverty is mentioned in the first chapter titled the national development agenda. Reducing poverty rate to 8.2 percent in 2009 is the first target to meet *Prosperous Indonesia* agenda. It shows a commitment of the new government to focus on the poverty issue. Other than that poverty is repeatedly brought up in several chapters, for instance Chapter 19 about agricultural revitalization, Chapter 20 about cooperatives and SMEs' empowerment, Chapter 23 on increasing employment sector, Chapter 24 on macroeconomic stability, Chapter 25 on rural development, Chapter 27 on access to quality education, and Chapter 28 on access to quality health services.

One year after the implementation of RPJMN 2004–2009, Indonesia made a massive improvement in redefining targeted households for social protection purpose which politically perceived to alleviate poverty. Despite of these poverty reduction programs, Indonesia is still plagued by high poverty rate, inequality, and vulnerability, and the 2009 poverty rate is 5.95 percent points higher than the government's target, as 14.15 percent of Indonesian lived below national poverty line.

Several factors should be taken into consideration on understanding why this target cannot be achieved. External and internal factors obviously have made the poverty reduction process is slower than that of targeted. Fuel and commodity price surge are the most influential external shocks that hinder the poor wellbeing in recent years. As a result, inflation is increasing and the pace of economic growth cannot boost the poverty reduction. While in the internal side, the policy coordination and poverty alleviation program between sectors as well as coordination between central and local government have been far from optimal (TKPK, 2009). Moreover, the big size of the near poor in the Indonesian poor characteristics has made the poverty reduction program become more difficult as they are very vulnerable to fall into poverty in the shock circumstances.

### **2.1.3 Review of the Medium Term Development Plan 2010-2014**

The newly launched RPJM 2010–2014 tries to sharpen the focus on poverty alleviation, taking advantages of the massive shift from regressive fuel subsidy to targeted social protection programs during 2005–2009. It targets poverty reduction from 14.15% in 2009 to 12-13.5% in 2010 and 8.0% in 2014. In order to achieve this poverty alleviation targets, the government realize that development agenda should take into consideration five most important weaknesses of the past poverty reduction practices, i.e. (1) limited coverage and quality of the social protection scheme; (2) strong welfare disparities between provinces; (3) low access of the poor toward basic services; (4) the vulnerability of the poor toward the negative impact of external forces such as globalization; and (5) increasing vulnerability of the poor due to climate change.

During the next five years, poverty alleviation is pursued through the improvement of apparatus or institution responsible for social protection, the extension of the coverage of social protection and to strengthen the multidimensional pathways to poverty alleviation in which all development sectors should contribute. In other word, in the next five years the government intends to accelerate the poverty alleviation performance through the institutionalization and mainstreaming of social protection in all developmental sectors. From

managerial aspect, in order to create multi-sector harmony and synergy on poverty alleviation, the central government had put forward a new regulation, the Presidential Regulation No. 15/2010 that pull the authority for management and practices of national poverty alleviation at the hands of the vice president. In the past this authority was mostly at the hand of the Coordinating Ministry of People's Welfare (Menko Kesra) which made it difficult to create multi-sector synergy since most ministers come from different political parties and interest groups conveying diverse poverty alleviation paradigms and agendas.

In practice, the central government has also issued a poverty reduction related presidential-decree (Inpres No. 3/ 2010) which reemphasize the RPJMN 2010–2014 targets for higher and faster economic growth, strong poverty reduction (to 8% poverty rate) accompanied with massive job creation and labor market absorption (to 5% unemployment rate).

#### **2.1.4 Review of the Regional (Local) Poverty Reduction Strategies and Policies**

As mentioned earlier, PPAs were conducted in several regions as part of the formulation processes of the SNPK to get a better understanding about local poverty characteristics and problems. Moreover, in the decentralization era, a role of the regional government (both at provincial and district level) in the poverty reduction efforts is increasing. As a consequence, the formulation process of regional poverty reduction strategies (*Strategi Penanggulangan Kemiskinan Daerah* or SPKD) is highly needed for several reasons (World Bank-ILGR, 2005). First, many of the responsibilities for addressing multidimensional aspects of poverty had been devolved to the local level and/or were at the minimum a shared responsibility. Second, diverse conditions—largest poverty numbers on Java, but highest incidence off-Java—require local poverty diagnosis at local level. And third, with decentralized planning and budgeting process, it would be more strategic to influence policies and budget at local level. Furthermore, on the one hand, the SNPK will become the reference for local governments to develop their own poverty strategies, i.e. the SPKD (World Bank, 2005). On the other hand, the usefulness of national planning documents such as the SNPK will depend on how well their goals and outcomes are reflected and pursued in local plans (World Bank, 2004a). Suryahadi and Sumarto (2007) also points out that to make poverty reduction efforts effective we need an effective program design and implementation both at the national and local levels. Hence, there is a symbiosis or pull and push interests between local and national strategic papers.

The new framework of multidimensional poverty requires us to understand the voice of the poor. On the other hand, in a more decentralized environment, the local government is also required to be strongly involved in the formulation of poverty strategy despite of their lack of capacity and limited experience in doing so. PPAs provide opportunities for local government to work together with poor communities in identifying and discussing the root causes of their poverty problems. As a result, the strategies and action plans on poverty reduction that are local specific will be produced based on the identified poverty problems (World Bank, 2004b).

The data from the Directorate of Community's Empowerment, Ministry of Home Affairs in 2007 reported that there is slightly slow implementation of the regional PRSs in provincial level but more rapid in *kabupaten/kota* level. Only 14 out of 33 provinces which has already the SPKD while there are 316 *kabupaten/kota* which has the SPKD from total 440 *kabupaten/kota* in Indonesia.

There are good examples from 15 *kabupaten/kota* that finalize the SPKD paper with assistance from Initiatives for Local Governance Reform (ILGR) project of the World Bank, eight of which have already been legalized through District Head (*Bupate/Walikota*) Decree which has

budget implications (World Bank-ILGR, 2005). Similar to the implementation of the SNPK in the national level, the SPKD also integrated in the Five Year Regional Strategic Plan which has an implication into annual planning and budgeting. The channel goes through technical agencies programming both in sub-district and *kabupaten* planning discussion, then through the executive budgeting team before get approval from the local parliament.

Still from the result of ILGR project, some of the poor's view starts being accommodated in local policy. Some of examples are:

- Bulukumba government in South Sulawesi commits to provide more incentives for teachers working in isolated areas,
- Participatory local regulation formulation on spatial planning that protects communities' interest in Bulukumba (South Sulawesi), Ngawi (East Java), Bolaang Mongondow (North Sulawesi).
- Formulation of local regulation and law enforcement on river pollution in Bolaang Mongondow (North Sulawesi), Bandung (West Java).
- Formulation of local regulation on forest management in Lamongan (East Java).
- Policy formulation on the poor's access to capital in Bulukumba (South Sulawesi)

## 2.2 Institutional Setting of Poverty Reduction

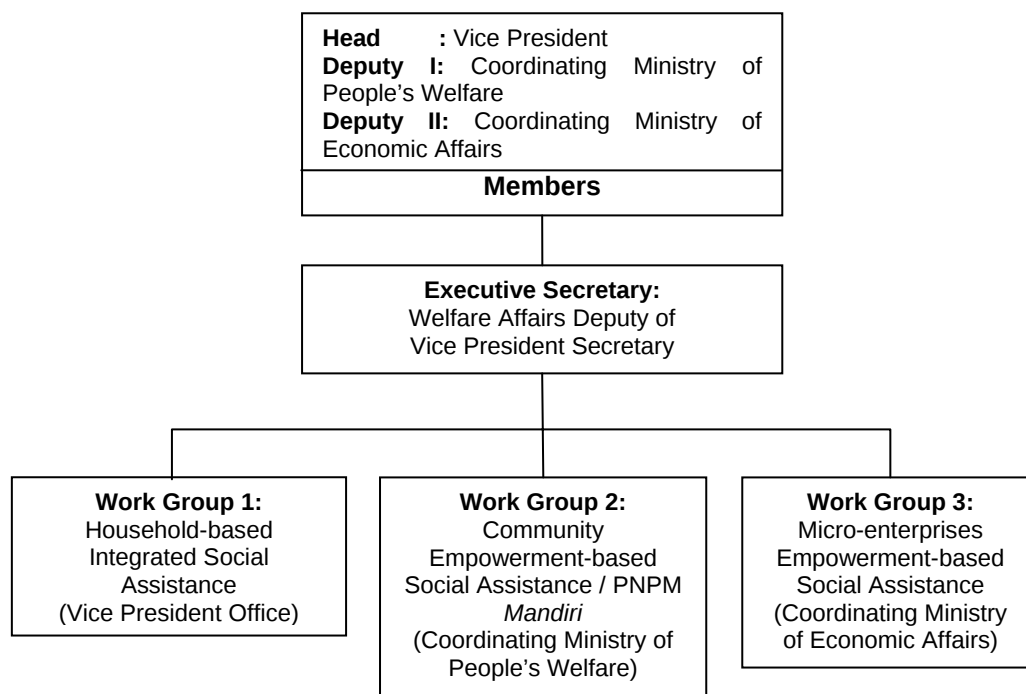
The new paradigm in poverty alleviation agenda has led us to rethink the institutional setting tackling against the multidimensional poverty. We learned from the past experience that to combat poverty we need a comprehensive and integrated approach which is more complicated after a huge change of social, economic, and political turmoil in the crisis (Committee for Poverty Alleviation, 2003). The issues raised in the I-PRSP document are region autonomy and decentralization, demand for good governance, as well as globalization. These three issues related to involvement of multi-stakeholders—central and regional government, parliament, private sectors, NGOs and mass organizations, as well as the community—in the poverty alleviation program. Furthermore, this new paradigm of poverty alleviation that incorporated all stakeholders in the poor empowerment becomes a foundation to create such a space to synergize and sharpen various policies and programs in poverty alleviation (TKPK, 2009).

An initiative to integrate the poverty reduction efforts under one roof coordination started in 2001 with the issue of Presidential Decree (Keppres) No, 124/2001 jo. Keppres No. 8/2002 about the establishment of Poverty Reduction Committee (KPK) led by Coordinating Minister of People Welfare and Coordinating Minister of Economic affairs as its deputy. As the main task, the Committee has to coordinate the formulation and implementation of poverty reduction program by engaging not only government institutions but also other development actors in each level of government as well as other multi-stakeholders (Committee for Poverty Alleviation, 2003; TKPK, 2007). As slightly mentioned before, previously the Committee was known as the Coordinating Agency for Poverty Alleviation (*Badan Koordinasi Penanggulangan Kemiskinan* or BKPK).

To emphasize the importance of the institutions in frontline of poverty reduction efforts, the government launched Presidential Regulation (Perpres) No. 54/2005 about the Coordination Team for Poverty Reduction (TKPK). The main task of TKPK is to continue the work of KPK with more emphasis to do a concrete action to reduce the number of poor more rapidly through the coordination and synchronization of planning and implementation of poverty alleviation policies. This team consists of 19 minister, 3 head of bureau, and other non-governmental members and similar to KPK the team is led by Coordinator Minister of People

Welfare and Coordinator Minister of Economic Affairs as the deputy. Deputy of Minister of people Welfare as the team secretary is another important person who gives technical and administrative assistances in daily activities of the team. On March 2009, government modified the last regulation with issuing of Perpres No. 13/2009. Under this new regulation, the team expands its members by adding four other ministers. The latest development, on February 2010 the government issued the Perpres No. 15/2010 about poverty reduction acceleration. Based on this Perpres, the poverty reduction body change its name becomes the national team for poverty reduction acceleration (TNP2K). TNP2K has three main tasks, i.e. formulate the poverty reduction policy and program, make the poverty reduction activities more synergic between ministries and institutions, and perform the monitoring and evaluation function. This new regulation also highlights a change in organization as the President has put the Vice President to lead this team.

The organization chart based on Perpres No. 15/2010 is illustrated in Figure 2.

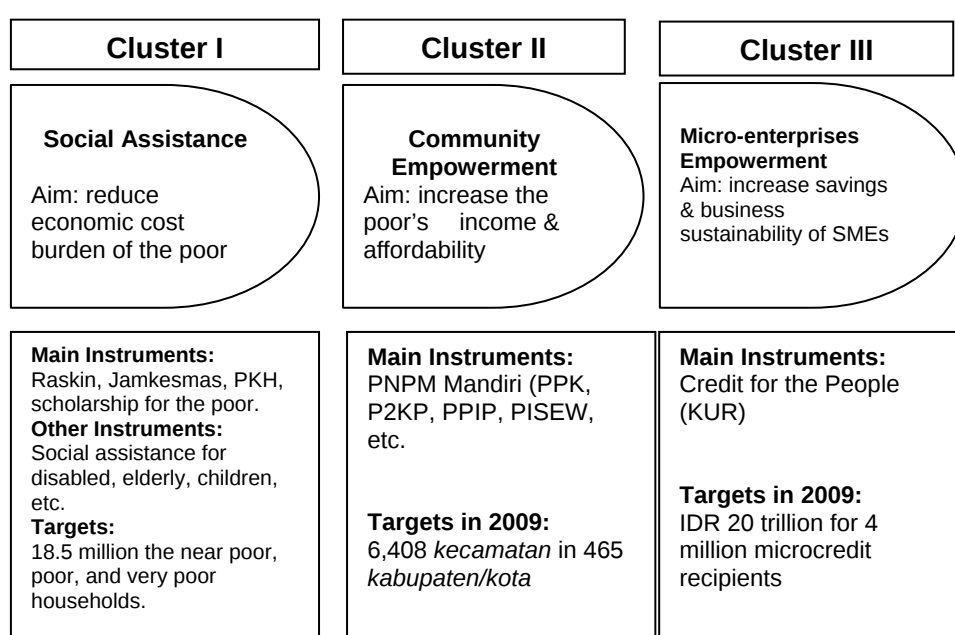


**Figure 2. Organizational Chart of TNP2K based on Perpres No. 15/2010**

Meanwhile, coordination between central and regional is still the same with the previous. Regional TKPK in province and *kabupaten/kota* level should be set up and as in the national level, the provincial TKPK will be responsible to the governor, as well the *kabupaten/kota* TKPK will be in charge of *bupati/walikota*. However, it should be noted that the relationship between the TKPK at central and regional level is functional and not subordinate. The Letter of the Minister of Home Affairs No. 412.6/2179/SJ/2006 mentioned that regional TKPK is assigned to integrate and accelerate the steps to reduce poverty in their *kabupaten/kota*.

### III. MAJOR POVERTY REDUCTION PROGRAMS

In regards to the right-based approach attached in the new sight of poverty policy in Indonesia, the government has formulated the concept of poverty alleviation program in three different cluster based on the beneficiaries segmentation—very poor, poor and near poor. The first cluster is social assistance program which aims to fulfill the poor basic needs—in food, health, education, clean water, and sanitation—as well as to decrease their life burden, and to enhance the poor's life quality. The second cluster is the empowerment program which has objectives to enhance capacity and income of the poor as well as to get the poor involved in the development process based on empowerment principles. The last cluster is the small and micro enterprises' (SMEs) empowerment which aims to give an access and to enhance the economy of the SMEs. The details can be seen in Figure 3.



**Figure 3. Three Clusters in the Poverty Alleviation Program Source: TKPK, 2009**

These three clusters concept was formulated legally in the Presidential Regulation (Perpres) No. 13/2009 about the Coordination of Poverty Alleviation. Under this Perpres, the government consolidates the poverty alleviation into three clusters in order to accelerate the poverty reduction programs as well as to give a clear guidance for every level of administration (national, province, and district levels). However, these three programs have been implemented already before the enactment of regulation.

#### 3.1 Review of the Social Assistance Cluster of Government's Poverty Reduction Programs (Cluster 1)

Prior to 1997/98 Asian crisis, Indonesia had adopted a long-term poverty alleviation strategy via massive investment in public education and health, and public infrastructure. Among others, this approach has contributed to the improvement of human capital accumulation, creation of newly educated middle-class and opening isolated areas to wider economic

opportunities. In 1970s, special measures to targeting to the economic poor were difficult due to the very high proportion of people living below the poverty line. The poverty rate in 1976 is 40.1 percent or equals to 54.2 millions individuals. In the absence of government initiated social protection, the poor lean mostly on traditional risk pooling mechanism. When crop-harvest failure or chronically health disease or death comes as idiosyncratic shock hitting certain but not all individuals or households or local communities, there is local risk pooling institution available to smooth up the consumption of the victims through informal saving or donation mechanism among relatives or religious groups. Or, when victims can easily access the financial markets, idiosyncratic risk can then be insured through borrowing mechanism.

However, this typical local risk pooling mechanism failed when the whole community or region is hit by aggregate shock, like the one in Asian crisis 1997/98. At that time, an overburden international debt leading to currency crisis exacerbated by El-Nino driven drought and political strives to share national power over economic resources, had transformed into unpredictable hyperinflation. Taking the form of aggregate shock, the hyperinflation impact is country wide, paralyzing formal financial institution as well as informal local insurance mechanism. During the crisis, per-capita levels of household expenditure, declined substantially and poverty rates have risen by at least 25 percent. In mitigating the hyperinflation, households tried to maintain their physical amount of staple food consumption by increasing the value and proportion of their food consumption at the cost of health and educational expenditures, hampering the sustainability of long-term poverty alleviation strategy through human capital accumulation. This is true especially among the poorest households (Frankenberg, Thomas, and Beegle, 1999).

In effort to protect food security, education, health and employment of the poor households in the poor areas, in fall 1998, the Government of Indonesia initiated the first nation wide social protection scheme on health and educational, in addition to subsidized rice and cash-for-work program for poor households and areas (Sparrow, 2006, 2007; World Bank, 2006). With some modifications, many of these initiated social safety nets are still practiced – several of which are discussed in the context of the poverty alleviation strategy in the post-crisis Indonesia. Table 1 summarizes the evolution of social protection in health, education, food and also household financial liquidity.

As seen in Table 1, the government has performed continuous adjustment toward the social protection scheme aiming at better targeting and improving poverty alleviating power of the scheme by slowly moving into single poverty definition (i.e. BPS definition) but multi-sides instrument through PKH. The PKH can be categorized as multisectoral cash transfer scheme which due to its conditionality, can replace the targeted education scholarship scheme and complement the existing *Jamkesmas* in health sector.

**Table 1. Creation, Development and Re-categorization of National Social Protection Programs in Indonesia during Fiscal Year 1998/99 – 2010**

| Programs' Classification    | Fiscal year     |                 |                 |          |          |          |          |          |          |          |           |           |           |
|-----------------------------|-----------------|-----------------|-----------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
|                             | 1998/1999       | 1999/2000       | 2000            | 2001     | 2002     | 2003     | 2004     | 2005     | 2006     | 2007     | 2008      | 2009      | 2010      |
| Subsidized Rice             | OPK             | OPK             | OPK             | OPK      |          |          |          |          |          |          |           |           |           |
|                             |                 |                 |                 |          | Raskin   | Raskin   | Raskin   | Raskin   | Raskin   | Raskin   | Raskin    | Raskin    | Raskin    |
| Social Health Insurance     | JPS-BK          | JPS-BK          | JPS-BK          | JPS-BK   |          |          |          |          |          |          |           |           |           |
|                             |                 |                 |                 | PKPS-BBM | PKPS-BBM | PKPS-BBM | PKPS-BBM | PKPS-BBM |          |          |           |           |           |
|                             |                 |                 |                 |          |          |          |          | Askeskin | Askeskin | Askeskin | Askeskin  |           |           |
|                             |                 |                 |                 |          |          |          |          |          |          |          | Jamkesmas | Jamkesmas | Jamkesmas |
|                             |                 |                 |                 |          |          |          |          |          |          |          |           |           |           |
| Educational Support Fund    | JPS-Scholarship | JPS-Scholarship | JPS-Scholarship |          |          |          |          |          |          |          |           |           |           |
|                             | JPS-DBO         | JPS-DBO         | JPS-DBO         |          |          |          |          |          |          |          |           |           |           |
|                             |                 |                 |                 | BKM      | BKM      | BKM      | BKM      | BKM      | BKM      |          |           |           |           |
|                             |                 |                 |                 |          |          |          |          |          |          | BSM      | BSM       | BSM       | BSM       |
|                             |                 |                 |                 |          |          |          |          | BOS      | BOS      | BOS      | BOS       | BOS       | BOS       |
| Unconditional Cash Transfer |                 |                 |                 |          |          |          |          | BLT      | BLT      |          | BLT       | BLT       |           |
| Conditional Cash Transfer   |                 |                 |                 |          |          |          |          |          |          | PKH      | PKH       | PKH       | PKH       |

Source: Authors' analysis Fiszhebein & Schady (2010), Ministry of Social Affairs (2009), Hastuti et al (2009), Sumarto, Suryahadi & Bazzi (2008), World Bank (2006), Sparrow (2006), Hastuti & Maxwell (2003)

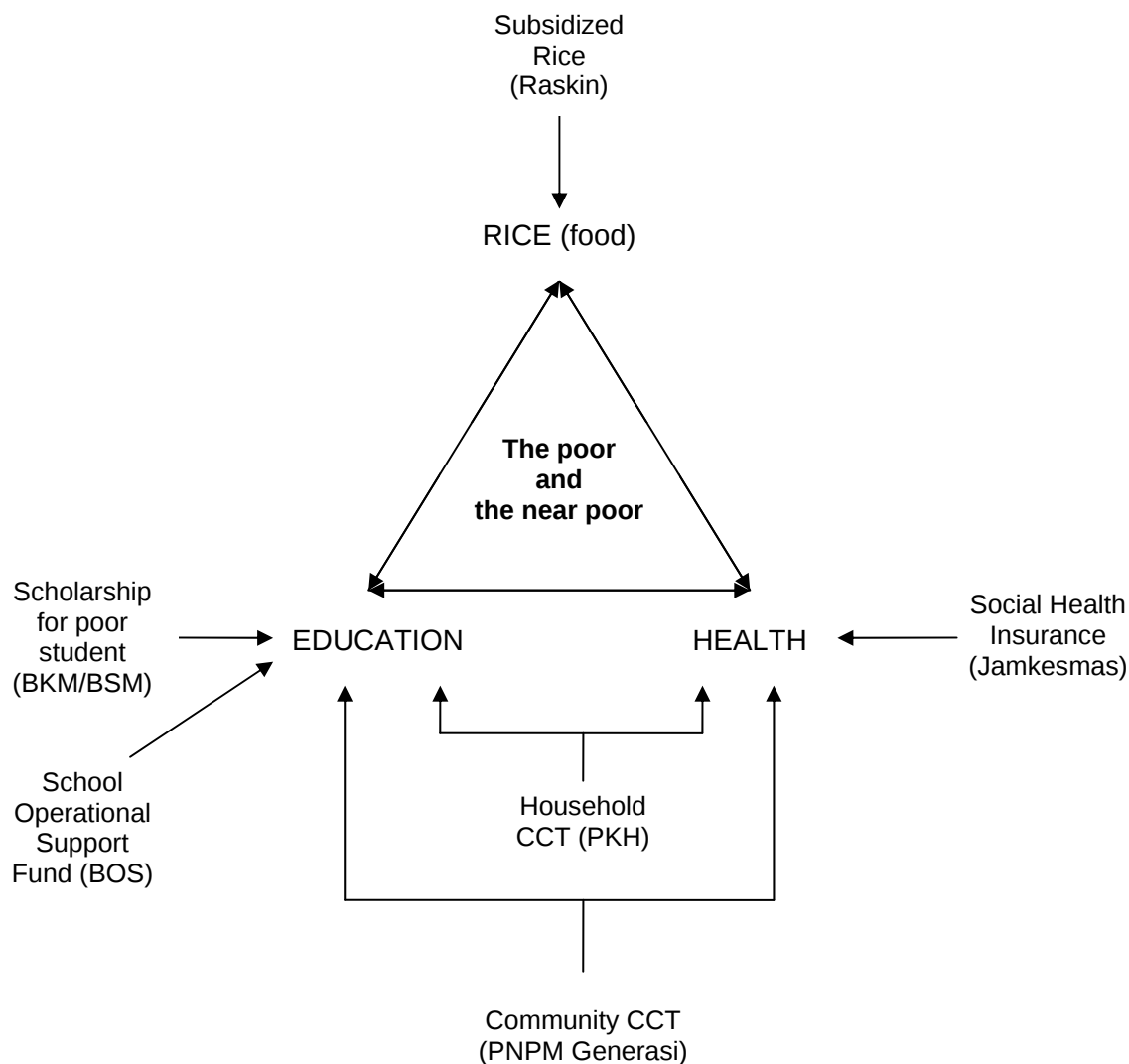
By regulation, and evidently, recipient households or individuals are not restricted in single social protection scheme only. They can benefit from two or more schemes provided match to their individual health and educational status or more generally their consumption patterns and preferences and that they are able to access the schemes. Whatever the number of social protection scheme involved, there are three possible channels for the use of the scheme.

The first and the most common channel is the direct use in which the recipient uses the social assistance according the designed purpose. For instance, subsidized rice is directly used for consumption of recipient-household, student scholarship is merely used for own-educational purpose, and health-card is used for medical treatment of the recipient. The second channel is the intra-household reallocation in which the recipient household changes its individual or overall consumption pattern due the availability of subsidized rice, student scholarship, health-card or cash transfer. For example, Bulog (2009) reported that the subsidized rice enable household to switch household expenditure to educational expenses. Hence subsidized rice actually improves not only the food intake of the household but also gives rise to its educational expenses and, provided adequate, improve children's educational quality. The third channel is between-households spillover effect where due to family or social network, the recipient households are enabled to share its resources to non recipient households. The same Bulog's report exposes that a very poor household who is recipient of subsidized rice shared the rice in social gathering, things they had never done without the subsidized rice

The complete set of current government social assistance in protecting rice consumption, education and health of poor households is mapped in Figure 3. There are five programs i.e. *Raskin* subsidized rice, *Jamkesmas* social health insurance, BKM/BSM poor student scholarship, BOS school operational support fund, PKH conditional cash transfer for households. In addition to these five programs, the PNPM *Generasi* conditional cash transfer for community is included since, although it is categorized as part of Cluster 2 on community empowerment, in practice it provided direct provision of transport incentives, books, umbrellas, and shoes for poor students as well as transport incentives for pregnant-mother to visit the midwives at *Posyandu* (Febriany, Toyamah and Sodo, 2010).

### **3.1.1 Protecting Staple Food Consumption of the Poor**

The 1997/98 crisis was signified by skyrocketing price of rice, the staple food for most Indonesians. The poor, whose rice consumption made up to a quarter of total expenditures, were the most negatively affected. The drop in rice consumption was accompanied by among others diminishing health status of under five-year children (World Bank, 2006), indicating bad coping strategy. It appeared that to smooth consumption, households reduced their investment in children education and push early entrance to labor market. To protect the rice consumption of the poor, in July 1998 the GOI immediately introduce the subsidized rice scheme through *Operasi Pasar Khusus* (OPK) program, amounting for 1.05 million tonnage of rice for the first fiscal year.



**Figure 4. Current Government Scheme on Protecting Rice Consumption, Education, and Health of Poor Households**

To strengthen the pro-poor targeting message, in early 2002 the name, but not the content, of the program is modified into *Raskin* (*Beras untuk Orang Miskin, Rice for the Poor*). The *Raskin* program distributed up to 3.1 million tons of rice in year 2009 (Table 2). That the number of recipient households in 2005–2008 is higher than its target indicates targeting inaccuracy and community decision to equally share the rice to the non-poor recipients who are not in the target lists due to benevolence among the poor or to minimize the occurrence of social friction in community (Hastuti et al, 2009).

During 2002–2009, about 29.55 percent of the subsidized rice had been distributed to lowest expenditure quintile and 24.98 percent to the second lowest expenditure quintile. Cumulatively 54.53 percent of subsidized rice distributed to these two lowest quintiles. Still, the two highest quintiles receive 24.83 percent of the subsidized rice, although the higher the expenditure quintile the lower the leakage with stronger improvement in year 2007–2009 (Table 2). Further examination by Hastuti and Maxwell (2002) and Hastuti et al (2008) revealed that there has been an improvement in targeting and distribution effectiveness of the subsidized rice.

Is subsidized rice poverty alleviating in the sense that it increases household consumption above 2,100 kilocalorie equivalent per capita per day? An analysis by Sumarto, Suryahadi & Widyanti (2005) using 1998/99 data reports that participation in subsidized rice program increase household consumption by 4.4 percent higher than the non participant households. With this increase, the recipient households are 3.82 percent less likely to be poor compared to their counterparts. The impact of subsidized rice is the strongest compared to other social protection such as health cards, student scholarships, and workfare programs. With regards to the benefit of this subsidized rice program, the World Bank put strong support on the continuation of this program conditional to the managerial improvement in rice distributions. Since the nation-wide distribution is monopolized by Bulog, there is indication that this program expenses substantial proportion of fund on administrative and distribution activities, hence involvement on local rice suppliers in local markets should be considered to reduce the costs while at the same time preserve the economic role of the local rice suppliers (World Bank, 2006).

In-depth study by Hastuti et al (2008) in West Sumatera, East Java and Southeast Sulawesi provinces notifies that the main benefit of the subsidized program includes smoothing up the food consumption, reduced psychological burden due to uncertainty of food availability, and enable household to switch financial resources to children's educational investment. Hence the direct use and the intra-household allocation channels are made use by the *Raskin* recipient households.

**Table 2. The Targets, Recipients, and Size of Subsidized Rice for Poor Households**

| Fiscal Year       | Name of Program | Criteria for Target Households | Number of Poor Households (Millions) | Number of Target households (Millions) | Number of Recipient households ((Millions) | Amount of subsidized rice (Million tons) | Budget (Rp Billions) |
|-------------------|-----------------|--------------------------------|--------------------------------------|----------------------------------------|--------------------------------------------|------------------------------------------|----------------------|
| 1998/99           | OPK             | Pre-prosperous <sup>a</sup>    | n.a.                                 | n.a                                    | n.a                                        | 1.05                                     | n.a                  |
| 1999/00           | OPK             | Pre-prosperous                 | n.a.                                 | n.a                                    | n.a                                        | 2.60                                     | n.a                  |
| 2000              | OPK             | Pre-prosperous                 | 16.00                                | 7.50                                   | n.a                                        | 1.35                                     | n.a                  |
| 2001              | OPK             | Pre-prosperous                 | 15.00                                | 8.70                                   | n.a                                        | 1.50                                     | n.a                  |
| 2002              | Raskin          | Pre-prosperous                 | 15.12                                | 9.79                                   | n.a                                        | 2.35                                     | 4.5                  |
| 2003              | Raskin          | Pre-prosperous                 | 15.75                                | 8.58                                   | n.a                                        | 2.06                                     | 4.7                  |
| 2004              | Raskin          | Pre-prosperous                 | 15.75                                | 8.59                                   | n.a                                        | 2.06                                     | 5.4                  |
| 2005              | Raskin          | Pre-prosperous                 | 15.79                                | 8.30                                   | 11,11                                      | 1.99                                     | 4.97                 |
| 2006              | Raskin          | Pre-prosperous                 | 15.50                                | 10.83                                  | 13,88                                      | 1.62                                     | 5.32                 |
| 2007              | Raskin          | Poor <sup>b</sup>              | 19.10                                | 15.80                                  | 16,74                                      | 1.74                                     | 6.47                 |
| 2008              | Raskin          | Poor <sup>c</sup>              | 19.10                                | 19.10                                  | 19,13                                      | 3.34                                     | 11.66                |
| 2009              | Raskin          | Poor                           | 18.50                                | 18.50                                  | n.a                                        | 3.13                                     | 12.98                |
| 2010 <sup>d</sup> | Raskin          | Poor                           | 17.49                                | 17.09                                  | n.a                                        | 2.73                                     | 8.92                 |

Source: Hastuti & Maxwell (2003), Handoko & Patriadi (2005), Hastuti et al. (2008, 2009), Bulog (2008, 2009, 2010), Note:

- This is the poor household according to BKKBN prosperous standard. BKKBN use broader definition which is close to local Indonesian paradigm of poor as not having adequate food (*pangan*), clothes (*sandang*) and housing (*papan*)
- Based on number of poor households (*Rumah Tangga Miskin*, RTM) from PSE-05 Statistics Indonesia.
- Based on number of target households (*Rumah Tangga Sasaran*, RTS) from PPLS-08 Statistics Indonesia
- Estimated for the January–December 2010 based on APBN

n.a.: data not available

**Table 3. Distribution of RASKIN Recipient Households According to Expenditure Quintiles (%)**

| Expenditure Category | 2002  | 2003  | 2004  | 2005  | 2006  | 2007   | 2008  | 2009  | Average |
|----------------------|-------|-------|-------|-------|-------|--------|-------|-------|---------|
| Q1 – lowest          | 29.11 | 28.19 | 28.47 | 29.19 | 29.04 | 30.47  | 30.62 | 31.33 | 29.55   |
| Q2                   | 23.66 | 23.38 | 23.37 | 24.01 | 23.48 | 27.23  | 27.20 | 27.48 | 24.98   |
| Q3                   | 19.63 | 19.88 | 20.03 | 19.84 | 19.83 | 22.28  | 22.02 | 21.68 | 20.65   |
| Q4                   | 16.37 | 16.74 | 16.60 | 16.06 | 16.36 | 14.50  | 14.80 | 14.62 | 15.76   |
| Q5 – highest         | 11.22 | 11.81 | 11.53 | 10.90 | 11.29 | 5.53   | 5.36  | 4.89  | 9.07    |
| Total                | 100   | 100   | 100   | 100   | 100   | 100.00 | 100   | 100   | 100     |

Source: Hastuti et al (2008), Avenzora & Haryono (2008), Susenas (2007, 2009)

### 3.1.2 Protecting Health of the Poor

The first social health program targeted to poor households was started in 1994 with the program Health Card (*kartu sehat*) and fully institutionalized in 1998 through *Jaring Pengaman Sosial* (JPS) – *Kesehatan*. It was funded by Asian Development Bank and run from 1998 to 2001. The JPS was replaced by PKPS-BBM (2001-2005), a fuel price compensation scheme which used the JPS program management. The fuel price compensation scheme change its name in March 2005 into *Asuransi Kesehatan bagi Keluarga Miskin* (*Askeskin*, 2005-2008) under the first term of President Yudhoyono. Like the JPS, the PKPS-BBM and *Askeskin* was also targeted to poor households. Due to suboptimal managerial performance of *Askeskin*, the scheme was reformed into *Jaminan Kesehatan bagi Masyarakat Miskin* (Jamkesmas), implemented since 2008. Differs to *Askeskin*, participation in *Jamkesmas* is on individual basis.

In JPS scheme, eligible household can apply for a health card – *Kartu Sehat* – which can be used to waive medical expenses for outpatient and inpatient care at sub-district health centers and third class public hospital wards. By February 1999, 11 percent of Indonesians or approximately 22 million people lived in a household with a health card. Although intended for the poor, only 69.42 percent of the health cards were allocated for the two poorest quintiles, while 20.51 percent cards were allocated for the two richest expenditure quintiles. Sparrow (2006) argued that the leakage to the middle and upper quintiles was due to managerial error (i.e. lack of quality poverty information) which enabled non-eligible households to exercise benefit over the health card program. However, taking into account the widespread aggregate shock around the JPS, the leakage can also be understood as a wise coping mechanism of the near-poor households so that they will not fall into poverty when facing health shocks. This is possible through self-selection mechanism in which a household request the village head to issue a letter stating that applicant household is poor and thus eligible for a health card. As JPS ended in 2001, the GOI introduced the PKPS-BBM on health in which social health insurance was funded from 'budgetary saving' due to lower fuel subsidy. The PKPS-BBM used almost the same mechanism with JPS, in which any poor or near-poor households can apply for a health card through self selection mechanism.

During 1999-2002, the presence of health card increased the outpatient care by 0.11 percentage point higher (Pradhan, Saadah & Sparrow, 2007). The impact was five times stronger when the availability of budgetary support for public health services was taken into account. Hence, a mix of demand and supply side policies should be implemented at the same time if stronger impact on protecting health of the poor is to be created.

During the first year of President Yudhoyono administration, in March 2005, the GOI renamed the PKPS-BBM as *Askeskin*, health insurance for poor households. *Askeskin* covered around 60 millions individual. Still using the budgetary saving from fuel subsidy-reduction, the new scheme is solely managed by the PT. *Askes*, the longstanding state enterprise who manages the health insurance for public employee and their household members, *Asuransi Kesehatan* (*Askes*). However, due to suboptimal financial and targeting performances, in 2008 the Ministry of Health circumscribed the operational function of PT. *Askes* to only arranging payment, simultaneously changed the scheme into *Jaminan Kesehatan Masyarakat Miskin* (*Jamkesmas*), translated as health guarantee for poor people, targeting individual poor. It is also budgeted for around 60 millions individuals, arguing that the number of poor people has decreased.

The positive impact of *Askeskin* and *Jamkesmas* toward health care utilization and presumably health quality of the poor are mixed with the negative impact of the reduction in fuel subsidy toward the overall livelihood of the poor (Sparrow, Suryahadi, and Widyanti, 2010). The price hike due to reduction in fuel subsidy is too high such that its impact on health care utilization could not be fully compensated through the *Askeskin*, and later *Jamkesmas*, hence undermined the access of the poor to quality health service. The important insight is that not only the scheme on health social policy is important, but equally important is its source of funding. When fund was taken by increasing the overall price of other important and related goods or services (such as price of fuel which push up the price of transportation and medicine) then the social health policy may not be efficient.

In November 2009 the new appointed Minister of Health under the second term of Yudhoyono administration presented a blueprint for a new health insurance scheme targeting universal coverage in 2012. Hence there is likely to be another change in social health insurance in the near future. However since Indonesia has dropped its OPEC membership due to insufficient fuel production in year 2008, it is less likely that the fuel subsidy-reduction can become a source of fund for future social health insurance.

In complementing the state driven health development, in 2006 the Ministry of Health initiated a community driven health development through the Alert Village Program (*Program Desa Siaga*), aiming at improving maternal and neonatal health (MNH) via boosting the demand side of related health services, in complement to existing government social health insurance (Ministry of Health, 2006, 2009). Mainly, the program setup new paradigm in which the health of the people is shouldered more by people themselves, and not by the health workers. Practically, the village people who have had low health illiteracy were organized into alert network and trained on basic health literacy by health workers, doctors and motivators. The alert village program was firstly targeting districts and provinces with high maternal mortality rate and low child survival rate, including West Nusa Tenggara and East Nusa Tenggara. In these provinces the efforts have involved the financial and technical supports of various donors, central and local governments. To advance maternal and neonatal health, one of the specific aims of the program in Nusa Tenggara is to assure that every birth is helped by the skilled-midwives in adequate health facilities so that no birth helped by traditional midwives.

According to Raya and Lada (2009) evaluation on 34 alert villages in East Nusa Tenggara, the program has been able to knit alert network for maternal and neonatal health in the aspect of data and notification, referral transportation on emergency, blood donor, fund and family planning (*Keluarga Berencana*, KB), hence boosting the demand side of maternal and neonatal as well as family health. The program however has not been able to significantly improve the

supply side, especially due to high turnover among midwives in backward villages and the absence or inadequate health facilities. Consequently, the traditional midwives as the first-mover of birth services in backward villages gain more trust from the villagers and maintain their market leader position. The stiffness of the supply side is partly due to lack mainstreaming in local government to complement the health movement among the backward villagers.

On national arena, the Ministry of Health (2006, 2009) aims at alerting 12,000 villages in 2006-7 and then to reach each and every of approximately 70,000 villages in 2009. However until 2010 not every village can be alerted effectively and efficiently. Lack of commitment from local and central government, as well as lack of rigorous planning, monitoring and impact evaluation effort contributed to the under-performance of the supply side of maternal and neonatal health. Improvement in supply side should be formulated in effort to advance the health quality in Indonesian poor and backward villages, hence giving rise to health equity and contribute to the increase of economic equality in Indonesia in general.

Still, poor households suffer from lack of access to quality health services, compared to the non-poor households. The lack of access is caused by two interrelated factors: the availability of health facilities and workers, and unaffordable health services. First, in rural areas where most of Indonesian poor dwell, especially in places with bad topographic or small islands, the availability of health facilities and health workers are bare minimums or even not exist at all (Mukherjee, 2006). The most available health facilities and health workers in backward villages are village birth-houses (*Pondok Bersalin Desa*, Polindes) and village midwives (*Bidan di Desa*), respectively. As the service of the village midwives are usually limited to pre-natal, pregnancy, delivery and neonatal care, it is difficult for the poor to receive adequate health prevention and curative treatments.

Secondly, to receive proper medical treatments in health facilities with doctors and nurses, the poor should travel to sub-district public health (*Puskesmas*) or district public hospital. When doing this, the poor face high cost restriction. Keep in mind that more than 75 percent of the income of the poor is spent on food (World Bank, 2006), the poor is constantly facing cost restriction in accessing the proper health services. Such cost includes cost of transport, medical examination, medicine, as well as opportunity cost due to putting behind productive jobs. According to Mukherjee (2006), the transportation cost to sub-district public health is considered high by the rural poor.

Even with the widely available Indonesian social health insurance, the *Askeskin* or now the *Jamkesmas*, the out-of-pocket payment due to medication process is still considerably high for the poor (Sparrow, Suryahadi & Widyanti, 2010). Hence, although the impact of social health insurance is strong among the non-poor, its availability does not overcome all barriers to health care for the poor since there are direct, indirect, and opportunity costs of seeking health care which is associated with the dispersed availability of health facilities and workers. The possible option to increase affordability of health service would be medication related cash-transfer, for example travel CCT-covered cost reimbursement for poor patients which complement the existing *Jamkesmas*.

### **3.1.3 Protecting Education of the Poor**

Among the immediate impact of the Asian crisis was an increase in drop out rates especially among the school aged girls from poor rural area, potentially transmitting poverty to next generation. In 1998, the first pro-poor targeted JPS on educational was introduced together with the JPS on health. The JPS composed of two parts: scholarship and school subsidy

program. By February 1999 5 percent of children ages 10 to 18 (approximately 2.1 million children) had received a scholarship (Sparrow, 2006). From 1999-2002 data, Sparrow found that participation in the scholarships increased the probability of attending school in the previous week for 1.5 percentage points higher than the non-participants. At the same time, the scholarships reduced the incidence of child to work from 14.0% to 10.2%. The effect on labor was higher for students from poor households in rural areas, and for the boys. The cash transfer through the scholarships had helped the poor households, to certain extent, to protect their children enrolment in elementary and junior high school and at the same time prevent premature entrance to labor market.

As seen in Table 1, the JPS-Scholarship was accompanied with JPS-DBO. The latter is targeted to improve the supply side of elementary and secondary schools. It is not directly targeting poor students, although poor areas will likely to correlate with poor educational quality and infrastructure, and hence more eligible for the JPS-DBO program. The same principle applies to BKM and BOS fund. The area targeting features make it difficult to analyze the impact of such programs toward poverty reduction or its pre-indicators. The pro-poor scheme of these kinds of programs need to be reformulated such that portion which is directly allotted for poor can be measured, monitored and then evaluated.

Among the innovative elementary education programs is the *Sekolah Satu Atap* (SATAP) which innovatively combines the management of one new junior secondary school one into the management of one existing elementary school such that the existing school expands its services up to a 9 year elementary education services, giving support to national objective for 9 year compulsory education in the poorest and most under-served provinces and districts in Indonesia. During 2006–2009, there are 1547 new school buildings constructed and furnished in 14 provinces (Table 4), all operated under the supervision of the Ministry of National Education. The project also supports the construction and operation of 46 Islamic schools in Java and Sumatera in year 2006, all operated under the Ministry of Religious Affairs; the complete figures for 2007-2009 were not disclosed yet (AIBEP, 2007; 2010a).

**Table 4. Number of new school buildings constructed, furnished and operated for SATAP program of the Ministry of National Education, 2006–2009**

| No | Province           | 2006 | 2007 | 2008 | 2009 | Total | %     |
|----|--------------------|------|------|------|------|-------|-------|
| 1  | East Nusa Tenggara | 56   | 109  | 113  | 15   | 293   | 18.94 |
| 2  | South Sulawesi     | 35   | 113  | 91   | 3    | 242   | 15.64 |
| 3  | West Kalimantan    | 0    | 58   | 107  | 21   | 186   | 12.02 |
| 4  | Central Sulawesi   | 20   | 42   | 65   | 2    | 129   | 8.34  |
| 5  | West Nusa Tenggara | 31   | 62   | 35   | 1    | 129   | 8.34  |
| 6  | Southeast Sulawesi | 20   | 35   | 58   | 8    | 121   | 7.82  |
| 7  | North Sulawesi     | 45   | 35   | 34   | 1    | 115   | 7.43  |
| 8  | Central Kalimantan | 18   | 26   | 33   | 1    | 78    | 5.04  |
| 9  | Maluku             | 31   | 0    | 37   | 2    | 70    | 4.52  |
| 10 | North Maluku       | 20   | 28   | 13   | 0    | 61    | 3.94  |
| 11 | West Sulawesi      | 10   | 11   | 16   | 4    | 41    | 2.65  |
| 12 | South Kalimantan   | 10   | 7    | 18   | 1    | 36    | 2.33  |
| 13 | Gorontalo          | 13   | 13   | 8    | 0    | 34    | 2.20  |
| 14 | Bali               | 3    | 3    | 5    | 1    | 12    | 0.78  |
|    | Indonesia          | 312  | 542  | 633  | 60   | 1547  |       |

Source: Analyzed from AIBEP (2010a)

On this program, East Nusa Tenggara, South Sulawesi, and West Kalimantan are the three most served ones, followed by Central Sulawesi, West Nusa Tenggara, Southeast Sulawesi, and South Sulawesi. Meanwhile provinces with high poverty rate in Papua are not covered probably due to the high regional income generated from mining tax and revenue sharing. Based on data from 160 of 380 schools, during 2006-2007 the initial impacts of the programs were (AIBEP, 2010b):

- More than 90% of the secondary schools constructed through AIBEP in 2006-7 are operating with average significant student enrolments.
- The average enrolment in Year 7 is approximately 50 students across 160 responding schools with 52.8% male and 47.2% female students.
- About 42.0% of the respondent schools are very or extremely satisfied with their new school and 43.5% more respondent schools satisfied. Less than 10 percent of respondent who only partly or not satisfied with their new school (while 8.2% of the sample did not state their response)

### 3.1.4 Protecting Financial Liquidity of the Poor

In compensating the potential negative impact of reduction in fuel subsidy toward the poor, in 2005 the government introduced the *Bantuan Langsung Tunai* (BLT), an unconditional cash transfer to enhance the financial liquidity of poor households. The eligible households received Rp100,000 rupiah or equal to \$10 per month. The BLT was financed from budgetary saving due to reduction in fuel subsidy and covered 19.1 millions recipient households.

Among Indonesian social protection programs, the BLT was the one to receive highest public attention due to the pro-cons that come along with the management of the program. The program is targeted to poor household according to the BPS standard, however, due to inaccurate poverty information system, this standard faced resistance from the non-recipients who perceived themselves eligible for the cash transfer. Another critic comes from opposition leaders who perceived BLT – due to its mistargeting, timing, and lack of conditionality - as part of short term money politics to win the voice of the poor during the legislative and presidential elections which in the long run potentially establish begging mentality among the poor.

On the other side, the pro-BLT policy makers as well as the recipients perceive the BLT as the right way to enhance the household financial liquidity in the middle of price hike due to reduction in fuel subsidy. In theory at least, the availability of this amount of money should contribute on smoothing household consumption. However, it is also true that the mistargeting and lack of conditionality have created leakage to the rich while undercover the poor. The average treatment impact of the BLT toward the household expenditures and poverty reduction is difficult to asses since the study on impact of BLT toward household expenditure is still on going.

The BLT program was terminated in late 2009, and replaced with a conditional cash transfer – the *Program Keluarga Harapan* (PKH, Hopeful Family Program) (Fiszbein and Schady, 2009). The PKH program was first introduced in 2008 in three pilot provinces with the highest poverty rate, and then in 2009 operated in 7 provinces. In 2010, the PKH is implemented in 13 provinces, covering 703,338 recipient household. Depending on fulfilling educational and health requirements, recipient households are eligible for IDR600,000 - 2,200,000 per year. This is equals to IDR 50,000 – 183,000 per month and this does not differ much with the nominal value of UCT-BLT of IDR100,000 per household per month. Unfortunately, the CCT-PKH has lesser coverage as it only covers less than 1 million households, compares

to 19.1 million UCT-BLT recipient households or 17.09 millions subsidized rice recipient households. Using the ‘very poor household’ term, the government argues that CCT-PKH targets only the very-poor households, although the program is primarily designed to improve the maternal and neonatal health and/or children’s education of the generally poor households, while the poor classification of household play a secondary role in deciding recipient’s eligibilities.

On elementary education, a qualitative study by Febriany, Toyamah and Sodo (2010) reveals that PKH motivates rural households – for example in rural of Timor Tengah Utara in Nusa Tenggara Timur - to maintain their children enrollment in elementary and junior secondary schools, hence increase enrollment rate. The availability of PKH however has not had adequate pulling effect toward school aged children and youth who have dropped out the school in the previous period. Meanwhile on maternal and neonatal health, the same study finds similar pattern on which the benefit of the program is stronger in rural-poor areas. Two important findings are that the pre-natal care at Posyandu increase due to the availability of fund coupled with strict control on Posyandu attendance, and at the same time husband of pregnant mother is more willing to involve in pre-natal care in Posyandu. Despite this achievement, the short duration of the program and the stiff feature of supply side of village health sector, i.e. lack of availability of skilled midwives and village polyclinic, has prohibited the PKH program to reach its maximum potential contribution on increase the percentage of birth attended by skilled midwives (*Bersalin didampingi tenaga kesehatan* or *Linakes*) in adequate health facility (*Bersalin di fasilitas kesehatan* or *linfaskes*).

### **3.2 Review of the Community Empowerment Cluster of Government’s Poverty Reduction Programs (Cluster 2)**

For the second cluster—the community empowerment program—the government decides to integrate such programs scattered in different ministries and institutions under the umbrella of the *Program Nasional Pemberdayaan Masyarakat* (PNPM), a national program for community empowerment in poor districts and sub-districts. Previously the implementation of such programs has resulted in inefficiency and ineffectiveness, there is an overlapping programs in various sector in different regions as well as excluded programs in other sectors and other regions. Therefore, in 2006 the President declared a new policy to accelerate the poverty alleviation efforts and to extend employment opportunities for the poor by consolidating various empowerment programs under the PNPM.

As slightly mentioned above, the community empowerment program is not a new approach in the development approach in Indonesia. We had Inpres Desa Tertinggal (IDT) and Village Infrastructures Program (P3DT) which implemented before crisis. After the crisis, this kind of empowerment program has extended into various programs, such as Empowerment of the Regions to Overcome the Impact of the Economic Crisis (PDM-DKE), Kecamatan Development Program (PPK), Urban Poverty Program (P2KP), Farmer and Fisher’s Increasing Income Project (P4K), and Economic Empowerment for Coastal Community (PEMP).

The PNPM itself adopts the scheme and mechanism of the PPK. The PPK actually is initiated before the crisis as a revision from IDT and P3DT. The first phase of PPK (PPK I) started in Financial Year 1998/1999 until 2002, PPK II had been implemented in the period 2003-2006, while PPK III had been employed in 2006-2007. The PPK places communities at the head of development process where community members control the planning, design, implementation, and monitoring of project activities conducted in their communities. The

PPK provides block grants of approximately IDR500 million to IDR1 billion (USD 55,000 to USD 110,000) to sub-district (*kecamatan*) depending upon population size. The target is *kecamatan* with poorest rural communities. The program requires an active engagement of communities in a participatory planning and decision-making process to define their development needs and activities. The latest impact evaluation of PPK II indicates that the program has a significant impact on poor households and households living poor *kecamatan*s. Other evidence in the report reveals that the PPK II is most effective in poor and remote areas where costs of infrastructure prohibit local government investment or where government investment is not a priority (Voss, 2008).

An urban counterpart to the PPK is being implemented—called Urban Poverty Program (P2KP). This program was first started in 1999 to reach urban poor in Java. The project's objective is to empower local communities to help overcome poverty in urban areas. The project provides capital to revolve within the community for sustainable income generation by groups within the jurisdictions and the individual urban poor. It will also fund development of community-selected basic infrastructure and related employment generation activities in low-income urban areas. The project initially targets the poor in some 60 local government jurisdictions in the northern half of Java, especially in Yogyakarta, Malang, and Bandung where most of the country's dense urban areas and small industry are located.

The successful of those programs gives a support to the government to advance the community empowerment program. The PPK is the basic development of the PNPM in rural area while the P2KP is the basic development program in urban area. The harmonization agenda in the PNPM will be continued until 2015 by divided the program into (Tim Pengendali PNPM Mandiri, 2009):

- Core-PNPM or *PNPM-Inti*: is the community empowerment program based on the area. The programs included in this category are PNPM-Rural (PPK), PNPM-Urban (P2KP), PNPM-Lagged and Specific Area (P2DTK), PNPM-Rural Infrastructure (PPIP), and PNPM-Social Infrastructure (PISEW).
- *PNPM-Penguatan*: are the community empowerment program based on sectoral and area which implemented specifically to achieve a particular target. For instance, PNPM-Rural Agribusiness Development (PUAP), Direct Cash Transfer for Agricultural Investment (BLM-KIP), and so forth.

The harmonization agenda is a process of synchronization and integration of objectives, principles, and policies; starting from planning, budgeting, implementation, and monitoring of the poverty alleviation program with empowerment-based. The harmonization becomes crucial to succeed the PNPM as previously those many programs spread out in different coordination of different ministries.

In regards to budget of the program, main source of the PNPM funding is from ministries/institutions budget. Each ministry/institution which has the PNPM under their coordination allocates the budget for technical component and cash transfer based on their main duty and function. The ministry is also responsible for the use of the PNPM operational budget in national, province, and *kabupaten/kota* level. Furthermore, the ministry should coordinate with the governor and head of *kabupaten/kota* (*bupati/walikota*) in the program implementation. Regional government could also participate in the budgeting. Funding from local budget (APBD province or *kabupaten/kota*), if it is necessary, can be utilized to support the PNPM activities such as coordination activities, additional cash transfer component, and other technical expenses. Generally, additional funding from APBD to support the program is around 20-50% from total budget needed, but it also depends on the fiscal capacity in each

region. The other source of funding is from donors, both grants and loans. The funding from donors is coordinated under one institution so-called PNPM Support Facility (PSF). For now on the head of PSF is deputy for poverty, manpower, and SMEs of Bappenas.

The achievement of PPK and P2KP in several provinces becomes groundwork to extend the program to all provinces and more *kecamatan*. While for the rest—i.e. PNPM-Lagged and Specific Area (P2DTK), PNPM-Rural Infrastructure (PPIP), and PNPM-Social Infrastructure (PISEW)—not every province has the programs. Nonetheless, there is a possibility of extension in the future. We can look at the implementation for each program more details in Table 5.

**Table 5. PNPM Program Matrix 2008**

| No | Items                            | PPK                                 | P2KP                                 | P2DTK                                      | PPIP           | PISEW                          |
|----|----------------------------------|-------------------------------------|--------------------------------------|--------------------------------------------|----------------|--------------------------------|
| 1  | Coverage Area                    |                                     |                                      |                                            |                |                                |
|    | - Province                       | 32                                  | 33                                   | 8                                          | 26             | 9                              |
|    | - Kabupaten/Kota                 | 366 <sup>a</sup>                    | 245                                  | 32                                         | 177            | 32                             |
|    | - Kecamatan                      | 2,835 <sup>a</sup>                  | 955                                  | 186                                        | 497            | 237                            |
| 2  | Cash Transfer                    |                                     |                                      |                                            |                |                                |
|    | - Kabupaten/Kota                 |                                     |                                      |                                            |                |                                |
|    | - Kecamatan                      | IDR1.5-3 billion for 3 years        |                                      | IDR1-5 billion<br>IDR500 million-1 billion |                | IDR2 billion<br>IDR1.5 billion |
|    | - Desa/Kelurahan                 |                                     | IDR150-500 million (for one program) |                                            | IDR250 million |                                |
| 3  | Indicative Ceilings (in billion) | 4,300.2                             | 1,414.75                             | 363                                        | 550            | 52.5                           |
| 4  | Source of funding                | APBN, APBD, community, and business |                                      |                                            |                |                                |

Source: Tim Pengendali PNPM Mandiri (2009). Note : a : including Papua and West Papua provinces

The poverty reduction program through community empowerment seems to be very effective in increasing access of poor community to basic health and education services (Voss, 2008; LP3ES, 2007). However, effort on maintaining project sustainable or post-project services should be integrated into the original design of the PNPM. Community capacity, especially the role of cadre (*kader*) in increasing community awareness on children and maternal health is widely acknowledged. Village leader is also an important actor to boost community participation further.

### **3.3 Review of the Micro-Enterprise Empowerment Cluster of Government's Poverty Reduction Programs (Cluster 3)**

This cluster is intended to empower the poor and near poor who has an occupation or business to fulfill their basic needs but they still need to improve the wellbeing. Albeit the role of micro-enterprise in eradicating poverty has been widely known since few decades ago, the crisis 1997/1998 struck us on how significant the existence of micro-enterprise helps the poor to get survived and recovered from the crisis. It is also been known that most poor work in informal sector consists of small scale and micro-enterprise that producing or distributing goods and services. These enterprises are generally independent, largely family owned, employ low levels of skills and technology, and are highly labor intensive. Indeed, micro-enterprises

provide income and employment for significant proportions of workers in rural and urban areas (Harvie, 2003). For Indonesia, micro-enterprises now on has reached the number of 43 million units and shared more than 50% of national GDP. The data also shows that one unit micro-enterprise can absorb on average 1-5 workers (TKPK, 2009).

Harvie (2003) also points out that micro-enterprise development—complemented with proper micro-finance support—can play part in the achievement of main social and economic development objectives, namely poverty reduction, women empowerment, employment creation, and private sector enterprise development. Though these four objectives cannot be fully separated, we will focus on the role of micro-enterprise empowerment to reach the objectives on poverty alleviation.

General Assembly of the United Nations has recognized the positive impact of microcredit in poverty reduction with the launching of General Assembly resolution 52/194 of 18 December 1997 on role of microcredit in the eradication of poverty which is reemphasized with International Year of Microcredit 2005. Meanwhile, Indonesia has had a long history to employ various policies and programs to provide a microcredit for the poor. In addition, the micro-finance sector has been widely recognized in the country. The first microfinance institutions, namely *Badan Kredit Desa*, was established in more than 100 years ago and now Indonesia has 50,000 micro-finance institutions, among the largest in the world (Shrader et.al, 2006).

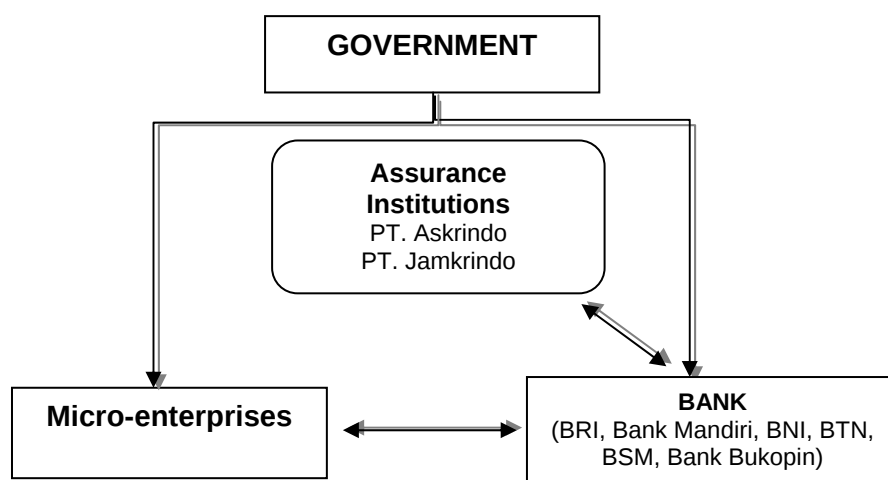
Ismawan (2004) explains that since the early 1970s, massive agricultural credit programs at subsidized interest rates have been implemented to increase agricultural production and income of the farmers through adoption of new technologies. The major programs comprised the BIMAS/INMAS Program, KUT, KKP and BLM. Small-scale and micro-enterprises became a target of government in the 1970s with the introduction of the Small Enterprise Development Program (SEDP). The Microfinance sector in Indonesia was also influenced by the deregulation of banking sector in 1983. The deregulation opened the opportunity for fundamental reform of the BRI Village Unit system which had suffered from the collapse of the BIMAS credit program. A second financial deregulation package-called PAKTO-introduced in 1988 reduced the entry barriers of new private banks, facilitated the expansion of existing branch networks, and reduced the reserve requirements imposed on banks. PAKTO can be considered as a microfinance regulation as it enabled the entry of new, privately owned micro-banks, known as BPRs or People's Credit Banks. The regulations were consolidated in the next banking law in 1992 which manifested the role of micro-banks and a firm place for them vis-à-vis the commercial banks.

After crisis, there is a Memorandum of Understanding between the Central Bank of Indonesia and the secretary of Poverty Alleviation Committee No. 001/MOU-KPK/II/2003 and No. 5/1/DpG/DPBPR about the establishment of Financial Consultant for small-scale, micro, and medium-enterprises' bank partner (KKMB). The consultant provides service to connect small-scale, and medium-scale enterprises with the bank so that credit can be quickly absorbed by the enterprises based on credit business plan of the bank. Soon after that, the government launched the scheme of microcredit without substitute collateral (KUM-LTA) in 2004. This scheme is supported by the funding from state-owned enterprises' partnership and environmental program (PKBL BUMN) as a credit assurance for micro-enterprises. Before that time, there were a number of microcredit programs under coordination of various ministries, such as:

- KUBE (*Kelompok Usaha Bersama/Program Pemberdayaan Masyarakat Miskin*) - Ministry for Social Affairs

- PEMP (*Program Pemberdayaan Ekonomi Masyarakat Pesisir*) - Ministry of Marine Affairs and Fisheries
- P4K (*Proyek Peningkatan Pendapatan Petani dan Nelayan Kecil*) - Ministry of Agriculture
- BLM-KIP (*Bantuan Langsung Masyarakat—Keringanan Investasi Pertanian*) - Ministry of Agriculture
- Revolving Fund for Smallholders with Profit Sharing or Syariah as well as Conventional mechanisms - Ministry of Cooperatives and SMEs

As previously described, one of the government intervention to empower micro-enterprises is through the program of microcredit for the poor. The program objective is mainly to increase access of the poor to a cheap capital. Furthermore, the SNPK has also elaborated the relationship between micro-enterprises, microfinance, and microcredit in the agenda of poverty alleviation. Therefore, various programs are designed to help empower micro-enterprises. Policies has been taken includes the creation of a conducive business climate, creation of employment, improving business capacity, improving the entrepreneurship, as well as make a greater access to productive resources,. A technical example for the first effort is reviewing all policies and regulations which hamper investment or create high cost business in many regions. And for the latter, though actually the government has much microcredit assistance in previous time, particularly related to the cluster 3 in the poverty reduction program in SNPK, the government launched a program called Credit for the People (Kredit Usaha Rakyat-KUR) in the late 2007. This program is a follow up of the Memorandum of Understanding between government (represented by several ministries), assurance institutions (PT. Askrindo and PT. Jamkrindo) and several banking institutions (BRI, Bank Mandiri, BTN, Bukopin, and Bank Syariah Mandiri) (TKPK, 2009). The scheme of the program is illustrated in Figure 4.



**Figure 5. Credit for the People (KUR) Scheme**

Source: TKPK, 2009

The government provides a subsidized guarantee scheme at amount 70% in which the government pays the premium. The target of this microcredit program is the micro-enterprises and cooperatives which have feasible business but they are not bankable because of lack of collateral. Moreover, this microcredit also gives an access to community groups which have been empowered in the previous program. Until August 2009, nationally the KUR has been poured to more than 2 million businessmen/women with the amount of IDR15.3 trillion.

However, we still find a critical problem in this kind of empowerment programs. We know that this kind of program has long-established history in the Indonesian development approach but we do not have much evidence that the program has succeeded in poverty alleviation effort. Measurement impact of microcredit project on poverty reduction is quite tricky, it depends on design of the project. ADB study (2001) on impact evaluation on ADB's rural credit assistance in several Asian countries including Indonesia can only conclude an indirect channel of poverty reduction in the program through the improvement in incomes and the acquisition of assets. In doing so, they have to make sure that the project involve small farmers as well as areas with high incidence of poverty.

A latest study by MICRA (2007) found such similar result, by assessing 5 microcredit programs in Indonesia they conclude that poverty targeting in terms of site location is quite strong to serve the poor community—reaching low-income people in relatively poor areas. The utilization of Participatory Rural Appraisal (PRA) as well as statistical data is effective in targeting the poor area and appropriate beneficiaries. However, there is a lack of monitoring and evaluation process particularly related to impact evaluation of the program. The government tend to focus more on directing resources toward reaching the poor as many as possible but then not give enough attention on allocating resources in the design and implementation of effective monitoring and evaluation. Usually they do an evaluation effort only in stages of beneficiary targeting, but not in assessing the impact of the program. Hence, in order to achieve an effectiveness and efficiency of the program, we need to think not only the program implementation but also how to measure the impact of the program.

## IV. CONCLUSION AND POLICY RECOMMENDATION

### 4.1 Conclusion

Poverty reduction has become a major policy initiative in Indonesia since the advent of the economic crisis in 1997/98. This is a significant departure from the development approach in the previous period. In the first five of new order government's five year development plan between 1969 and 1994, poverty reduction was never explicitly stated as an objective of development. Rather, the then government aimed at economic growth, stability, and equality. Only in the sixth five year development plan in 1994 did the government aimed explicitly for poverty reduction, implemented through a presidential instruction on left behind villages program (*Inpres Desa Tertinggal*).

When the economic crisis hit Indonesia started in mid 1997, the government grappled to deal with its social impact, including an increase in poverty. With the help of various donors, the government then established the social safety net (JPS) program, covering food security, health, education, employment creation, and community empowerment. This JPS program becomes the initial undertaking of various poverty reduction and social protection programs implemented by successive governments in the post-crisis period.

Currently the government strategy in poverty reduction is formulated through a clustering of poverty reduction programs into three clusters based on the objectives and targets of these programs. The first cluster is social assistance, with the objective of providing direct assistance to poor households to ease their burdens in meeting basic necessities. The second cluster is community empowerment, with the objective of providing social fund to poor communities that they can use to improve basic social and economic services according to their own priorities. The third cluster is microenterprise empowerment, with the objective of providing access to credits for microenterprises without being hindered by the requirement of having to provide collaterals.

The expectation is that over time a poor household which becomes a recipient of cluster 1 programs will graduate and become beneficiaries of cluster 2 programs, and finally can utilize the benefit of cluster 3 programs to take them out of poverty. Evaluation of the effectiveness of these programs in achieving their stated objectives, have shown mixed results. Among the efforts to increase the effectiveness of poverty reduction program, the government has recently established a national team for accelerating poverty reduction, chaired by the Vice President. This shows the level of commitment of the government in achieving its target in poverty reduction.

### 4.2 Policy Recommendation

The current development strategy on pro poor growth through job creation fits Indonesia long term effort of fighting poverty and vulnerability to poverty efficiently and sustainable. However, the newly introduced national management on poverty alleviation as well as the current poverty database, target mechanism as well as program integration and quality do need to be improved. In line with RPJM 2010–2014 poverty alleviation target, in addressing these weaknesses, we propose several key policies that altogether enhance human and financial capital accumulation of the chronic and transient poor to move out of poverty, and simultaneously safeguard the near poor from falling into poverty.

We propose three areas of reforms, as summarized in Table 6, namely:

- Institutional Capacity in Managing Reduction of Poverty and Vulnerability,
- Quality of Poverty Database and Targeting Mechanism,
- Integration and Quality Improvement of Social Assistance, Community Empowerment, and Micro-Enterprise Empowerment Programs

#### **4.2.1 Institutional Capacity in Managing Reduction of Poverty and Vulnerability**

A recent so called ‘big-bang’ decentralization based on the Law 22 and 25/1999 has put a strong relevance the institutional capacity issue in poverty reduction policy. Greater responsibilities as well as authorities particularly on budget and expenditure management are acquired by regional governments, both at provincial and district levels. As reported in World Bank (2006), McCulloch (2009), Patunru, McCulloch & von Luebke (2009) districts now are more in charge for most service delivery, providing public facilities and infrastructure, and issuing local regulations on social, political, and economy.

Furthermore, a recent finding from other studies reveals a connection between governance and poverty reduction. Bad governance has made poverty reduction efforts ineffective (Blaxall, 2000; Eid, 2000; Gupta et al., 1998), for example, since the money from poverty alleviation projects are potentially misused by the authorities (Woodhouse, 2001). Therefore, the consensus emerges from this line of thinking is that good governance is a necessary condition for a more effective poverty reduction practices in Indonesia.

To improve regional governance so as not to affect negatively poverty reduction efforts, clear guidelines need to be established to ensure appropriate regulation of markets both at national and local levels. Furthermore, in the design and implementation of poverty reduction programs, coordination among central government departments as well as between central and regional governments needs to be strengthened. This may require establishing a poverty reduction body – either a new body or an existing body – assigned with a strong mandate to coordinate poverty reduction efforts both at the central and regional levels. Among others, this body will have the power to review and revoke central and regional government regulations (*perda*) that are counterproductive to the efforts to reduce poverty. Meanwhile, civil society needs to strengthen its capacity and build a coalition to fight bad governance practices. The poverty reduction body and the civil society should become partners to increase the effectiveness of all efforts to reduce poverty.

The poverty reduction body will also become the center of the poverty information system. It will become the hub of interchange of all data collected which are relevant for poverty reduction efforts. It will become the depository of all studies on poverty in Indonesia and, hence, become the learning center providing lessons learned of all past poverty reduction programs both from the central and regional governments.

Equally important to the widely practiced planning, actuating, and monitoring of poverty alleviation initiatives in Indonesia, in the future every economic policy has to be assessed *ex ante* in terms of its likely impact on the poor. If the results from this assessment show that a policy will have a negative impact on the livelihood of the poor, then the policy has to be revised or cancelled altogether so as to avoid the adverse impact on the poor. Alternatively, if the policy is considered as a necessity and has to be maintained as it is, then an accompanying policy to fully compensate the poor from the negative impact of the policy needs to be instituted.

Other crucial issue in this area is the importance of community participation in poverty reduction efforts. Again, the principle of community participation finds its relevance in the context of newly decentralized Indonesia where voice, transparency, and accountability have become sort of “rules of game” in the daily practice of democracy. However, the success of this kind of participation will not meet without local government political support and civil society organizations (CSOs) capacity to understand the poverty reduction program and to push for greater transparency.

The poverty reduction body will lead in improving the way poverty reduction programs are designed, implemented, and monitored. In most poverty reduction programs, currently there is little or no involvement of the poor in the design, implementation, and monitoring of the programs. They were treated just as passive beneficiaries. Although, as part of the national development planning consultation (*Musrenbang*), households in general participate in village meetings, but the depth of participation and awareness of information concerning village activities is low. The poverty reduction body will lead the efforts to effectively involve the poor in designing, implementing, and monitoring poverty reduction programs.

For the management of the social protection system, lessons learned from past experiences show that schemes managed at local level might be able to provide services more effectively and efficiently, even if the system is developed and owned by the central government. Evidence shows that participation in various social protection programs highly depends on the role of local activists or cadres (*kaders*). The *kaders* have the ability to distribute people’s rights in a program comprehensively. They can reduce communication barriers between government officials and the community, and hence reduces the cost of socialization. They also have extensive knowledge in determining which community members who are considered poor, hence improve targeting of social protection programs.

#### **4.2.2 Quality of Reforms in Poverty Database and Targeting Strategy**

The importance of targeting makes it a prominent feature of the designs of such programs since the potential benefits of effective targeting are considerable. Targeting can concentrate expenditures allocated to the programs on those who need them most; hence it can save money and improve program efficiency. In addition, given the budgetary and time constraints facing program implementers, it is highly desirable that expenditures on social sectors are fine-tuned and well-targeted (Sumarto and Suryahadi, 2001).

In general, there are two types of targeting mechanism, *administrative targeting* and *market-based* or *self-selection targeting*. While the beneficiaries in the former are selected by the program implementers, the latter depend solely on the incentive structure inherent in the program to attract potential beneficiaries. Two approaches are commonly used in administrative targeting: geographic targeting and household or individual targeting. Indonesia adopted a combination of these two types of mechanisms.

How did the government fare to tackle targeting aspect in the implementation of poverty reduction in Indonesia? As explained in Sumarto et al. (2001), it has not been particularly strong. Evidence from various targeted programs showed that the targeting performance of various safety net and poverty programs was low, meaning that these programs are only slightly pro-poor. Both the *under coverage* error (i.e. the proportion of the poor that are not included in the program) and the *leakage* error (i.e. the proportion of beneficiaries who are non-poor) are high (Sumarto and Suryahadi, 2001; World Bank, 2007).

A number of important lessons learned from Indonesia experience were formulated by Sumarto and Suryahadi (2001) to improve the effectiveness of targeting thus increasing the benefits of poverty reduction programs. *First*, due to the inadequacy of static administrative targeting to catch the newly poor or shocked households, a well-designed, publicly accessible, real-time information system is crucial to support all the efforts of government and donors to implement an effective social protection programs. *Second*, designing and implementing large social safety net programs in a crisis situation requires institutional commitment at the central level, supported by clear objectives and simple design. *Third*, there has to be some allowance for local flexibility in countries of the size and complexities of Indonesia.

To address the problem of unaffordable services for the poor, the current policy toward reliance on conditional cash transfer is a right direction. This scheme has the potential to overcome the problem of unaffordable direct, indirect, and opportunity costs faced by the poor in accessing services. To improve the bargaining power of the poor *vis a vis* services providers, the government can introduce a voucher scheme in which the poor themselves choose the provider for the services they need, such as education and healthcare, through competitive means. Finally, there is a need to give greater focus on inclusion of disadvantaged and marginalized groups in the services provided by the government. These disadvantaged and marginalized groups include people who do not possess proper identification cards (KTP), who are often considered as illegal residents and hence excluded from government services and programs, and people who live in isolated areas, including the indigenous people.

Even if the economy can achieve strong growth, there will always some sections of the population who are still vulnerable to poverty and most of them occupied the informal sector. Hence, it is important to develop a comprehensive and integrated social protection system. This social protection system should be able to maintain people's standard of living above the socially and politically agreed minimum level, including guaranteed access of all population to basic services such as basic education, healthcare, clean water, and sanitation.

Lesson learned from past experience points out that an *ad hoc* poverty reduction programs during and after the crisis lack the integration principle. The programs are scattered in different institutions causing mixed results of targeting problems and plagued by the twin problems of undercover and leakages. Moreover, monitoring and evaluation mechanism is varied across the programs. The newer programs apparently have a better monitoring and evaluation instrument but program impact evaluation is still generally scarce. As a consequence, the demand for integration under an umbrella of social protection system would be more complicated. In addition, a required sufficient administrative capacity as well as fiscal sustainability to implement this universal program becomes other challenges.

#### **4.2.3 Integration and Quality Improvement of Social Assistance, Community Empowerment, and Micro-Enterprise Empowerment Programs**

The evolution of names, contents, targeting mechanism, and delivery of the various social assistance programs (Cluster 1) leads to a crucial quest for the integration of this cluster toward the fulfillment of the Indonesian National Social Security System (*Sistem Jaminan Sosial Nasional* or SJSN). Recently, there are six interrelated programs on the protection of rice consumption, health, and education of the poor households where individual households are direct recipients. As shown in Figure 3, they are *Raskin* (subsidized rice), *Jamkesmas* (social health insurance), BKM/BSM (poor student scholarship), BOS (school operational support fund), PKH (conditional cash transfer for households), and part of the PNPM *Generasi* (conditional cash transfer for community).

Although by design the direct impact of each program is different, the household level impact of these six programs should be viewed from an integrated household consumption perspective, since some programs can substitute or have spillover effect to others. When these programs are put together into intra household decision making frame, these six separated programs can then be solidified into one or two newly compact programs, for example only one scheme of household conditional cash transfer with specific requirements on health status, educational enrollment, and food consumption basket of the household, plus the expanded coverage of Social Health Insurance (*Jamkesmas*) to fulfill the SJSN law. Reducing the number of social assistance schemes will bring about a reduction in administrative or overhead cost of the programs, as indicated by a World Bank study (World Bank, 2006).

Between Cluster 1 and Cluster 2, a mutual exclusive of coverage should be put into practices, for instance Cluster 2 like PNPM *Generasi* should solely works on boosting the supply side and not the demand side. Because Cluster 2 is still in pilot phase, timely monitoring as well as evaluation is needed in order to continually improve its technical guidance and the effectiveness and efficiency of its implementation practices.

The third cluster on micro-enterprise empowerment need to be redesigned in order to enable more leverage function toward the poor and near poor to accommodate it with local initiative on poverty reduction, and to provide incentive for smallholders for productive assets accumulation, initiated through productive asset transfer program.

**Table 6. Summary of Policy Agenda for Enhancing Government's PRSP**

| Purpose                                                                                                                                                               | Area of Reform                                                   | Policy Agenda                                                                                                                                                                  |                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                       |                                                                  | Short term (1-2 years)                                                                                                                                                         | Medium to long term (2–5 years)                                                                                                                                                                     |
| To enhance human and financial capital accumulation of the chronic and transient poor to move out of poverty and to safeguard the near poor from falling into poverty | 1. Institutional Capacity in Poverty and Vulnerability Reduction | 1.1. Strengthen the planning, coordination, implementation and monitoring capacity of national and regional planning agencies in poverty, and vulnerability reduction programs | 1.3. Strengthen community participation in the planning, coordination, implementation and monitoring capacity of local initiatives on poverty, and vulnerability reduction programs                 |
|                                                                                                                                                                       |                                                                  | 1.2. Initiate rigorous and external evaluation system for national and local, public and private initiatives on reducing poverty, and vulnerability                            | 1.4. Ensure that rigorous and external evaluation is an integral part of every poverty, and vulnerability reduction proposal                                                                        |
|                                                                                                                                                                       | 2. Quality of Poverty Database and Targeting Mechanism           | 2.1. Redesign the poverty database to ensure accurate targeting on multidimensional poverty problems                                                                           | 2.3. Implement accurate poverty targeting mechanism for Cluster 1 (Social Assistance), Cluster 2 (Community Empowerment) and Cluster 3 (Micro-Enterprise Empowerment) of poverty reduction programs |
|                                                                                                                                                                       |                                                                  | 2.2. Improve the accuracy of poverty data base to ensure accurate understanding on multidimensional poverty profiles                                                           | 2.4. Evaluate and improve the accuracy of the newly designed and implemented poverty database and its targeting scheme                                                                              |
|                                                                                                                                                                       | 3. Integration and Improvement of Quality of Social Assistance,  | 3.1. Design the integration of the various social assistance programs (Cluster 1) to improve its adequacy of variant, value of                                                 | 3.5. Evaluate the implementation of integrated social assistance programs as a preliminary move toward the                                                                                          |

| Purpose | Area of Reform                                                   | Policy Agenda                                                                                                                                                                                                          |                                                                                                                         |
|---------|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
|         |                                                                  | Short term (1-2 years)                                                                                                                                                                                                 | Medium to long term (2–5 years)                                                                                         |
|         | Community Empowerment, and Micro-Enterprise Empowerment Programs | money, and coverage on poor and near poor individuals and households in combating poverty and vulnerability to poverty                                                                                                 | fulfillment of SJSN law                                                                                                 |
|         |                                                                  | 3.2. Redesign Cluster 2 programs as not to overlap or substitute the related programs of social assistance (Cluster 1). For example the PNPM <i>Generasi</i> (Cluster 2) can overlap or/and substitute PKH (Cluster 1) | 3.6. Integrate the national KUR program with local initiative for the reduction of poverty and vulnerability to poverty |
|         |                                                                  | 3.3. Redesign the scheme of Credit for People Initiatives (Cluster 3) to leverage the poor, near poor and smallholders with adequate access to the program                                                             |                                                                                                                         |
|         |                                                                  | 3.4. Provide incentive for smallholders for productive assets accumulation, initiated through productive asset transfer program                                                                                        |                                                                                                                         |

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