

WORKING PAPER

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ABSTRACT

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Despite progress in poverty reduction during the last four decades, Indonesia is still plagued by high rate of multidimensional poverty and deprivation. The 2009 monetary poverty rate of 14.15% is 5.95 percentage points higher than the government's initial target, while in other dimensions of poverty Indonesia lags behind its neighbours. There are opportunities for accelerating poverty reduction in the future by the virtue of globalisation, demographic dividend, adoption of participatory development approach, and support from international commitment on millennium development goals (MDGs). On the other hand, there are critical constraints to reducing poverty and vulnerability in the forms of insufficient productive opportunities, weak human capabilities, and inadequate social protection. The strategy for accelerating poverty and vulnerability reduction is to capitalize on the opportunities and at the same time effectively address the critical constraints. The policy objective is to enhance human and non-human capital accumulation of the poor to empower them to move out of poverty, while at the same time strengthen the capacity of the near poor to avoid falling into poverty.

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I. BACKGROUND

Before the onset of the Asian financial crisis in 1997, the Indonesian economy grew fast and, as a result, reduced poverty significantly. Other welfare indicators – such as infant mortality rate, school enrolment rate, and life expectancy at birth – also improved. However, the Asian financial crisis that engulfed Indonesia during 1997-1998 has reversed the trends in social improvements, apparent in particular from a large re-increase in the poverty rate in 1999.

The social safety net program (*program jaring pengaman sosial* or JPS) covering food, education, health, and employment were launched in mid 1998 with the aim to alleviate the negative social impact of the economic crisis. Some components of the JPS program are continued until now, with some changes in their designs and targets, and become the major poverty reduction programs in the country. These programs, together with general economic growth and sectoral development, have contributed to reduction in the poverty rate observed during the last decade. The poverty rate has decreased from a peak of 23.4% in 1999 during the crisis to 13.3% in 2010.

However, the number of poor population will be more than doubled if the people who are still vulnerable to poverty are taken into account. These are the people who have per capita household expenditure above the poverty line, hence they are considered non-poor, but only slightly. Because of this, they tend to be easily pushed back into below the poverty line when a negative shock occurs.

In 2008, for example, there are 15.4% of the population who live below the national poverty line. At the same time, however, there are 42.6% of the population who live below the international poverty line of PPP US\$ 2.00 per capita per day. This means that there are 27.2% of the population who live above the national poverty line but below the PPP US\$ 2.00 international poverty line.

These people are vulnerable to fall below the poverty line due to various shocks, such as losing job, business bankruptcy, harvest failure due to pest attack or unexpected weather change, being sick, suffer an accident, natural disaster, social conflict, and many other calamities. Social protection is needed to cover these people from the risks of falling into poverty by providing them with security in access to basic services, such as food, education, and health.

Another distinct feature of poverty in Indonesia is that while there has been significant progress in reducing monetary poverty, Indonesia lags behind its neighbours in reducing other dimensions of poverty. Compared to other Southeast Asian countries, Indonesia has a low quality of human resources. In terms of education level, for example, more than 50% of the labour force has only primary education or less. Similarly, the health status of the majority of Indonesians is low, apparent for example from its high infant mortality rate and maternal mortality rate.

Beside that, the distribution of poverty across population group and region is unequal. For example, among the ten provinces with the highest monetary poverty incidence, seven of them are located in eastern Indonesia. However, in terms of the absolute number, most of the poor reside in Java and several provinces in Sumatra. Likewise, there is unequal distribution in access to education, health, clean water, and sanitation, indicating the prevalence of welfare gap, across population groups and regions.

The objective of this paper is to analyse the profile and trends of multidimensional poverty and vulnerability and identifies opportunities and constraints to reducing them. The rest of this paper is organised as follows. Section two discusses the trends in multidimensional poverty. Section three identifies opportunities that can potentially support poverty reduction in the future. Section four analyses the critical constraints that has hampered poverty reduction and need to be addressed effectively. Finally, section five provides the conclusions.

II. MULTIDIMENSIONAL POVERTY PROFILE AND TRENDS

Prior to the Asian financial crisis, Indonesia reached the lowest monetary poverty rate of 11.3% in 1996. High and stable economic growth during 1976-1996 contributed to significant decrease in poverty headcount rate, which on average reached 1.44 percentage points per year. However, the growth level after the crisis (1999-2009) could only be translated into 1.00 percentage point per year reduction in poverty headcount rate. Based on a new standard in calculating the official poverty rate implemented since 1998, all poverty reduction efforts yielded with 13.33% poverty headcount rate in 2010 (Figure 1).²

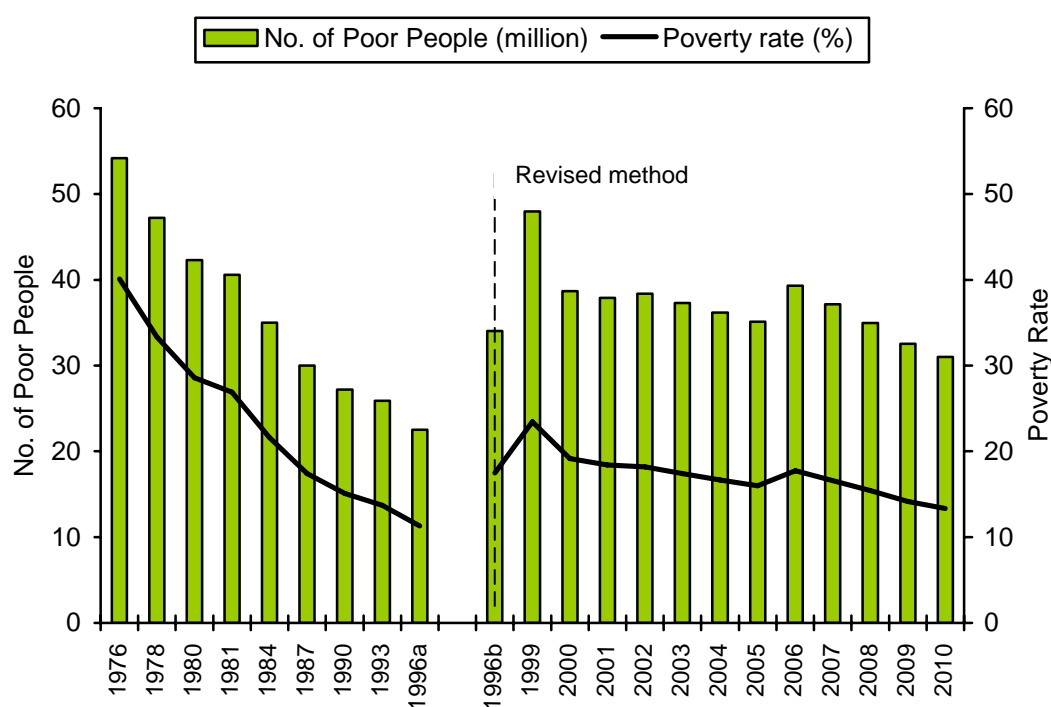


Figure 1: Monetary Poverty Rate and Number of Poor People, 1976-2010

Source: BPS (various years)

Although in total the poverty incidence tends to decrease, during 1976-2009 there has been widening gap in poverty incidence between urban and rural areas. The higher poverty rate in rural area is, among others, an accumulative impact of national industrial development agenda since 1987 which overemphasized the role of manufacturing and services sectors in pushing

²In 1998, BPS revised the methodology for calculating poverty rate. The new method is applied to data starting from 1996.

economic growth and absorbing labour force, while gave secondary role to agricultural development (Booth, 2000; Thee, 2010). Although indeed manufacturing sector has slowly overtook the leading role since 1983, since the rural poor mainly lived in agriculture sector, when manufacturing had weak linkage to agriculture, the rural poor did not benefit much from expansion of manufacturing sector (see ADB, 2010).

Despite the relative higher monetary poverty incidence in rural area, the share of urban poor has increased by two-folds from 18.45% in 1976 to 36.61% in 2009.³ Taking into account the exclusion from SUSENAS sample of children in orphanage, street children, beggars, and people without permanent address of residence, which mostly reside in urban areas, it is most likely that the share of urban poor is actually higher than the official estimate.

Furthermore, as shown in Table 1, the rural-urban differences in non-monetary poverty and deprivation are higher than the differences in monetary poverty measure. While the rural-urban gap in monetary poverty is 6.63% points, the gaps in non monetary poverty is 2 to 5 times higher. This indicates that the reduction in monetary poverty has not sufficiently translated into improvements of other social indicators. Moreover, despite higher per capita income, Indonesia lags behind other South East Asian countries such as Vietnam when it comes to other social indicators such as under-5 mortality rate.⁴

Table 1. Rural-Urban Gap in Multidimensional Poverty and Deprivation

Indicators	Definition	Year	Rural (%)	Urban (%)	Rural-Urban Gap (% point)
Under-5 Mortality Rate	Number of death of under five year old children per 1000 live births	2007	60.1	37.8	22.3
Lack of sanitation (toilet)	Percentage of population living in house without proper toilet	2009	50.42	15.05	35.37
Low education of the head of household (HHH)	Percentage of population living in household in which HHH do not finish 9-year basic education	2009	83.65	50.47	33.18
Lack of access to clean water	Percentage of population living in household without proper access to clean and protected source of drinking water	2009	56.53	30.55	25.98
Low education of youth	Percentage of population living in household in which youth (18-24 years) do not finish 9-year basic education	2009	40.70	15.97	24.73
Unhygienic floor	Percentage of population living in earth-floor housing	2009	15.79	5.03	10.76
Monetary Poverty	Percentage of population below official poverty line	2009	17.35	10.72	6.63

Source: Authors' calculation based on Susenas 2009 Consumption Module; U5MR is from DHS 2007 survey (Macro International Inc., 2010)

The translation of monetary improvement into improvement of human development differs for men and women. Although during 2000-2007 the decrease in monetary poverty is coupled with improvement in human development index (HDI), the gender-related development index (GDI) indicates that women are lagged behind men when purchasing power and capabilities are simultaneously taken into account (Figure 2).

³This, however, is lower than the level of urbanisation, hence has not indicated an urbanisation of poverty.

⁴In 2008, Indonesia's per capita GNI is \$2,010 and U5MR 41. Vietnam's per capita GNI is \$890 and U5MR 14 (UNICEF, 2010).

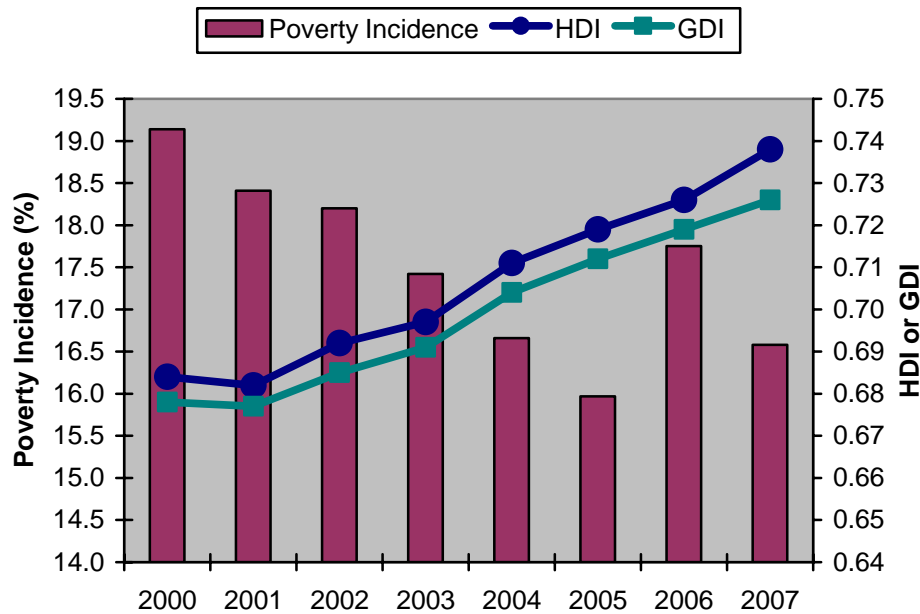


Figure 2. Trends of Poverty Rate, Human Development Index (HDI), and Gender-related Development Index (GDI), 2000-2007

Source: Menkokesra (2009); UNDP (2003, 2008, 2009)

The monetary poverty indicator, however, provides no evidence of feminization of poverty. Table 2 shows that the poverty incidences among male and female are similar, but with the difference in mean (median) per capita expenditure between female and male headed households increased around four times, from Rp 4,181 (Rp 1,889) in 2007 to Rp 20,039 (Rp 8,198) in 2009. Hence, explanation to the relatively low GDI compared to HDI should be explored outside the monetary poverty dimension, for instance women participation in labour force, incidence of working poor among women, and potential deprivation on women in household human capital investment.

Table 2. Monetary Welfare Indicators by Gender of Household Head

Indicators	Year	Female	Male	Total
Share in national poor (%)	2007	50.17	49.83	100
	2009	50.13	49.87	100
Share in total SUSENAS sample (%)	2007	49.88	50.12	100
	2009	49.89	50.11	100
Average Rupiah per capita consumption	2007	349,385	345,204	345,615
	2009	444,459	424,420	426,520
Median Rupiah per capita consumption	2007	258,029	256,140	256,366
	2009	330,289	322,091	322,901

Source: Authors' calculation based on Susenas 2007 and 2009 Panel – Consumption Module

While labour participation rate of women is still lower than men, the good news is that its annual growth of labour force participation rate is +1.7 %, and is 2.0% points higher than that of men (Table 3). Likewise, both unemployment rate and underemployment rate tend to improve for female, while for male they deteriorate.

Table 3 Employment Indicators by Gender, 2003 – 2009

Indicators		2003	2004	2005	2006	2007	2008	2009	Average annual growth 2003 – 2009 (%)
Labour force Participation Rate (%)	Total	65.7	65.7	65.7	66.2	67.0	67.2	67.2	0.4
	Female	46.3	46.3	46.3	48.1	50.2	51.1	51.0	1.7
	Male	85.3	85.3	85.3	84.2	83.7	83.5	83.7	-0.3
Unemployment rate (%)	Total	9.5	9.9	11.2	10.3	9.1	8.4	7.9	-0.6
	Female	13.0	12.9	14.7	13.4	10.8	9.7	8.5	-3.2
	Male	7.6	8.1	9.3	8.5	8.1	7.6	7.5	1.6
Underemployment rate (%)	Total	28.4	26.9	27.3	27.4	27.6	27.8	27.7	-0.6
	Female	38.5	36.8	36.9	36.0	36.9	36.2	36.6	-3.2
	Male	22.8	21.2	21.9	22.4	22.1	22.6	22.3	1.6

Source: Sakernas (BPS, 2003 – 2009)

The Susenas 2009 data, as shown in Table 4, reveals the fact that although there is more households reporting gender-neutral position in education (78.80%), economic work (64.81%), and domestic or household chores (49.31%), there are still tendency that female children are given less preference in education (pro-male 14.17% versus pro-female 2.75%) and economic labour (pro-male 32.44% versus pro-female 2.75%), and given more preference in doing household chores (pro-male 2.27% versus pro-female 48.42%).

Table 4. Prioritized Gender for Education, Labour Market, and Domestic Works

Domain	Group	% of Household Giving Priority to		
		Both Sexes	Male	Female
Education	Indonesia	78.80	14.75	6.46
	Q1 – poorest	78.19	15.51	6.30
	Q5 - richest	80.61	13.16	6.23
	Rural	80.35	13.57	6.07
	Urban	77.95	15.39	6.66
Economic Work	Indonesia	64.81	32.44	2.75
	Q1 – poorest	63.35	33.79	2.87
	Q5 - richest	69.20	27.94	2.86
	Rural	69.53	27.74	2.73
	Urban	62.22	35.01	2.76
Household (Domestic) Work	Indonesia	49.31	2.27	48.42
	Q1 – poorest	47.72	2.46	49.82
	Q5 - richest	53.66	2.15	44.18
	Rural	54.07	1.99	43.94
	Urban	46.70	2.43	50.87

Source: Authors' analysis based on Susenas 2009 Core – Socio-cultural and Education Module

Another distinct profile of poverty in Indonesia is the occurrence of simultaneous movements between those who move out and those who move into poverty. This phenomenon has resulted in the relatively slow rate of poverty reduction observed during the last decade. For example, between 2008 and 2009, 53.29% of the poor in 2008 moved out of poverty in 2009, while at the same time almost a half of the poor in 2009 were not poor in 2008 (Table 5). This lends foundation for the need to put balanced emphasis between empowering the poor to move out of poverty and strengthening the capacity of the near-poor to avoid falling into poverty.

Table 5. Poverty Transition Matrix during 2008-2009

		2009			Total row
		Poor	Near Poor	Non-Poor	
2008	Poor	46.71	20.28	33.01	100.00
		<i>50.98</i>	<i>26.77</i>	<i>6.51</i>	
	Near Poor	22.32	21.53	56.15	100.00
		<i>20.19</i>	<i>23.58</i>	<i>9.18</i>	
	Non-Poor	5.37	7.65	86.98	100.00
		<i>28.83</i>	<i>49.65</i>	<i>84.31</i>	
Total column		100.00	100.00	100.00	

Source: Authors' analysis based on Susenas Panel 2008-09 Consumption Modules

Note: - The near-poor line equals 120% of poverty line

- Numbers in bold are row distribution, number in italics are column distribution

III. OPPORTUNITIES FOR POVERTY REDUCTION

There are several favourable factors that make outlook for poverty reduction more promising in the future. These opportunities are provided by: (i) economic expansion due to globalisation, (ii) the realisation of demographic dividend due to favourable population growth rates by age groups, (iii) better identification and solution to the problems faced by the poor through the adoption of participatory development approach, and (iv) support from international commitment on millennium development goals (MDGs).

3.1 Economic Expansion Due to Globalization

In the long run, exposure to globalisation in the form of trade liberalization, capital inflow, foreign direct investment (FDI), and global production networks will bring economic expansion thus rapid growth to developing countries (Dollar and Kraay, 2001; Henderson, 2005; Winters, 2001)⁵. Clearly, it is been recorded for centuries that global trade has proved to open ways for creating jobs, reducing prices, increasing the variety of goods for consumers, and helping countries acquire new technologies. It is also increasingly evident that the flow of FDI in developing counties has contributed to faster economic growth, transfer of

⁵Due to the limited space, we only focus our attention to trade and FDI. Nonetheless, it is important to note that other inherent features of economic globalization that directly or indirectly bring actual benefits to poverty reduction such as international migration of low-skilled workers, the phenomenon of low cost of information exchanges through information and communication technology (ICT), and the impact of global production networks have become important topics in the current development research on poverty-globalization nexus.

technology, and increases in domestic investment (Borensztein et al., 1998; Bosworth and Collins, 1999; Kis-Katos and Sparrow, 2009).

It should be noted however that the linkages through which trade liberalization would reduce poverty occur when there are complementary policies in place (Harrison, 2006; Harrison and McMillan, 2007). This includes flexible labour laws, investments in human capital and infrastructure, access to credit, and technical assistance. Similarly, the way FDI will bring impact to poverty reduction depend on several factors such as the quality of host country policies and institutions, the quality of investment, the nature of regulatory framework, and the flexibility of labour markets (Mayne, 1997). In Indonesian context, by looking at two different periods, i.e. pre and post crisis era, the line of arguments above finds relevance.

In pre crisis era, strategic economic policies directed at export-based manufacturing sectors, as a response to the decline of oil boom in the 1970's, accompanied with large public investments in education, health, family planning, and infrastructure managed to pull up the bulk of Indonesian poor to move out of poverty (Duflo, 2001; Lucas and Timmer, 2005; World Bank, 2006). These economic policies took place in the form of tariff reduction, liberalization of export-import procedures, opening to more FDI, a relatively undistorted labor market, a devaluation of exchange rate, and widespread deregulation in domestic economy (Fane, 1996; Fane and Condon, 1996; Hill, 1996; Suryahadi, 2001; Suryahadi et al., 2003; Thee, 1991).

In post crisis era, however, Indonesian exposure to global economy has been rather unpromising. Since 1997, Indonesia was the only crisis-affected economy to register negative FDI flows (Aswicahyono et al., 2009; Tambunan, 2005), and as far as export concerned, other than its underperforming growth compared to its neighbors, Indonesia's export growth was mainly benefited from favorable world prices than volume expansion (Athukorala, 2006). The absent of conducive climate investment (Tambunan 2005), unfriendly labor market regulations (Suryahadi et al., 2003), political and policy uncertainty (Aswicahyono et al., 2005) are among the identified factors that caused this condition.

Surprisingly, given this unfavorable business enabling environment, Indonesian poverty rate, as explained in earlier section of this paper, has declined albeit moderately compared to pre-crisis era. National wide social protection programs, which were initiated from the onset of the 1997-98 crisis and which have become one development objective formally stated in the 2010-2014 National Medium Development Plan, has been identified as an important contributing factor (Suryahadi et al., 2010). However, the lessons from Indonesia's own past experience clearly show that it is through strategic exposures to economic globalization coupled with complementary social development policies that pervasive poverty can be effectively tackled.

3.2 Demographic Dividend

The demographic dividend in Indonesia can be briefly explained as follows. The first baby boom generation in Indonesia occurred in the 1960s to the 1970s as the result of high fertility and low mortality in the 1950s. At that time, there was high incidence of marriage of young couples who had postponed their marriage due to the independence war in the 1940s. Moreover, the invention and high usage of antibiotics, which significantly reduced infant mortality rate, resulted in high survival rate of babies who were born in the 1950s (Adioetomo, 2005).

With the intensive family planning program during the 1970s to the 1990s, the government managed to reduce the fertility rate, which then resulted in a decrease in proportion of U-15 (under 15 year-old) population. With the decrease in the proportion of young population, the increase in working age population, and the slow growth of older population, Indonesia faces a demographic transition where youth dependency ratio declined steadily. As a result, Indonesia gains the so called demographic dividend, where the working age population reach twice of the U-15 population. As explained by Adioetomo (2005), this phenomenon continues to happen as the age dependency ratio decreases steadily from 86/100 in the 1970, to 54/100 in 2000, and will hit the lowest point of 44/100 in the 2020-2030 period.

With a large number of working age population entering the labour market, the country is at the best times to accelerate its efforts to utilise its workforce in the production sectors, through which it can reduce poverty. Moreover, with low age dependency ratio, there is potential for higher rate of savings as more households would shift their consumption expenses to savings. These savings will bring more benefits when they are invested in children education, increasing the quality of human capital.

3.3 The Adoption of Participatory Development Approach

The changing political landscape for the past 12 years has opened more options for Indonesian government to address poverty in the country. Specifically for the poor, democratisation leads to the opening of more doors to participate in development process in what is called as the development planning multi-stakeholder consultations forums, commonly known as Musrenbang (*musyawarah perencanaan pembangunan*). It is multi-stakeholder since it involves the state and non-state actors as well as the community to voice their aspirations in producing development programs in accordance with their needs.

Law No 25/2004 on National Development Planning institutionalises Musrenbang at all levels of government (i.e. village, sub-district, district/cities, provinces, and national levels) over different time frames (i.e. yearly, medium term, long term). In addition, Joint Ministerial Decree No.0008/M.PPN/01/2007 asserts that results of development planning from the village level should be accommodated forward to the higher levels, ensuring bottom up development planning process.

It should be noted, however, that despite the benign intention of accommodating the voice of the poor through Musrenbang, there are at least two identified hindrance that hamper the effectiveness of this type of participatory development planning. First, there is a risk of elite capture at the village level which reduces the effectiveness of voice channelling mechanism of Musrenbang (Bebbington et.al., 2004; Fritzen, 2007; Plettau & Gaspart, 2003). Consequently, this resulted in the needs of the poor being neglected and only those of the elite groups that are accommodated.

Second, there is also a risk of the absence of local government political commitment and willingness to support the process of participatory development. This then leads to the poor quality and limited transparency of information provided in the process of Musrenbang. This limited acceptance is partly caused by a narrow understanding of the role and need for public participation, the long-term benefits of good governance leading to sustainable development, and a general failure to distinguish between political and public participation.

The reality also indicates a rather limited effectiveness of *Musrenbang*. A study by USAID and LGSP (2008) finds out that despite its potential to accommodate community voices in determining need-based project interventions and an effective tool in participatory budgeting, there is an urgent need for some improvements in *Musrenbang* process due to a number of challenges. Two of them are lack of political support from local government and limited role of civil society in development planning process.

Another notable channel that enables the poor to participate more actively in development programs is through one of the biggest community driven development programs in the world known as *Program Nasional Pemberdayaan Masyarakat Mandiri* (PNPM Mandiri). Covering all districts and cities across the country, PNPM Mandiri has a large potential to increase the opportunity for the poor to take an active role in national development program.

3.4 Global Commitment to Poverty Reduction

Indonesia is on the right momentum to accelerate its efforts to reduce poverty in the midst of increasing support from international community to deliver development aid and assistance. The year 2008 marked the highest total net official development assistance (ODA) from members of the OECD's Development Assistance Committee (DAC), reaching USD 119.8 billion or representing 0.30% of members' combined Gross National Income (GNI).⁶ Even in the midst of 2009 global financial crisis, the international community managed to maintain total ODA commitment, which was only slightly declined to USD 119.6 billion, representing 0.31% of DAC members' combined GNI.⁷

For Indonesia alone, there is 34% increase of net ODA and official aid from USD 391 million in 2007 to USD 593 million in 2008.⁸ For the past decade, ODA to Indonesia has shown an increasing trend with the highest point in 2005, reaching USD 2.2 billion, mostly due to global initiatives to support rehabilitation and reconstruction in Aceh after the great Tsunami. Of all DAC, Australia is the single biggest ODA contributor particularly on grant disbursement, followed by the Japan, US, Germany, and Netherlands.

On the other hand, it is important to note that Indonesia is not an aid dependent country. Aid as a proportion of GDP represents less than 1 percent, with approximately US\$ 11 of ODA per capita compared to US\$ 23 in Vietnam and US\$ 38 in Cambodia. Furthermore, in 2005 Indonesia reached the Middle Income Country (MIC) status for the purposes of DAC ODA reporting. This means that the country is considered to have the fiscal resources to self-finance expenditure for poverty reduction and the MDGs.

IV. CONSTRAINTS IN ACCELERATING POVERTY REDUCTION

The slower rate of poverty and vulnerability reduction in Indonesia during the past decade has become the subject of analysis in several studies. These studies have pointed out several constraints as the reasons behind the slower rate of poverty reduction. Using a framework adopted from the growth diagnostic framework of Hausmann, Rodrik, Velasco (2005), in

⁶ See http://www.oecd.org/document/13/0,3343,en_2649_34487_42458595_1_1_1_1,00.html.

⁷ See http://www.oecd.org/document/0,3343,en_2649_34447_44981579_1_1_1_1,00.html.

⁸ See http://data.worldbank.org/indicator/DT.ODA.ALLD.CD?cid=GPD_54.

Figure 3 we identify three critical constraints: (i) insufficient productive opportunities for the poor and near poor, (ii) weak human capabilities of the poor and near poor, and (iii) inadequate social protection for the poor and near poor.

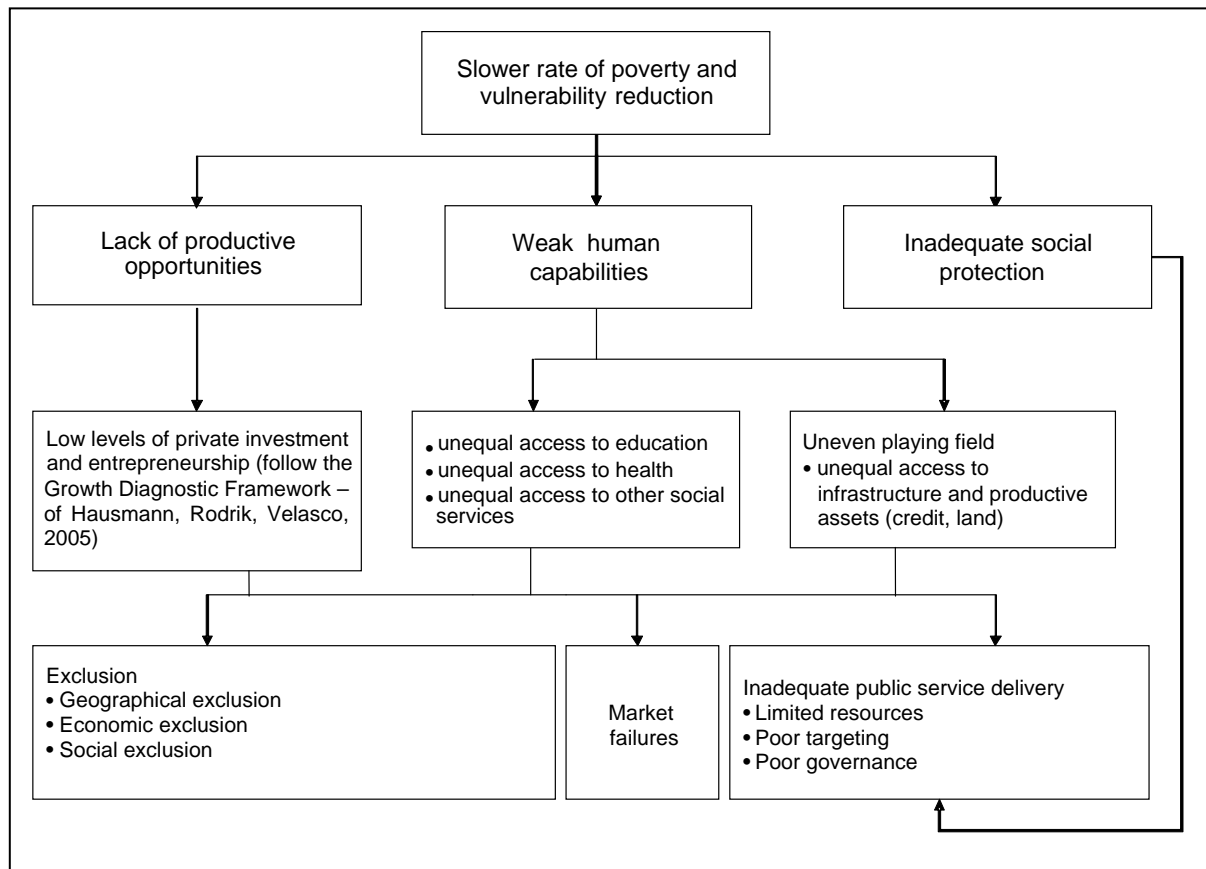


Figure 3. Diagnostic Framework for Slower Rate of Poverty and Vulnerability Reduction

4.1 Insufficient Productive Opportunities for the Poor and Near Poor

There are several underlying factors that cause insufficient productive opportunities for the poor and near poor. The first one is relatively low level of economic growth. Before the onset of Asian financial crisis, sustained growth has brought rapid poverty reduction. It can be seen from Figure 4 that during 1976-1996, the economy grew at around 7.5 percent annually, bringing down the poverty rate from 40.1 percent in 1976 to 11.3 percent in 1996. During the post-crisis period, on the other hand, economic growth stays at moderate level of 5.15 percent annually, or only around 70 percent of the average growth during the pre-crisis period, resulting in a slower pace in poverty reduction. The poverty rate decreased from 18.2% in 2002 to 14.2% in 2009, only 40% of speed of poverty reduction during the pre-crisis period.

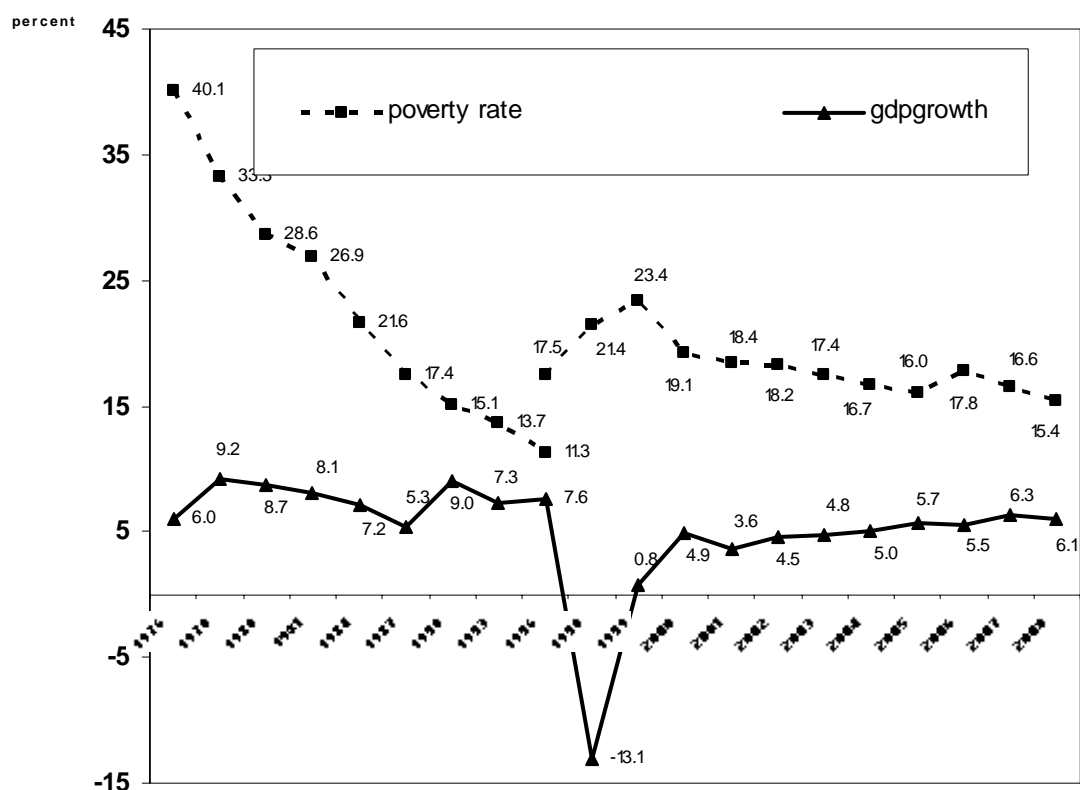


Figure 4. Economic Growth and Poverty Rate, 1976 – 2009

Source: BPS (various years) for poverty reduction; WDI for GDP growth

The slower pace in poverty reduction during the post-crisis period is clearly related to the lower economic growth. In addition, now each percent of economic growth has smaller power in reducing poverty, which is technically termed as growth elasticity of poverty. One of the reasons for this low elasticity is the growth composition. The dominance of industrial sector as shown in its share in GDP doubled from 20 percent in early 1970's to around 40 percent in 1980's. The figure has stayed relatively stagnant until a very recent number in 2008. On the contrary, the share of agricultural sector, the main source of income for majority of the poor, dropped substantially from 45 percent in early 1970's to 25 percent in 1980, and has stayed constant around 15 percent ever since. On the other words, the agriculture sector has shrunk by 30 percentage points during almost four decades. The services sector experienced a relatively small increase in overall GDP during the same period, from 35 percent in early 1970's to 46 percent in 2008 (Suryahadi, Suryadarma, and Sumarto (2009) and BPS (various years)). From the numbers mentioned, it is clear that the share of the agricultural sector that actually absorbs the majority of the poor has lagged behind the other sectors.

Another reason for insufficient productive opportunities for the poor and near poor is labour market distortions in the forms of regulations on minimum wages, hiring and firing mechanisms, contract work, severance pay, and outsourcing, which have been institutionalised in the Labour Law No. 13/2003. Consequently, there is a substantial impact on the discretion employers have over the size and composition of workforce, severely reducing labour market flexibility (Manning, 2004). As the labour market becomes more rigid, labour intensive investments are hampered and, on the other hand, employers tend to adopt more capital and skill intensive technologies, leading to a decrease in demand for unskilled workers, which constitute the majority of the poor.

4.2 Weak Human Capabilities of the Poor and Near Poor

Weak human capabilities have put the poor and near poor in a disadvantageous position when competing with the non-poor. Low access to basic services such as education, health, nutrition, sanitation, and clean water has hampered the poor to move out of poverty and caused the near poor to easily fall back into poverty. In education, only 55 percent of 16-18 year-old teenagers from the lowest income quintile completed junior high school. This low educational outcome, among others, inhibits the poor from moving out of poverty in the next generation because their capabilities are diminished by lack of economic related skills and information (World Bank, 2006).

Low access of the poor and near poor to education and health services is due to constraints in both supply and demand sides. Both side constraints are equally important in different ways. Supply constraints more commonly happen in rural areas, while urban areas tend to experience more demand constraints. On the supply side of education services, low educational outcomes among the poor are caused by poor educational infrastructure, poor teachers' quantity and quality, and unaffordable educational service. Half of the areas where the poor dwell are without senior high school. While on the demand side, lack of financial capacity is the main reason for youths not to enrol in schools. Furthermore, the opportunity cost of sending children to school, rather than becoming child labour, is higher for the poor.

Low access of the poor to health services has similar feature as in education. On the supply side, the issue is related to the availability of health facilities and workers. In rural areas, where most of the poor dwell, the availability of health facilities and health workers are bare minimums or even not exist at all. 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.

Meanwhile, on the demand side, the problem is unaffordable health services. 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 in the forms of costs of transportation, medical examination, medicine, and opportunity cost due to missing productive jobs.

In addition, the poor also face the problems of lack of access to sanitation and clean water. Sanitation service is lacking as only 1.3 percent of the population are reached by sewerage network, while 80 percent of rural poor and 59 percent of urban poor do not have access to septic tanks. Access to clean water is very low, particularly among the poor in rural areas. The lowest quintile access to safe water in rural areas is only 48 percent, while in urban areas 78 percent.

4.3 Inadequate Social Protection for the Poor and Near Poor

It is important to remember that no matter how good the government's policy in creating a conducive environment for the poor to participate in the process of economic growth, so they can help themselves to move out of poverty, there will always be some groups in the population who are left behind from the process. Hence, it is important to develop a social protection system that is able to maintain people's standard of living above the socially agreed

minimum level. This includes guaranteed access to basic services such as education, healthcare, clean water, and sanitation.

The 1997-1998 economic crisis caused almost 15 million people to become poor. Similarly, the sharp increase in domestic fuel price due to reduction in subsidy in the last quarter of 2005 caused poverty to increase significantly in the following year. The increase of domestic fuel price has led inflation to rise due to increase of other staple goods prices because of higher transportation costs. World Bank (2008) points out that the poverty increase in 2006 mostly caused by increase in rice price between February 2005 and March 2006. Since the rice consumption take one of the largest share in the poor's expenditure, it becomes not so appalling that rice price increase is dominant in contributing the rise in poverty rate in 2006. This provides a very important lesson that poverty reduction efforts should not be only aimed at reducing the number of population who live below the poverty line, but also to reduce the number of people who are vulnerable to fall into poverty, i.e. the near poor.

Lessons learned from past experience point out that an *ad hoc* social protection program during and after the crisis is lack of integration principle. The programs are scattered in different institutions causing mixed results in targeting and plagued by the problems of undercover and leakages (the issue of targeting is discussed in more detail by Alatas, Wai-Poi, and Purnamasari in this volume). Moreover, monitoring and evaluation mechanism is varied across programs. The newer programs apparently have a better monitoring and evaluation instrument, but program impact evaluation is still generally lacking. National program for people empowerment (PNPM) and the family of hope (PKH) programs are example of few programs that has monitoring and evaluation instruments in their program design (see Yulaswati and Sumadi in this volume).

Consequently, effort to integrate the programs under an umbrella of social protection system becomes complicated. In addition, a required sufficient administrative capacity and fiscal sustainability to implement this universal program also becomes questionable. Indeed, Cook (2009) emphasizes that institutional arrangements in terms of joining up fragmented system is one of the big challenges faced in the implementation of integrated social protection system. Fragmentation exists among government agencies and service providers. In Indonesia, social assistance such as unconditional and conditional cash transfers is managed by several ministries. While social insurance is delivered through four different programs for different groups such as civil servants, military, private sector employees, and the poor. The same story happens in China which has an estimated 17 government agencies responsible for different social protection programs, often competing for resources and programs (Cook, 2009).

One of the crucial issues to ensure the effectiveness of social protection programs is targeting the beneficiaries. Since the potential benefit of effective targeting is considerable, it always features prominently in the designs of such programs. Targeting performance of various safety net and poverty reduction programs is generally low because they 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. Therefore, improvement on the effectiveness of targeting is a crucial issue that must be addressed effectively.

The results of evaluations of various social assistance programs show that the implementation of these programs suffer from various weaknesses, such as too sectorally oriented, lack of coordination across programs, and high degree of leakage and under coverage, which inter alia is caused by the use of different concepts of poverty. These weaknesses in the implementation

of social assistance programs have caused some parts of poor communities are less or not benefited by these programs. Furthermore, these programs generally have low lifting power to help the poor and vulnerable to increase their welfare levels.

V. CONCLUSION

Despite progress and achievements in poverty reduction during the last four decades, poverty remains a significant problem in Indonesia and will continue to do so in the future. There are at least three reasons for this. First, no matter how good the economy is growing, there will always be some groups in the society who are left behind from the growth process and unable to reap the benefit of growth. Second, as the economy develops and becomes more modernised, the causes and impacts of poverty become more complicated and more difficult to untangle, making poverty becomes an even more complex phenomena and more difficult to solve. Third, as the economy grows and standard of living increases, people's expectation also increases, in the end pushing up the socially acceptable threshold that separates between the poor and the non-poor.

Nevertheless, there are factors that can help making poverty reduction more effective in the future. These opportunities are provided by economic expansion due to globalisation, the realisation of demographic dividend due to favourable population growth rates by age groups, better identification and solution to the problems faced by the poor due to adoption of participatory development approach, and support from international commitment on MDGs. It is important to note, however, that the realisation of these opportunities depends on the ability to capitalise on them. On the other hand, there are also factors that can hamper the effectiveness of poverty reduction. These critical constraints are insufficient productive opportunities for the poor and near poor, weak human capabilities of the poor and near poor, and inadequate social protection for the poor and near poor.

In order to be able to reduce poverty effectively, efforts to address the identified critical constraints need to be formulated carefully and implemented effectively. This requires cooperation of various actors that are involved in poverty reduction, including the central and local governments, civil society, private sector, international agencies, as well as the communities.

The first required action is to expand productive opportunities for the poor and near poor. This will necessitate reforms in the labour law, provision of economic infrastructures that are crucial for the development of micro and small enterprises, and pushing the growth of labour intensive industries and the micro, small, and medium enterprises.

The second required action is to strengthen human capabilities of the poor and near poor. This will require investments in social infrastructures, careful and gradual expansion of the conditional cash transfer program, and developing an incentive mechanism for services providers to improve the quality of their services.

The third required action is to expand and strengthen social protection for the poor and near poor. For this, the government needs to support the inclusion of the poor in social security schemes and improve targeting of social assistance programs, provide a commitment to allocate a portion of the state budget for subsidies, and involve local governments in the implementation of social protection programs.

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