



LPEM-FEUI

Workshop Report

Development Debate Series: The Case of Indonesia

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DEVELOPMENT DEBATE SERIES: THE CASE OF INDONESIA*

During the early month of this year, the SMERU Research Institute worked together with LPEM-FEUI and The World Bank Institute to organize a 'Development Debate Series'. The debate series consisted of two parallel sessions: the Regional Debate and the National Debate about poverty and development. In total, there were 15 meetings, and the following report summarizes the key issues discussed during the series.¹

These issues were widespread and varied. The measurement of poverty, and how to broaden this to include dimensions other than consumption-based poverty, featured prominently in the debate series. Structural barriers and low levels of education tend to be factors which hinder poverty reduction policies. At the same time, deregulation and good economic management are both integral to implementing successful poverty alleviation programs. Good governance of public programs and efforts to decrease corruption can also assist poverty reduction programs as well as the general state of the economy. Finally, the greatest challenges for Indonesia will be how to manage the decentralization process and its potential impact on the level of poverty, as well as the methods adopted to institute effective social safety nets that will provide some level of protection for the community.

I. Poverty and Its Multi-dimensional Nature

There is general agreement in many quarters that poverty is multidimensional. In order to fully understand the nature of poverty, it is not sufficient to simply define poverty as income poverty or consumption poverty. Poverty is not only limited to income and consumption, it is also concerned with health, education, vulnerability to shocks, participation in social and political activities, and many other aspects of life.

However, participants in the poverty debate disagree about the extent to which these dimensions can be incorporated into the measurement of poverty. According to one perspective, only those dimensions relevant to poverty reduction policies should be included in the measurement of poverty. Consequently, only those dimensions of poverty which can feasibly be measured and empirically assessed are considered to be relevant to poverty reduction policy.

However, others argue that the debate should be widened, and are prepared to incorporate as many dimensions of poverty as possible in its definition. They contend

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¹ The Regional Debate involved five countries in the Asian region (China, Nepal, Thailand, the Philippines, and Indonesia) and was conducted through a video conference. The national debate, meanwhile, invited participants from academic institutions, non-government organizations, government policy-making departments, and the business community to join in the discussions. These meetings were conducted twice weekly from 13 February - 3 April 2001.

that poverty is a very complex social construct and its definition should not be limited by the pragmatics involved in drafting policy. When conducting field studies, many researchers find it very difficult to draw a precise line dividing the poor and the non-poor.

Another argument in favor of considering the wider broad dimensions of poverty is that many factors are indirectly relevant to poverty reduction policies, a good example being the political voice of the community. Theoretically, the voices of all individuals, including the poor, determine who are elected to become members of parliament. Typically, parliaments as an integral part of the process of government, determine the budget allocations and, in theory, the interests of the poor should be represented by this process. However, so far there has been little evidence that the “political voice” and the interests of the poor are adequately represented in many parliaments.

II. Structural Poverty

Sometimes the source of poverty is deemed to be structural. Hence the term structural poverty. This refers to a situation where poverty occurs or persists because of various community structures. A major assumption behind this concept is that the market is not free to act because the elite always intervenes through economic or political channels. These interventions can be at the local, national or even the multinational level.

The following is an example of structural interference in the education and health sectors. A child who is born into a poor family suffering from malnutrition will almost certainly grow up to be a poor adult. The reason is obvious: it is unlikely that such a family will be able to provide an adequate level of nutrition or formal education to help the child escape poverty. Other examples of such structural problems exist in the form of market monopolies, labor repression, gender discrimination, and manipulations of the political environment, which all work against the interests of the poor.

III. How to Make the Market Work for the Poor

Before the economic crisis, Indonesia’s economic policy created many distortions. For example, instead of letting the market respond naturally, the government preferred to “pick winners” by singling out certain industries or enterprises to receive assistance through special facilities. This policy has generally worked against the poor, also making it impossible for small enterprises to compete on a level playing field with those selected by the government. It reduced the competitiveness of the whole economy in export markets as the “winners” most of the time were “domestic players”. Finally, it reduced consumers’ purchasing power by ultimately transferring the costs of those special facilities to customers.

The economic crisis has put pressure on the Indonesian government to put in place many reforms, including the area of economic policy. Both the central and regional governments have been forced to deregulate many areas of the economy which had become seriously distorted. This has included abolishing the clove trade monopoly,

various export levies, inter-regional trade restrictions and quotas, forced sugar cane planting, and quotas on livestock trade.

The deregulation process has brought about the reduction of most of the serious distortions in the market. Firstly, the market for agricultural commodities has opened up, increasing the bargaining power of the farmers. Secondly, the diminishing number and impact of both legal and illegal levies have reduced inefficient trade margins. As a result, the "farm gate" price, as a proportion of the market price, has increased significantly. According to one survey, 58% of the farmers interviewed received a price increase of between 1 and 10% since the deregulation process was put into effect while another 33% of farmers received an increase of between 10 and 32%.

IV. Human Resources and Education as a Dimension of Poverty

In terms of developing human resources through education, Indonesia is facing serious problems in the education sector, particularly at the junior high school level and beyond. At the primary school level, enrolment data indicates that Indonesia has made commendable progress. In 1999, primary school age children between 7 and 12 years of age have an enrolment rate of over 95%. However, the figures for children beyond primary school age are less encouraging. The enrolment rate for children aged 13-15 is 79%, while for children aged between 16 and 18 the rate is only 51%. In terms of developing human resources, the lack of high school education in Indonesia will lead to a less educated workforce in the future.

When the data is broken down according to gender, there is no indication that there is serious gender discrimination in terms of access to education in Indonesia. The enrolment rate of boys is only slightly higher than that of girls. However, there is a significant gap in the enrolment rate between children in urban and rural areas.

Socio-economic background is a major component of the problems of accessing education in Indonesia. For primary school aged children, the enrolment rate amongst those from families in the richest quintile of per capita expenditure is approximately 99%, while amongst children from families in the poorest quintile the rate is only 92%. The enrolment rate for those of junior high school age in the richest quintile is 93% compared with 66% in the poorest quintile. Worse still, for senior high school aged children the two enrolment rates are 75% and 29% respectively. This indicates that children from poor families face serious obstacles in accessing and continuing with their education, particularly at those levels beyond primary school.

The problem generated by low enrolment levels in junior high school has been the large discrepancy between the number of primary school graduates and the number of places available for enrolment at higher levels of education. Between 1973 and 1978, the Indonesian government established more than 60,000 primary schools throughout the country. As a result, access to primary school increased but unfortunately, there was never a similar school construction program for junior and senior high schools.

This raises the question of whether access to education beyond primary school, particularly for the poor, should be the responsibility of the state or left in the hands of private institutions. Traditionally in Indonesia, the role of private institutions becomes more significant at higher levels of education. The Indonesian constitution states explicitly that the welfare of the poor, including their access to education, is the responsibility of the state. However, there are significant financial constraints for the state in carrying out this responsibility, particularly during the present crisis. Furthermore, this constitutional stipulation should not be interpreted as a limitation on the participation of private institutions and the wider community in providing access to education for the poor. However the problems that arise are twofold. Firstly, how can the participation of private institutions in the education sector be improved? Secondly, how can we ensure that the quality of education provided for the poorer section of the community is comparable to that which is available to the general public?

From a long-term perspective, education is one of the most effective tools for eradicating poverty. Through better quality and higher levels of education, children from poor families can access better job opportunities, enabling them to break the cycle of poverty. The fact that many children from poor families are unable to continue their education beyond the primary school level constitutes a serious challenge to the eradication of poverty in the future.

V. Good Governance, Corruption, and Poverty

There is a widespread consensus that poverty eradication requires effective government policies which focus on this issue. In Indonesia, there is evidence that reducing poverty has so far not been successful due to the ineffectiveness of government policy. Hence, em-powering the poor is one of the most important ways to help reduce poverty. Empowerment can be achieved in many ways, but one of the more important methods is through good governance. Corruption reduces economic growth and consequently, inhibits poverty reduction. Thus, better governance will help to reduce corruption. In addition, corruption renders government programs ineffective and undermines their credibility, meaning that government interventions intended to help the poor are bound to fail.

There was general agreement during the debate that corruption negatively impacts upon the poor, yet at the same time, there was disagreement about the best way overcome this problem. Many agree that the low level of civil service salaries is one important factor contributing to rampant corruption in countries like Indonesia. Therefore, improving civil service salaries is just one of the necessary steps in eliminating corruption.

Improving civil service salaries, however, has financial consequences. Not only does government spending need to be increased to achieve this, but a source of funding for this increase also needs to be found. One obvious answer is to increase taxation revenue. Currently, Indonesia has a ratio of 11% between tax collection and GDP,

which is quite low compared with international standards. Hence, there is still significant scope to increase tax collection in this country.

VI. Security: Social Protection

Since the beginning of the crisis in 1997, Indonesia has been experiencing a negative net private capital flow. This means that the outflow of capital has been larger than the inflow. The result has been a negative impact on economic growth. At the same time, Indonesia is experiencing a high level of growth in the supply of labor. In order to be able even to absorb these new entrants into the labor market, Indonesia needs to sustain an annual level of economic growth of around 6-7%. Hence, there is a clear need for Indonesia to be able to reverse the negative flow of capital to encourage economic growth, and in particular, it needs to encourage an increase in foreign direct investment (FDI).

During the crisis, the poverty rate in Indonesia increased significantly. According to one method of calculation, it increased from 11.3% in 1996 to 20.3% in 1999, while applying a different method it jumped from 19.2% to 27.4%. Another study shows that Indonesia has 12% of its population categorized as living in chronic poverty and 22% in transient poverty. This indicates that Indonesia has a large proportion of the population who are vulnerable to poverty.

However, the Indonesian community has a variety of mechanisms to cope with economic shocks. These coping mechanisms include the following: reducing expenditure on clothing, reducing recreational spending, reducing the quality of food, reducing transport expenses, relying on self-produced food, reducing the quantity of food consumed, borrowing money, selling assets, withdrawing savings, and pawning assets.

The government has instituted programs to help the poor cope with the crisis. These public programs include food for work, food subsidies, energy subsidies, a supplementary feeding program, employment generation, employment retraining programs, a health assistance package, and an education subsidy program.

In extending social security to the whole population, there are several problems for Indonesia. Firstly, around half of the labor force is employed in the informal sector. Secondly, there is no unemployment insurance to protect the unemployed. Finally, there is no health scheme that covers the elderly. Hence, providing adequate social protection and social security to the whole population will continue to be a challenge for Indonesia, in particular for those who are either poor or vulnerable, and it is unlikely to be resolved in the near future.

VII. Decentralization and Its Effect on Poverty

This year Indonesia has embarked on a major decentralization initiative. It is expected that this will have an important impact upon the level of poverty throughout the archipelago. The poverty rate and the inequality index in Indonesia vary widely across

provinces, as well as between urban and rural areas. Urban areas have a lower poverty rate but a higher level of inequality than rural areas.

In terms of urban areas within the provinces, Riau has the lowest rate of poverty and NTT the highest poverty rate, while Maluku has the lowest level of inequality and Yogyakarta has the highest inequality. Within rural areas across provinces, Riau also has the lowest poverty rate and Irian Jaya has the highest poverty rate, while Riau has the lowest inequality and Irian Jaya has the highest inequality. Overall, Riau has the lowest poverty rate and Irian Jaya has the highest poverty rate, while Riau has the lowest level of inequality and Irian Jaya has the highest inequality. This is intriguing as Riau and Irian Jaya are both resource-rich provinces.

Curiously, there seems to be no relationship between the poverty rate or inequality and human development. In terms of the human development index, Jakarta is ranked as the top province, while NTB is ranked as least developed province.

Poverty reduction programs are usually financed by the development budget. Before decentralization, the provincial budget allocation from the development budget was quite substantial. The highest proportion was in East Java where at the time, 42% of the provincial budget was allocated for development purposes, while the lowest ratio was Jakarta with 15%.

Since decentralization began, the provincial governments have received funds from the central government that will basically only cover routine budgetary expenses. On top of that, the provinces will also receive special allocations of revenue, based on their share of the revenue raised from trade in natural resources. However, only two provinces will receive amounts greater than Rp2 trillion, while a other few provinces will receive approximately Rp1 trillion. In fact, however, most will receive below Rp100 billion from these special allocations. As a result, there will be much smaller allocations of funding available for the development budget, and consequently there will be fewer resources available for poverty reduction programs. Alternatively, the regional governments will have to raise their own revenue to finance development expenditure, including poverty reduction programs.

Decentralization will also have serious implications for the design and implementation of poverty reduction programs. Before decentralization, all such programs and their implementation guidelines were drafted by the central government. Under decentralization, the regional governments will take over this role, with a pivotal role for lower levels of government down to the village level. At the same time, the central government will establish the definitions and standards so that national level data can still be aggregated. The extent to which decentralization will ultimately effect the plight of the poor in Indonesia is still uncertain.