

POVERTY REDUCTION IN INDONESIA: OBSTACLES AND SOLUTIONS

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ABSTRACT

The poverty rate in Indonesia is diminishing by time, where the percentage continues to fall slowly from 2006 till 2014. In 2006 the poverty rate was in the range of 17.8% or a total of 39 million people, to the range of 11% or 28 million people in 2014. President Jokowi's current government continues to promote poverty reduction programs which are divided into three clusters, namely family based social assistance programs, poverty reduction programs based on community empowerment and poverty reduction based on economic empowerment of small and micro enterprises. However, Indonesian poverty reduction programs still face a variety of obstacles so that the goals have not been achieved fully. This paper tries to give some suggestions regarding how to improve the poverty reduction programs to be more effective. The suggestions are to standardize the definition and calculation of poverty, to focus on agriculture development, improving the distribution and dissemination of the "cards" used in poverty reduction programs and a strict control over the use of poverty reduction's budget which is spread in the various Ministry and Institutions of Indonesia.

Keywords: Poverty, Poverty Alleviation, Inhibition, Suggestions For Improvements

INTRODUCTION

Background

Economic crisis in 1998 had gave a big blow to the Indonesian national economy, causing the increasing number of poor people which was rose to 49.50 million, or approximately 24.23% of Indonesia's population, from 34.01 million (17.47%) in 1996 . To reduce poverty as a result of the economic crisis, the Indonesian government set poverty reduction as one of its priority program.

In general, the implementation of poverty reduction program that is conducted from 1998 until now, has been able to reduce Indonesian poverty rate from 47.97 million people that is fall under poverty line (or approximately 23.43%) in 1999 to 30.02 million people, or approximately 12.49% in 2011¹. Based on WorldFactBook, Indonesian Statistical Bureau, and World Bank, the level of reduction in the number of poor people in Indonesia is among the fastest compared to other countries. From 2005 to 2009 Indonesian decreasing rate of the poverty rate per year was 0.8%, much higher compared to the other countries like Cambodia, Thailand, China, and Brazil which were only in the range of 0, 1% per year.

¹ <http://www.tnp2k.go.id/id/program/sekilas/>

President Joko Widodo's administration pegged the poverty rates in the range of 9-10% in the 2016 draft budget, Gini ratio of 0.39 and the unemployment rate is 5.2%. The target is higher than the 2015 budget's target which was pegged the poverty rate at 10.3%, the unemployment rate at 5.6% and 0.4% for Gini ratio². To achieve these objectives Jokowi's administration prepare some strategies such as encouraging the creation of jobs and empowering SMEs, reducing the burden of the poor, conditional cash transfers or Family Hope Program (PKH), Welfare Family Card (KKS), rice for the poor policy, health care for poor people (Indonesia Sejahtera), scholarships through Smart Cards, etc. and the employment program.

However, those programs still facing various problems. Continuous improvement needs to be done to overcome the problems. Therefore this article attempts to give explanation about the Indonesian poverty's portrait, the problems faced by poverty reductions programs and the solutions offered to overcome the existing obstacles.

Purpose of The Study

The purpose of the study are as follows:

1. The brief picture of poverty alleviation programs in the Jokowi's Administration
2. Various obstacles in the implementation of the poverty reduction program
3. The suggested solution to overcome the various problems

Indonesian Poverty Images

Poverty Level in Indonesia

Strong economic growth and the poverty reduction programs were efficient in the leadership of Suharto's New Order era, which had lowered poverty rates drastically - in both rural and urban area. During the year 1960 - 1996, Indonesia's population living below the poverty line drop drastically from half of the total population to only about 11 percent³.

But the poverty rates skyrocketed once again from 11% to 19.9% at end 1998, as the impact of the Asian financial crisis. The following table shows the poverty rates (in % and millions) and the Gini coefficient Indonesia from 2006 to 2014:

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Relatif Poverty (% of population)	17.8	16.6	15.4	14.2	13.3	12.5	11.7	11.5	11.0
Absolut Poverty (in million)	39	37	35	33	31	30	29	29	28
Gini Ratio	-	0.35	0.35	0.37	0.38	0.41	0.41	0.41	-

Table 1 Statistics Poverty and Inequality In Indonesia

Source: World Bank and the Central Statistics Agency (BPS)

Based on the previous table we learnt that the poverty rate in Indonesia fell slowly from 2006 till 2014. Started in the range of 17.8% or 39 million

² <http://bisnis.liputan6.com/read/2256860/strategi-pemerintah-jokowi-kurangi-tingkat-kemiskinan>

³ <http://www.indonesia-investments.com/id/keuangan/angka-ekonomi-makro/kemiskinan/item301>

people in total, to the range of 11% or 28 million people within an interval of 8 years. Although it appears that there was considerable improvements of the poverty level in Indonesia, but many people still doubted the data.

There is a significant difference in the definition of poverty used by the Government of Indonesia and the World Bank. By using different method the poverty rate can increase drastically. The Indonesian government requires no strict definition of the poverty line, which in 2014 the so-called poor are people with income per capita (per month) amounted to US \$ 25 (approximately Rp. 300,000). While the World Bank classifies the poor with an income of less than USD \$ 1.25 per day. If the World Bank classification is used, the number of poor people in Indonesia will increase by more than the table above.

2.2. Poverty Rate In Urban And Rural Area

Indonesia has undergone a process of rapid urbanization. Since the mid-1990s the absolute number of poor people in rural Indonesia began to decline and currently more than half of Indonesia's total population lives in urban areas (20 years ago about a third of Indonesia's population live in cities)⁴.

Except for some provinces, rural areas in Indonesia are relatively poorer than urban areas. The poverty rate in rural Indonesia had decreased to around 20 % in the mid-1990s but jumped higher when the Asian Financial Crisis occurred between 1997 and 1998, reached 26 percent rate. After 2006, the reduction of poverty rate in rural areas is quite significant as shown in the table below:

Table 2 The Progress of Rural Poverty Level in 2006 -2014 (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Rural Poverty	20.0	21.8	20.4	18.9	17.4	16.6	15.7	14.3	14.4

Source: World Bank and the Central Statistics Agency (BPS)

The poverty rate in urban Indonesia from 2005 - 2014 is shown below :

Table 3 Poverty Rate of Indonesian Urban Area
Year 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Urban Poverty	11.7	13.5	12.5	11.6	10.7	9.9	9.2	8.4	8.5	8.2

Source: World Bank and the Central Statistics Agency (BPS)

From two tables above, we learnt that in 2005 and 2006 there was an increase in rural and urban Indonesia's poverty rate. This happened mainly due to the reduction in fuel subsidies conducted by the government of President Susilo Bambang Yudhoyono at the end of 2005. The price of oil internationally rose that forced the government to reduce fuel subsidies to ease the budget deficit. The consequence was the double-digit inflation of 14% to 19% (Y.o.Y) which occurred until October 2006. However, since 2007 to 2014, the level of urban poverty decreased steadily in the range of 13.5% (2006) to 8.2% (2014).

If both tables are compared, we learnt that the percentage of rural poor people is greater than the urban's one. As described earlier, this can be due to limited job options in the rural area compare to urban one. Most rural people only depend in agriculture as their main job. Farmers facing two challenges at

⁴ Ibid

the same time, the low price of their agricultural product and expensive prices of food product that they need to buy as consumers, putting the lives of farmers around the edge of poverty.

Indonesian Poverty Eradication Program

The Indonesian government currently has a variety of integrated poverty reduction programs ranging from poverty reduction programs based on social assistance, community empowerment and empowerment of small businesses, which is run by the various elements of both central and local government⁵.

To improve the effectiveness of poverty reduction efforts, the President has issued Presidential Decree No. 15 Year 2010 on the Acceleration of Poverty's Reduction, which aims to accelerate the decline of the poverty rate to 8% from 10% by the end of 2014. There are four basic strategies that have been set in accelerating poverty reduction, namely:

- Improving social protection program
- Improved access of the poor to basic services
- Community empowerment, and
- Inclusive development

Related to the above strategies, the Government has set poverty reduction program to be divided by four clusters, as follows:

Cluster I - Integrated Social Assistance Program Based On the Family

Group-based poverty reduction program and social protection aimed in fulfilling the basic rights, the reduction of life burden, as well as improving the poor's quality of life. The focus of basic rights is intended to improve the of poor people quality of life, such as the access to food, health care, and education.

Beneficiaries of this program are the people lives in the extreme poverty. This is not only because the vulnerable conditions of poor communities, but also because they have not been able to pursue and fulfill basic rights properly and independently.

This program is divided into:



b. Cluster II - Poverty Reduction Program for Community Empowerment

Group-based poverty reduction program of community empowerment is an advanced stage in the process of poverty reduction. At this stage, the poor began to realize the capabilities and potentials to exit poverty. Empowerment approach as an instrument of this program is intended not only to increase the

⁵ <http://www.tnp2k.go.id/id/program/sekilas/>

poor people awareness of their potential and resources, but also encourage the poor to participate in a wider scale, especially in the development process of their region. The program is intended for the poor that still has the potential to be developed through self-employment.

The program in this cluster using a participatory approach, strengthening the capacity of community institutions and planning for sustainable development

Cluster II Programs are :



c. Cluster III - Economic Empowerment of Micro and Small Enterprises

Poverty reduction programs by empowering micro and small businesses is a program that aims to provide access to and strengthening the economy for micro and small businesses. A crucial aspect of strengthening micro and small businesses is to provide the widest access for poor people to be able to try and improve the quality of life. The beneficiaries of this program is people around poverty line with micro and small scale business activities also the poor who do not have a business or engage in economic activities.

Characteristics of this program are to provide capital assistance or financing micro scale businesses, strengthening the independence, sought market access, to improve skills and business management.

The program can be divided into 3 (three) activities, namely: (1) financing or capital support; (2) the opening of access to capital and marketing products; and (3) mentoring and business management skill-building. The programs in this cluster are capital assistant for the people (Kredit Usaha Rakyat).

Problems in Poverty Reduction and Alternative Solutions

Despite the fact that poverty reduction's budget on increasing, started at the rate of 14.64% (Rp.79.9 trillion) in 2009 to Rp. 136.5 trillion in 2013, but the effectiveness of poverty reduction programs has not been proven. This program has not been able to reduce poverty significantly. With the magnitude of the poverty budget, the number of poor people just dropped an average of 3.61% in the last 5 years or an average of about 0.72% per year⁶.

In more detail, the 2009 Government's budget for poverty reduction was Rp. 79.9 trillion, with the number of poor people amounted to 32.53 million people and poverty rate fell only 4.64%. While in 2013, the poverty budget was Rp. 136.5 trillion (an increase of 25% from the previous year) but only able to reduce the poverty rate by 1.82%. With this condition poverty reduction program is a program that quite expensive, as it requires significant costs to lift someone out of poverty⁷.

⁶http://www.dpr.go.id/doksetjen/dokumen/apbn_Anggaran_kemiskinan_dan_Infrastruktur_dalam_penyerapan_tenaga_kerja_dan_kemiskinan_20140602101026.pdf

⁷ Ibid

The suspected causes of the inefficiency of poverty in Indonesia are as follows:

1. The problem in data base management policies.

The approach used by Central Statistics Agency (BPS) is the expenditure approach (basic needs) or consumption poverty line. BPS defines the poor as people who have an average expenditure below the poverty line. This definition arises some controversies as the following points⁸:

- a. Poverty Line calculation based on consumption expenditure database of 68,000 sample households across Indonesia obtained from national socio-economic survey (Susenas). Because it is calculated based on data survey, the poverty rate is generated essentially only an estimate.
- b. Basic commodities used as indicator for poverty measurement from the local to the national level are uniform, whereas social and cultural conditions of Indonesian society are very diverse.
- c. The reference group used in the survey is not quite precise. Reference population is 20% of the population, above the initial estimation of expenditure poverty line. Thus the list of goods used to calculate poverty capture population groups who are above the poverty line.

Based on these problems, it will require improvements in determining the poverty standard to be used in Indonesia, and also the importance to use a single source of official data. Thus it can be known with certainty the number of poverty in Indonesia, to be handled properly.

Incorrect Target of Poverty Reduction Programs.

From the total population of 114.8 million people who were working in August 2015, as many as 37.75 million (32%) rely on the agricultural sector. But unfortunately until now the Indonesian farmers still synonymous with poverty⁹. The farmer's exchange rate (Nilai Tukar Petani/NTP) has become one of the measuring instruments used to calculate farmer's welfare. Based on data from BPS, the total value of NTP in 2010-2012 reached 103.1, 105.75, and 105.87. NTP achievement in 2011-2012 is exceeded the target set of NTP which is 105. The highest NTP was 108,63 in 2008 and up to now that number has not been surpassed yet. Despite the increase in growth of income per capita in the agricultural sector, the number has not yet been able to be near income per capita in the industrial sector¹⁰.

The government budget for the agricultural sector such as fertilizer subsidies, seed and food security program itself is already very large. For 2016, the Government allocated Rp. 30 trillion for fertilizer subsidies and Rp. 1 trillion for seed subsidies. There was also Rp. 21 trillion for food security program¹¹. However, the aggressive development of infrastructure in Indonesia has taken its toll in the form of the loss of farming land. Therefore there is still contradiction between government policy between one and another.

⁸ http://www.dpr.go.id/doksetjen/dokumen/apbn_Anggaran_kemiskinan_dan_Infrastruktur_dalam_penyerapan_tenaga_kerja_dan_kemiskinan_20140602101026.pdf

⁹ <http://www.spi.or.id/target-pengentasan-kemiskinan-pemerintah-2015-meleset-pertanian-pedesaan/>

¹⁰ Studi Pendahuluan Rencana Pembangunan Jangka Menengah Nasional (Rpjmn) Bidang Pangan Dan Pertanian 2015-2019

¹¹ <http://www.kemenkeu.go.id/Publikasi/informasi-apbn-2016>

In addition to fertilizers and seeds policy, the Government also needs to focus on other sectors for the development of agriculture and to increase farmers' welfare, such as the improvement of agricultural infrastructure (irrigation, rural roads, lighting, drying floor), loan for farmers, farmer cooperatives, distribution channels, market revitalization etc.

The Problems in distributing and disseminating poverty reduction programs card

Until now, almost two years since the cards was launched poverty reduction, there are still various problems occurred in the field. Some of the problems listed are below:

- a. Overlapping with other programs. For example BPJS and Kartu Indonesia Sehat (KIS). Although the two programs have different criteria, which is BPJS needed contributions from participants and is intended for the entire population of Indonesia without exception, while KIS does not collect fees and solely intended for the poor, but still frequent confusion exist among the public regarding the function of the cards.

Another example is Indonesia Smart Card with Jakarta Smart Card. Based on its name; it's already known that both the card designed for a different population, one for the people of Indonesia in general, while others specifically for Jakarta residents only. However, the overlapping functions of the card will give an advantage relatively to the population of Jakarta and other areas that have similar programs compare to region that only receives Indonesia Smart Card.

- b. Dissemination and Distribution

Until now, not all poor people whom are entitled to, has received the cards. The distribution of the cards was originally targeted to be completed in December 2015, and then delayed to April 2016. However, until now there is still news about areas that have not received the card yet. Various things that can be the hindrance of the cards distribution, such as data collection and verification of the targeted population which need long chain of bureaucratic process and time to complete.

In addition to the distribution problem, there is also problem in disseminating card's benefit and mechanism. Given that the level of education of the poor is typically low, it needs a more comprehensive socialization to educate the recipients. Extensive socialization is not only necessary for the card's recipient but also for field officers who deal directly with the daily problems occurred.

Poverty Reduction Program Scattered in Many Ministry and Institutions

In 2015 Indonesian Budget, poverty reduction programs spread to many ministries and institutions such as the Ministry of Health, Ministry of Education and Culture, Ministry of Social Affairs, Ministry of Rural Development and Transmigration, Ministry of Agriculture, etc., with a total budget reaching Rp 137,6 trillion. Without good coordination, the

implementation of the program could potentially lose its effectiveness in the field¹².

The problem in coordinating the programs between various ministries has been exacerbated by the multiple change of the minister that has been took place twice within less than two years. Although the outline program has been set and the new minister will continue the program, but the period of adaptation, the difference in leadership style and the different in policy making can become obstacles in the implementation of an integrated program between the Ministry and agencies. Therefore, the poverty reduction program need to be guarded intensively, in addition, coordination with local governments also need to be increased.

CONCLUSIONS AND RECOMMENDATIONS

1. The poverty rate in Indonesia is now much better where the percentage continues to fall slowly from 2006 till 2014. From 17.8% in 2006 or a total of 39 million people, to 11% or 28 million people in 2014.
2. Indonesian government today continues to promote poverty reduction programs which are divided into three clusters, namely family based social assistance programs, poverty reduction programs based on community empowerment and poverty reduction program based on economic empowerment of small and micro enterprises.
3. The poverty reduction program still face various barriers, such as the differences in definitions and methods used to determine the level of poverty, the poverty reduction program has not focused on the most important sector, overlaps and lack of effectiveness in poverty alleviation programs where regional and national budgets spread of poverty reduction spread in many ministry.
4. The improvements proposed for the existing problems are to standardized the definitions and methods of determining poverty so that the magnitude of the problem can be seen, increasing the budget for the development of the agricultural sector, to increase coordination with the Local Government, to increase socialization of the benefit and method in poverty reduction program, also to increase supervision from the President and the public on the use of the poverty reduction budget.

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