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POVERTY AND SOCIAL PROTECTION IN INDONESIA

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POVERTY AND SOCIAL PROTECTION IN INDONESIA

Edited by Joan Hardjono, Nuning Akhmadi, and Sudarno Sumarto



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*To the memory of the late Wenefrida Dwi Widyanti (1969–2008).
Her tireless dedication did much to help SMERU develop into a
prominent research institute.*

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PREFACE

The present volume consists of papers that describe the findings of research conducted by the SMERU Research Institute, Jakarta, Indonesia. The papers share a common theme in that they deal with various aspects of poverty in Indonesia. Most were written in connection with the effects on the poor of the Indonesian economic crisis of 1997–98 and the response of the Indonesian Government to those effects. Many of the papers have appeared in journals and other publications and are reproduced here with permission from the publishers. In some cases they have been edited to avoid the repetition of similar material.

The papers in the present volume fall into two groups. Chapters 2, 3, 4, and 5 deal with trends in poverty and the measurement of poverty, while Chapters 6, 7, 8, and 9 describe the major poverty alleviation policies and programs introduced by the Indonesian Government since early 1998. Chapter 1, which is the only paper in the present volume not written by SMERU researchers, gives a brief overview of the economic situation in Indonesia before and after the crisis and describes the general context in which most of the papers were written. Absolute poverty had been quite high in Indonesia in the early and mid-1960s, prior to the political upheaval that led to a change of government in 1966. During the thirty-two years of economic growth under the New Order government (1966–98), great progress had been made in social development and the incidence of absolute poverty in both urban and rural areas had declined steadily. In mid-1997, however, Indonesia was struck by a financial, economic, and political crisis whose full impact was felt only in 1998 and the following years. As the economy contracted, the poverty rate

rose once again, presenting immense challenges to the post-New Order government.

The economic crisis had a major impact on consumption expenditures. Chapter 2 uses these expenditures, which reflect the actual changes that took place in living standards and which can serve as a measurable proxy for income changes, to examine the extent of poverty in the years immediately after the crisis. In doing so, it tracks changes in the headcount measure of poverty, that is, in the number and proportion of individuals whose consumption at that time was below a defined poverty line.

Vulnerability to poverty, that is, the risk that a household will become poor in the near future, is examined in Chapter 3. It is always possible that people who are not poor at a certain point in time may fall below the poverty line in days to come. At the same time it is possible for people who are currently poor to move out of poverty. In comparing the levels of vulnerability to poverty before and after the crisis, the writers use a method specifically developed for estimating vulnerability. It involves the use of cross-sectional data from household surveys to estimate different categories of poverty and vulnerability by combining information on consumption levels, estimates of vulnerability to poverty, and estimates of expected consumption levels.

During the economic crisis, the headcount poverty rate in Indonesia changed quickly over short periods of time, which suggests that a large number of people moved in and out of poverty frequently and experienced relatively short spells of poverty. Chapter 4 demonstrates that the changes occurring at the household level were in fact even greater than the changes indicated by aggregate figures. An examination of only the changes in total poverty rate might therefore give a misleading impression of the actual poverty dynamics of households.

Chapter 5 discusses the most suitable method by which to compare changes in poverty over time and presents a consistent series of estimated poverty rates in Indonesia from various sources

for the period February 1996 to February 2002. The poverty rate increased from its lowest point of around 15 per cent in mid-1997 to its highest point of around 33 per cent near the end of 1998. This increase of 18 percentage points implies that around 36 million additional people were pushed into absolute poverty by the crisis. After reaching its peak, the poverty rate started to decline again and reached the pre-crisis level of around 15 per cent at the end of 1999, suggesting that the economic crisis delayed progress in the alleviation of poverty by around two and a half years.

The Indonesian Government responded to the social consequences of the economic crisis by introducing a social safety net that consisted of programs designed to protect real incomes and to ensure that the poor had access to social services. Chapter 6 reviews these programs and discusses the difficulties involved in designing and implementing programs that provide cash or in-kind transfers in a developing country as large and diverse as Indonesia. It looks specifically at the problems of undercoverage, where social protection programs do not reach many of the poor, and of leakage, where the non-poor enjoy a large proportion of social protection benefits.

While some safety net programs were designed to benefit only currently poor households, others were designed to mitigate shocks by providing transfers to those households whose incomes had fallen and who were vulnerable to poverty, irrespective of whether or not they had fallen below an absolute poverty threshold. Calculations of the benefit incidence and the targeting effectiveness of safety net programs have usually examined only the relationship between a household's current expenditures and program participation. Chapter 7 looks at the relationship between program benefits and changes in household expenditures. It compares the static and dynamic benefit incidence of two of the social safety net programs, one of which (subsidized rice) used administrative criteria as the basis of targeting, while the

other (a set of public employment schemes) was based on self-selection targeting.

The benefits of accurate targeting in social protection programs are substantial because they enable public expenditures to be concentrated on those households most in need of assistance. In the absence of better alternatives, implementation of the social safety net programs involved targeting methods developed for other purposes by Statistics Indonesia (BPS) and the National Family Planning Coordinating Board (BKKBN). This inevitably resulted in a certain amount of mistargeting, since in situations where poverty indicators are determined prior to data collection, data can easily be manipulated. Furthermore, since poverty is a localized phenomenon in which the characteristics of the poor differ among regions and even villages, the use of uniform indicators for the whole country introduces bias. Chapter 8 describes two recent attempts to develop more effective targeting tools than those used previously. It looks first at poverty mapping as a way to improve geographic targeting and then at community based monitoring systems as a means of ensuring better individual targeting.

After describing the modifications made in the original social safety net programs and the gradual phasing-out of these programs after the year 2000, Chapter 9 outlines the social protection initiatives that have replaced them. The government has designed the new programs in such a way that the shortcomings of the original social safety net programs may hopefully be avoided. These new programs have been introduced in the context of the government's focus on regaining economic stability and ensuring economic progress. Because national policies have included reductions in fuel subsidies on a number of occasions, the new social protection programs have been founded on the concept of compensation for fuel price increases and have included unconditional cash transfers targeted at poor households.

Chapter 10 sums up the strengths and weaknesses of the social safety net programs and highlights the main lessons learned from the Indonesian economic crisis about poverty alleviation and the targeting and management of social protection initiatives.

It is our hope that this volume will form a useful reference for those who are interested in poverty alleviation and social protection programs in Indonesia.

Joan Hardjono
Nuning Akhmadi
Sudarno Sumarto
Editors

POSTSCRIPT

The 2008 Financial Crisis

Even though the sources, magnitude and complexity of the 2008 global financial crisis differ from those of the 1997–98 Asian financial crisis, the impact on the Indonesian economy and on the economies of many other developing countries will most probably be very much the same, particularly in terms of reduced economic growth, shrinking employment opportunities and a worsening of socioeconomic development. We live in an interconnected world where the current crisis, triggered by the slump in the U.S. housing market and the simultaneous escalation of international oil and food prices, could have an immense effect on economies in the developing world. Thus the subsequent burden will be borne not only by the poor living in wealthy countries but also by the billions of poor and vulnerable people in low-income countries that include Indonesia.

Much has been written in the press and in academic circles arguing that the current global financial crisis will lead to an economic recession in developed countries, particularly the United States and Europe. This would reduce demand for exports from developing countries like Indonesia, and could be exacerbated if the United States and Europe adopt trade protectionism as their response to the crisis. Furthermore, foreign aid and direct foreign investment are likely to be cut since international mobile capital will most probably be secured in the safe havens of the United States and Europe.

Indonesia will face extensive economic problems, some of which are already being felt with the volatility of the stock market, the liquidity crunch in the banking sector, and a rapid weakening

of the exchange rate pressuring the balance of payments and liquidity in the financial system. Even though the impact on current exports has been minimal so far and has resulted in relatively small account deficits, many observers predict that the full impact on the real sector will start to be felt in the first quarter of 2009. This is attributed to factors such as the falling demand for Indonesian commodities from developed economies, which may lead to fewer employment opportunities for the poor and the non-poor alike.

The articles in this book are very timely as they include research findings on the 1997–98 economic crisis. In particular, they offer an assessment of the social impact of that crisis and the implementation of social safety nets introduced by the Indonesian Government to help the chronic poor and the new poor to cope with the economic shocks generated by the crisis. The lessons learned, also discussed in this book, will hopefully provide direction to policy-makers in Indonesia and in other developing countries on how to establish an effective response package to address the impact of economic crises on the poor and vulnerable. At the same time, already scarce resources should be allocated efficiently in a manner that does not jeopardize the prospect of achieving future economic growth.

Sudarno Sumarto
Director
The SMERU Research Institute
November 2008

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This book is a collection of studies conducted between 1998 and 2006 by researchers at the SMERU Research Institute (known until the end of 2000 as the Social Monitoring & Early Response Unit, Jakarta). Its contents represent the tireless work of many people and for that reason we would like to thank all current and former SMERU researchers for their participation and contributions. In particular, we wish to express our thanks to Daniel Perwira, Yusuf Suharso, Sulton Mawardi, and Amalia Firman for their excellent assistance.

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Finally, allow us to express our thanks to Hal Hill, Suzanne Siskel, and Thee Kian Wie for their full encouragement of the idea of compiling this volume. We also wish to acknowledge the careful editing done by Joan Hardjono and Nuning Akhmadi, as well as the technical assistance provided by Mona Sintia. Last but not least, we wish to thank Triena Ong and her staff at the Institute of Southeast Asian Studies for their support in the publication of this volume.

*Sudarno Sumarto, Director
The SMERU Research Institute
September 2008*

GLOSSARY AND ACRONYMS

ASEAN	Association of Southeast Asian Nations
Askes	<i>Asuransi Kesehatan</i> (Health Insurance)
Askeskin	<i>Asuransi Kesehatan</i> untuk Masyarakat Miskin (Health Insurance for the Poor)
AV	average vulnerability
<i>Bapel</i>	<i>Badan Pelaksana</i> (Management Unit)
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Board)
BAPPEDA	<i>Badan Perencanaan Pembangunan Daerah</i> (Regional Development Planning Board)
BBM	<i>Bahan Bakar Minyak</i> (fuel, i.e., gasoline/petrol, diesel fuel, and kerosene)
BKKBN	<i>Badan Koordinasi Keluarga Berencana Nasional</i> (National Family Planning Coordinating Board)
BKM	<i>Bantuan Khusus Murid</i> (Special Assistance for Students)
BKS	<i>Bantuan Khusus Sekolah</i> (Special Assistance to Schools)
BLT	<i>Bantuan Tunai Langsung</i> (Direct Cash Assistance)
BOS	<i>Bantuan Operasional Sekolah</i> (School Operational Assistance)
BPS	<i>Badan Pusat Statistik</i> (Central Bureau of Statistics, now known as Statistics Indonesia)
BULOG	<i>Badan Urusan Logistik</i> (State Logistics Agency)

CBMS	Community Based Monitoring System
CCT	conditional cash transfer
CDF	cumulative distribution function
CP	chronically poor
CPI	consumer price index
CR	coverage ratio
CRRA	constant relative risk aversion
DAU	<i>Dana Alokasi Umum</i> (General Allocation Funds)
DBO	<i>Dana Bantuan Operasional</i> (School Operational Assistance Funds)
DOLOG	<i>Depot Logistik</i> (district-level Logistics Depot)
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> (Regional Representative Council)
FPL	food poverty line
FGD	focus group discussion
FGLS	feasible generalized least squares
GDP	gross domestic product
GIS	geographical information system
GLS	generalized least squares
<i>gotong royong</i>	self-help
GDRP	gross domestic regional product
HPAEs	high-performing Asian economies
HVC	high variability of consumption
IDT	<i>Inpres Desa Tertinggal</i> (Presidential Instruction for Underdeveloped Villages)
IHK	<i>Indeks Harga Konsumen</i> (Consumer Price Index)
IMF	International Monetary Fund
IFLS	Indonesia Family Life Survey
<i>Inpres</i>	<i>Instruksi Presiden</i> (Presidential Instruction)
IR	implementation ratio

Jabotabek	the Jakarta, Bogor, Tangerang, and Bekasi conurbation
JPK-Gakin	<i>Jaminan Pelayanan Kesehatan untuk Keluarga Miskin</i> (Health Service Insurance for Poor Families)
JPS	<i>Jaring Pengaman Sosial</i> (Social Safety Net)
JPS-BK	<i>Jaring Pengaman Sosial — Bidang Kesehatan</i> (Social Safety Net Program in the Health Sector)
<i>kabupaten</i>	administrative district
<i>kecamatan</i>	subdistrict
KKN	<i>Korupsi, Kolusi dan Nepotisme</i> (Corruption, Collusion and Nepotism)
<i>kota</i>	administrative city or town
KPS	<i>keluarga pra-sejahtera</i> (pre-prosperous family)
<i>krismon</i>	<i>krisis moneter</i> (monetary crisis)
KS	<i>keluarga sejahtera</i> (prosperous family)
KTP	<i>Kartu Tanda Penduduk</i> (identification card)
KUD	<i>Koperasi Unit Desa</i> (Village Unit Cooperative)
LKMD	<i>Lembaga Ketahanan Masyarakat Desa</i> (Village Community Resilience Institution)
LLC	low level of consumption
LR	leakage ratio
<i>Menpangan</i>	<i>Menteri Negara Pangan dan Hortikultur</i> (Minister of State for Food and Horticulture)
NFA	non-food allowance
NGO	non-governmental organization
NTB	<i>Nusa Tenggara Barat</i> (West Nusa Tenggara)
NTT	<i>Nusa Tenggara Timur</i> (East Nusa Tenggara)
OPK	<i>Operasi Pasar Khusus</i> (Special Market Operation or Cheap Rice Program)

PAD	<i>pendapatan asli daerah</i> (locally derived revenue)
<i>padat karya</i>	labour intensive
PCA	principal component analysis
PDF	probability density function
<i>perda</i>	<i>peraturan daerah</i> (regional regulation)
PKB	<i>Pajak Kendaraan Bermotor</i> (Motorized Vehicle Tax)
PL	poverty line
PODES	<i>Potensi Desa</i> (Village Potential)
PDM-DKE	<i>Pemberdayaan Daerah Mengatasi Dampak Krisis Ekonomi</i> (Regional Empowerment Program to Overcome the Impact of the Economic Crisis)
PDPSE — BK	<i>Penanggulangan Dampak Pengurangan Subsidi Energi — Bidang Kesehatan</i> (Program to Handle the Impact of Energy Subsidy Reductions — Health Sector)
PKPS-BBM	<i>Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak</i> (Program to Compensate for Fuel Subsidy Reductions)
<i>posyandu</i>	<i>pos pelayanan terpadu</i> (integrated health service post)
PPK	<i>Program Pengembangan Kecamatan</i> (Kecamatan Development Program)
PPM — Prasarana	<i>Program Pemberdayaan Masyarakat — Prasarana</i> (Community Empowerment Program and Infrastructure)
<i>puskesmas</i>	<i>pusat kesehatan masyarakat</i> (community health centre)

<i>Raskin</i>	<i>Beras untuk Keluarga Miskin</i> (Rice for Poor Families)
RE	real expenditure
SAKERNAS	<i>Survei Tenaga Kerja Nasional</i> (National Labor Force Survey)
SD	<i>Sekolah Dasar</i> (primary school)
SKTM	<i>Surat Keterangan Tidak Mampu</i> (Letter giving poverty status, issued at village level)
SMP	<i>Sekolah Menengah Pertama</i> (junior secondary school)
SMA	<i>Sekolah Menengah Atas</i> (senior secondary school)
SSD	<i>Survei Seratus Desa</i> (the 100 Village Survey)
SWF	social welfare function
<i>sembako</i>	<i>sembilan bahan pokok</i> (nine basic necessities, which include rice, sugar, cooking oil and flour)
SUSENAS	<i>Survei Sosial Ekonomi Nasional</i> (National Socio-Economic Survey)
TER	targeting expenditure ratio
TP	transient poor
TVG	total vulnerable group
UCT	unconditional cash transfer

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