Poverty Profile

Executive Summary

Republic of Indonesia

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Japan Bank for International Cooperation
Chapter 1  Poverty in Indonesia

1-1 Poverty Line

The official government poverty figures are calculated by the Central Statistical Agency (Biro Pusat Statistik: BPS) using the detailed National Socioeconomic Survey (SUSENAS) consumption expenditure data. The Indonesian poverty line in both urban and rural areas is defined in terms of the consumption expenditure required to fulfill individual basic food and non-food needs. The food component is defined as the total expenditure required providing 2,100 calories of energy per day. The non-food component is defined as the essential expenditure on non-food items, which includes 25 to 27 commodities such as clothing, housing, education, health, and transportation. The BPS revises the poverty line when new detailed SUSENAS consumption figures are collected\(^1\).

1-2 Trends of Poverty Incidence and Inequality

Between 1976 and 1996, the rate of poverty consistently declined from 40 percent to just over 11 percent and the population under the poverty line also reduced from 54.2 million to 22.5 million. There is little doubt that incidence of poverty decreased dramatically in the 20 years prior to the 1997 financial crisis, coinciding with Indonesia’s 7 percent per annum GDP growth trend. However, the economic crisis that hit Indonesia in 1997 led to a dramatic increase in the number of the poor. According to official estimates, the incidence of poverty from February 1996 to December 1998 rose nearly 50 percent. Compared to 1996, the official poverty lines in 1998 were raised by 153.5 percent and 165.5 percent in urban and rural areas respectively. The extent to which poverty lines were raised appears consistent with the skyrocketing prices, especially food commodities, during the same period. While the crisis affected all expenditure classes, income inequality actually narrowed during this time, as the burden of the crisis fell disproportionately more on the middle and high income classes in the urban modern-formal economy. In accordance with the stabilizing of the economy, however, the poverty rate in August 1999 appears to have returned to the pre-crisis level of February 1996.

1-3 Regional Disparities in Poverty

There is considerable regional variation in distribution of population under poverty line among Indonesia’s 26 provinces. In 1999, the three most populated provinces comprised about 50% of total population, West Java, Central Java and East Java, contain 60 percent of the total poor. However, as far as incidence of poverty at provincial level is concerned, Irian Jaya (55 %), East Nusa Tenggara (46.7 %) and Maluku (46.1 %) show the highest figures among all provinces (national average around 23.4%).

1-4 Depth and Severity of poverty

Both poverty gaps and severity improved in most provinces during the period from 1993 to 1996. However, during the period of the on-going crisis in 1998, both the indices of poverty gap and squared poverty gap worsened across virtually all regions, especially in urban areas. But regional variations in the depth and severity of poverty were also evident, with Central Java and Yogyakarta appearing to

\(^1\) Since ADB reports on poverty in Indonesia use the poverty line as defined by the BPS, this report also uses the same poverty line.
have been particularly hard hit in 1998. In addition, parts of Eastern Indonesia and East Java also experienced more severe impacts than other regions in the Western part of Indonesia. By 1999, there were slight improvements in both the poverty gap and squared poverty gap indices in most regions, although the indices appeared to worsen in urban and rural areas of southern Sumatra and in urban areas of West Java. Regarding poverty transition, the percentage of “chronically poor” was higher in rural Indonesia (12.5 %) than in urban areas (9.2 %). Similarly, the percentage of “transitorily poor” was also higher in rural (13.1 %) than in urban areas (12 %).

1-5 Profiles of the Poor

Profiles of the Poor: Based on SUSENAS sample data, profiles of the poor in Indonesia can be summarized as follows:

- Poor households tend to have larger family sizes.
- A lower proportion of the poor (especially women) have secondary education or higher.
- A majority of births among the poor are still attended by traditional health workers or not at all.
- The heads of poor households are more likely to work in the informal sector rather than in the formal sector.
- The heads of poor households are more likely to work in the agricultural sector and less likely to be in the services.
- The heads of poor households tend to work shorter hours.

Education and the Poor: Education level is highly correlated with welfare. In 1999, 87 percent of the poor had a primary school education or less. There are also positive relationships between expenditure levels and educational indicators. The adult literacy rate, mean years of schooling and net junior secondary enrolment ratio are lowest among those in the lowest quintile (Q1), and highest among those in the highest expenditure level (Q5).

According to data collected for this study, there is an indication that the higher the level of education the greater the increase in poverty incidence between February 1996 and February 1999. While among the illiterate, poverty incidence increased by 52 percent, among those with tertiary education the poverty rate increased by almost five-fold.

Health and the Poor: Although the main health status indicators have improved substantially over the last 20 years, the poor lag considerably behind the general population. The infant mortality rate, under-five mortality rate and total fertility rate are highest among those in Q1, as compared to those in Q5. Furthermore, access to safe drinking water and public health facilities are poor among those in Q1. In addition, sharp disparities in health between urban and rural areas are shown and quite substantial regional variations exist, with Java, Bali and other islands having lower/higher than average indicators.

Due to various health programs implemented by the government and partner organizations including major multilateral and bilateral agencies, the impact of the crisis on the health sector was not as severe as initially predicted. However, as the Social Safety Net (SSN) programs fade out in the post-crisis period, securing real expenditure flows to the health sector will be significant issue.

Employment and the Poor: Due to the financial crisis, all sectors uniformly experienced an increase in poverty incidence between February 1996 and February 1999. In relative terms, the finance, insurance, and real estate sector had the highest increase in poverty incidence, which quadrupled during the period. Because of the financial nature of the origin of the crisis, it is not surprising that this
sector was the hardest hit. Nevertheless, the agriculture sector consistently had the highest poverty incidence (around 40%) as well as the highest contribution (around 58%) to the total number of the poor people during the period. In fact, during the crisis many workers who were laid off in modern sectors returned to agriculture, so that between 1997 and 1998 the employment share of agriculture increased from 40.8 percent to 45 percent. This factor explains the persistence of the agriculture sector as the largest contributor to the number of the poor people during the crisis.

In 1999, the national unemployment rate was highest among those in Q3, Q4 and Q5. Regional differences in unemployment rates were also notable among all income levels with Jakarta, West Java and North Sulawesi showing higher rates than the national average of 6.4 percent. These statistics suggest that unemployment is typically a phenomenon in urban and modern economic sector. On the contrary, underemployment rates, as indicated by the percent of the workforce working less than 20 hours per week, were highest among those in Q1. The highest percentage of incidence of short working hours was particularly apparent in South Sulawesi, West Nusa Tenggara, East Java and West Sumatra, indicating high underemployment incidence in these rural and agricultural-based economies.

**Gender Dimensions:** Over the last two decades, the women of Indonesia have narrowed the gender gaps in education, health and other sectors. However, a number of concerns still remain. For instance, there is a major concern with women’s reproductive health, as reflected in unacceptably high maternal mortality rates. It is estimated that around 390 women in Indonesia died in childbirth for every 100,000 live births in 1994, and this indicator still lags behind that of Indonesia’s ASEAN neighbors. The principal causes of maternal death are overwork, anemia, poor nutrition, unhygienic handling, complications from abortions and lack of adequate medical facilities in remote and backward areas. At present, the Government of Indonesia is putting high priority on improving this situation.
Chapter 2 Government Policy and Actions for Poverty Reduction

2-1 Government Policy, Plans and Programs for the Poor

Following the economic crisis and the fall of the Suharto government in May 1998 there have been major shifts in government policy. Up to the crisis and the fall of Suharto, development programming was guided by a series of broad policy guidelines (GBHN), twenty-five-year development plans (PJP) and five-year development plans (Repelita). After the fall of the Suharto government, a start was made on a new national development program (Propenas) and it will be enforced in 2001. Propenas differs from Repelita, in particular by adopting a more strategic approach and focusing on pressing issues in contrast to the basic sectoral focus of Repelita. Propenas is built around five major objectives: 1) Development of a democratic political system and maintenance of national unity, 2) Upholding legal supremacy and good governance, 3) Accelerating economic recovery while enhancing sustainable and just development, 4) Ensuring people’s welfare and 5) Promoting people’s and regional empowerment.

This section first provides an overview of the macroeconomic underpinnings of the process of growth and poverty reduction and then analyzes government poverty strategies and plans, the process and characteristics of decentralization, the main poverty reduction programmes, and the budget and expenditures for social services.

2-2 Macro Economic Management

Stable economic growth has been the key factor in the decline in poverty during the past twenty years. Economic growth averaged 7 percent per annum over the period 1975 to 1996. With the financial crisis in late 1997, the economic situation in Indonesia turned to one of the worst recessions in the country’s history. Economic growth declined to 4.9 percent in 1997 and to minus 13.7 percent in 1998. With substantial financial support from the IMF, the Government of Indonesia adopted the tightening of monetary policy in order to stabilize the financial sector. But in spite of this, the economic slump provoked by the financial crisis caused widespread social distress in the country. The combined effects of higher unemployment and inflation pushed large numbers of people into poverty.

Recently, the trend has been for the better, with signs of economic stabilization. Since June 1999, democratically elected new government has made significant progress on the broad economic reform program. The Government has also embarked on reforming public administration with a focus on decentralization. However, the continuing dissatisfaction with the pace of economic, financial and industrial reforms will make it difficult for Indonesia to achieve a smooth recovery. The Indonesian Government has gone one step further by coming out with a ten-point economic policy package that has been attached to the most recent Letter of Intent (LoI) with the IMF (September 2000). From the point of view of poverty reduction activities, the most important indicators of the new policy are the program’s emphasis on agriculture, infrastructure development (particularly community infrastructure) and on support to the development of small and medium enterprises.

2-3 Government Poverty Strategies and Plans

After the fall of Suharto, significant progress has been made on broad political reform in Indonesia. President Abdurrahman Wahid created a new cabinet structure at the end of August 2000. One of the
major changes from the previous cabinet is an elimination of the office of the Coordinating Minister for Social Welfare and Poverty Eradication. At present, it appears that coordination of broader poverty and social welfare concerns are being placed directly under the Office of the Vice President, Megawati Sukarnoputri. A Special Poverty Team in the Office of the Vice President has been created including, among others, staff from the now defunct Coordinating Ministry for Social Welfare and Poverty Eradication and some staff previously with The National Planning Board (BAPPENAS). The team is to principally serve in a coordinating role regarding poverty related activities across government agencies. From a general policy formulation and programming perspective, however, BAPPENAS still remains probably the key player. From an implementation point of view the major agencies are Directorate General for Regional Development (BANGDA) and Village Development (PMD). The Ministry of Finance is also involved due to its role in budgeting and resource allocation.

2-4 Process and Characteristics of Decentralization

After the fall of Suharto, a highly centralized state of Government has made an effort to decentralize. Official implementation of Laws Nos. 22 and 25 of 1999 regarding physical and financial aspects of decentralization commenced on January 1, 2001. Decentralization has profound implications for processes of administration of activities. Although there are some criticisms of the process of decentralization, the changes embodied in Laws Nos. 22 and 25 are likely to yield a more responsible government and more efficiency delivered services. In terms of poverty reduction, the recent move towards decentralized governance has immense potential to contribute to the representation of the poor in local institutions and equity in the regional distribution of funding sources.

2-5 Government Departments Involved in Poverty Reduction

Among government departments involved in poverty reduction, BAPPENAS has played an important role in policy and annual budget formulation relative to poverty reduction. The other relevant departments from the point of view of poverty reduction are the Ministry of Education, Ministry of Health and Social Welfare, Ministry of Human Settlements and Regional Development, Ministry of Home Affairs and Regional Autonomy, Ministry of Women’s Empowerment and Ministry of Cooperatives and Small and Medium Enterprise Development. Main poverty reduction programs are described in 2-6, 2-7 and 2-8.

2-6 Community Development Programs

The government has supported several community development programs. Under the Integrated Regional Development Program (PKT), for instance, central government grants (via the IMPRES) for village infrastructure projects were provided to provincial and district governments. In addition, Impres Desa Tertinggal (IDT) program, Village Infrastructure Program (P3DT), the Kecamatan Development Program (KDP), employment programs in the forestry sector, and empowerment of the regions to overcome the impact of the economic crisis (PDM-DKE) are also categorized as community development programs.

2-7 Social Safety Net Programs

From FY 1998/1999, the Government put into place Social Safety Net (SSN) programs designed to
mitigate the impact of the economic crisis on the existing poor and those forced into poverty by the crisis. There were four main areas of focus: 1) Food security, 2) Social protection programs in education and health, 3) Employment and income generation and 4) Community empowerment funds (under the Ministry of Cooperatives and Small and Medium Enterprises). From the beginning, a budget of Rp 9.4 trillion has been allocated to finance 15 programs under the SSN program. With the exception of the various credit schemes, BAPPENAS has played a major role in planning and coordination. Central government allocates funds by each district/municipality and the local government determines village level allocations based on local conditions. Although there was some overlap and conflict in terms of specific targeting and implementation of various programs, this certainly provided for a general level of efficiency in distribution of resources. However, all of the main SSN programs are now in the process of being phased out.

2-8 Other Poverty Reduction Programs (Micro Credit Programs)

Micro finance programs are currently receiving a lot of attention as a poverty reduction tool, and Indonesia has a rich history of such programs. One impact of one of the most well known credit schemes in Indonesia found a significant decrease in the percentage of borrowers living in poverty from 1986 to 1989 after they became involved in the micro-credit scheme. Net incomes of borrowers increased 75 percent in real terms over the three-year period compared with average rural growth over the same period of 11.7 percent. Major micro-credit programs include the BRI Unit Desa Scheme, Badan Kredit Kecamatan (BKK) and Pembinaan Peningkatan Pendapatan Petani Kecil (P4K).

2-9 Labor Market Policy

Minimum wage legislation was newly enforced in early 1990. Minimum wages are set by region according to the level of income required to fulfill individual minimum physical needs. Still, about 30 percent of Indonesia’s paid workers earn less than minimum wage. Indonesia also has three social security schemes: PT Taspen covering civil servant employees, PT Asabri covering the armed forces and PT Jamsostek covering the private sector. In addition, 1.2 million employees are covered under Employer Pension Funds and Financial Institution Pensions Funds.

2-10 Budget and Expenditures for Social Services

Government spending on health and education is low relative to neighboring countries. Following the crisis, expenditures for social services declined dramatically. In essence, domestic revenues will be able to do little more than meet existing debt obligations. This means that Government is likely to remain dependent to a large degree on donor activities for any new investment for further development and expansion of basic social services.
Chapter 3 Partnerships for Poverty Reduction

3-1 Partnerships

The Consultative Group on Indonesia (CGI) is a donor coordination group that meets annually with the Government of Indonesia (GOI) to discuss development policies and foreign assistance needs. The meeting concludes with a pledging session linked to the GOI budget planning process. More than 30 bilateral and multilateral donor agencies participated in the tenth meeting of the CGI in Tokyo on 18 and 19 October 2000. Three issues were of paramount interest at the meeting: 1) the continuation of structural reforms as outlined in the Letter of Intent to the IMF, 2) the clear articulation of a poverty reduction strategy and 3) implementation of a comprehensive governance program that covers legal and judicial reforms, decentralization, and forest management. At the meeting, there was broad recognition that poverty concerns should permeate all government policies and programs, and recognize the special needs of the vulnerable, in particular women and children. The overarching strategy bringing together these different initiatives rests on the three cornerstones of economic opportunity, empowerment and security.

At the meeting, BAPPENAS presented the draft of Poverty Reduction Strategy in Indonesia. The report summarizes lessons learned from past experiences in poverty reduction and proposes a strategic approach to alleviating poverty in the long run. GOI requested donor funding based on the principles and strategies outlined in the report.

3-2 Donor Assistance for Poverty Reduction

Of the total pledge at the Tokyo CGI held in October 2000, three members—Japan, the ADB and the World Bank—accounted for almost 90 percent. FY 2000 pledges were significantly less than those in FY 1998. Main factor behind this decline is a decreased demand for large scaled program assistance intended to cope with the crisis. Furthermore, the facts that project implementation has been slower than expected, policy reforms have been delayed, and the view that the government should not further the already onerous debt situation, are also assumed as a backdrop of this decline.

Even before the crisis, from the mid-1990s, partner organizations were directly targeting the poor and poor communities. The same broad issues of good governance, environment and empowerment, as well as targeted poverty programs, have been emphasized by partner organizations for some time. In addition, support to community development, education, health and infrastructure will continue.

3-3 Poverty Reduction Programs of Civil Society Organizations

The role of NGOs as facilitators in SSN programs and community development programs (particularly at the grassroots level) is one that evolved after the crisis. With an increasing recognition of the importance of empowerment of the poor and poor communities, NGOs are expected to continue to play a key role in the future.