

Leaving poverty behind

Policy responses to help Indonesian families overcome vulnerability to poverty

Vivi Alatas



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Indonesia has made substantial progress in tackling poverty over the last decade. With sustained economic growth, the poverty rate has fallen from 23.4 percent in 1999 down to 12.5 percent in 2011. The government is committed to continuing this trend and aims to further lower the poverty rate down to between 8-10 percent by 2014. While these accomplishments should be applauded, it is now time for Indonesia to take a wider view of what poverty reduction means. The focus on the falling poverty rate

has masked the high degree of vulnerability that continues to exist among non-poor households in Indonesia, threatening to push them back under the poverty line.

Some 12.6 million people who were not classified as poor in 2009 subsequently fell into poverty, making up over half of all poor in 2010. Given that during the past three years one-quarter of all Indonesians have been in poverty at least once, a wider view involves caring not only for today's poor but also those at risk of falling into poverty in

the future. The high incidence and rate of entry into poverty, combined with stagnating social indicators, underlines the importance of identifying the right blend of policies for Indonesia. “Promotion” policies are needed to help families that are chronically under the poverty line to build better lives for themselves and safeguard future generations from destitution. At the same time, “protection” policies are needed to provide a safety net to catch vulnerable households at risk of falling back into poverty. Finally, given that Indonesia’s “big bang” approach to decentralization has changed the political landscape, there is a need to ensure that

Education is the starting point for “promotion” strategies, providing the poor with human capital so that they can later earn their way out of poverty. In this respect, Indonesia has made remarkable progress in key human development indicators for education. A child born in 1940 had only a 60 percent chance of attending any school, a 40 percent chance of completing primary school, and a mere 15 percent chance of completing junior secondary school. In contrast, more than 94 percent of children born in 1990 completed primary school and about 75 percent completed junior secondary school.

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local governments strive to find local solutions to fight poverty and vulnerability in their regions.

In discussing the need for a wider view, I have drawn on data and information from several World Bank reports, on which I was task team leader, a contributing researcher and author. These reports demonstrate how empirical research can support evidence-based policy making. These reports include: *Making the New Indonesia Work for the Poor* (2006), *Indonesia Jobs Report* (2010) and *Protecting Indonesian Families from Poverty and Vulnerability* (Forthcoming, 2011)”.

Since the relative risk of poverty decreases with higher levels of education, these changes have contributed to ongoing poverty reduction efforts. Junior secondary school graduates, for example, are 27 percent less likely to be poor than primary school graduates. The prospects are even brighter for graduates from senior secondary school and university.

Despite these developments, however, the enrollment rates of students from poor households remain stubbornly low. This has resulted in wider gaps in educational achievement between rich and poor households, which have steadily increased during

the past decade. In 2010, only 53 percent of 16 to 18-year-olds from the poorest quintile completed junior secondary school, compared with 87 percent of the richest quintile from the same cohort. Students from poor families are especially vulnerable to dropping out of the education system at the critical transition years: after grade six and grade nine. Investing in primary education alone is not enough to secure better futures for students from poor families. Increasingly higher levels of education have become more important for retaining the benefits of growth, openness, technology and market competition. The additional earnings that one can expect to receive from an additional year of education (in economic terms, the “return” to education) are higher for individuals with higher levels of education.

In 2009, the increase in wages resulting from an additional year of schooling for someone in junior secondary school was 9 percent; one additional year of schooling in senior secondary school or university increased wages by 14 percent and 16 percent, respectively, according to a forthcoming World Bank report, *Meeting the Demand for Skills*. This “increasing return” to schooling has led to increased inequalities because the rich have greater access to higher levels of education than the poor.

Parents from poor households do not allow their children to drop out because they undervalue education. Rather, they are forced to pull their children from the education system because the costs of secondary education are prohibitively high. Out-of-pocket costs for parents to send one child to secondary school range from Rp1.8 to Rp2.6 million, with poorer households paying slightly less and richer households slightly

more. As a percent of overall expenditure, however, secondary education is relatively more expensive for the poorest households.

Poor households also experience a double financial burden for sending their children to school; not only do they have to pay expenses but they also face opportunity costs, in terms of foregone income from children who may otherwise be earning additional income. Market failures – such as credit constraints that reduce the ability of the poor to borrow for schooling, and imperfect information on the return from schooling – exacerbate high drop-out rates among the poor. Stronger “promotion” policies are therefore needed to ensure that the poor can reach secondary and tertiary education and benefit from higher paying jobs.

Indonesia has launched several programs that promote greater access to education for the poor, including scholarships targeting students from poor households (*Beasiswa Siswa Miskin* - BSM). The provision of these scholarships fails to ensure access of education for poor students because the amounts are not enough to offset the high costs of education. Also, the scholarships are delivered one or more years after enrollment, which is long after the critical points when parents need funds to keep their children in school: at the beginning of the school year and during primary-to-secondary or within-secondary transition years. Even though the BSM is a national program, it reaches very few students. BSM covered 4.5 million students in 2009 and now ranks as the third-largest social assistance program (by central government expenditures), behind the subsidized rice distribution program (Raskin) and health service waivers (Jamkesmas).

Even so, national coverage of the program in 2009 was still small at only 3 percent of 6-to 18-year-olds from poor households. The program experiences difficulties in targeting the right students. Half of all BSM scholarships are given to the poorest 40 percent of Indonesian households, while the middle class and richer households in the top 60 percent capture the other half. Although this reflects higher relative coverage of richer households at the secondary level, leakage of benefits is exacerbated by lack of a systematic approach to targeting. Individual schools and their associated committees select beneficiaries with few guidelines. Students who are recent or prospective new entrants have very little chance of being se-

lected. Fragmented institutional structures also undermine the ability of scholarship programs to provide an effective “promotion” function. Operationally, scholarships for the poor are delivered through 10 independently run government initiatives across all three levels of education and students at both secular public and religious public schools. Within the various BSM initiatives, few funds are spent on mechanisms to improve program governance, such as monitoring and evaluation, or complaints and appeals systems. The programs also suffer

from inadequate socialization guidelines, leading to reduced program transparency and legitimacy.

With the right reforms, BSM can help poor and vulnerable students in reaching higher levels of education. There are three reform priorities. First, BSM benefits should be targeted at school-age children from poor and vulnerable households. Beneficiaries should be drawn directly from the registry of the poorest 40 percent of households that the government is currently compiling and will be available in 2012. Second, the size of the scholarships should be increased to match the actual cost of attending school, including transportation costs. In addition, a “transition bonus” should be added when

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a child transitions from elementary to secondary school or junior to senior secondary school and faces higher costs. Benefits could be calculated on a sliding scale based on the family’s income level. Third, the government should consider consolidating the 10 initiatives into one single program under a single administrative unit within the Department of National Education.

In 2009, the government also launched a new “promotion” program that aims to both reduce present poverty and prevent the inter-generational transfer of poverty to fu-

ture generations. The conditional cash transfer program (*Program Keluarga Harapan* - PKH) provides mothers from extremely poor households with quarterly transfers that, annually, total Rp600,000 - Rp2.2 million per year (depending on the number of qualifying dependents in the household). Disbursements are made only after a mother's verified attendance at pre- and post-natal checkups, a professionally-attended birth, newborn and toddler weight and health checks, or after verification that a PKH household's school-aged children have good attendance records at their schools.

The PKH program was piloted and tested during its first three years of implementation and was rigorously evaluated to assess whether the program works. The evaluation found that PKH was effective in improving the welfare (i.e. consumption) of beneficiary households and improving their usage of primary healthcare services. Inadequate benefit levels that did not coincide with the academic year are likely reasons why the program did not lead to positive changes in education outcomes. The lack of impact in promoting education is largely because payments did not coincide with the academic calendar when parents need to pay school registration fees. PKH's payment cycle has recently been re-adjusted, with an expected positive impact on school enrollment rates among beneficiaries. With such implementation challenges being resolved, the impact of the program in promoting positive health and education behaviors is expected to be greater as the program matures. While PKH expansion continues, the implementation process should be continuously improved, in particular the verification process and monitoring information system. PKH should

pursue more constant collaboration with relevant line ministries and local agencies to ensure adequate service provision.

Efforts to improve access to secondary and higher education should also be accompanied by initiatives to improve the quality of education. Internationally comparable test scores reveal that the standard of education among 15-year-olds in Indonesia is lower than in comparable countries. The Program for International Student Assessment (PISA) defines three areas of literacy in reading, science and mathematics, and was given to young adults aged 15 approaching the end of nine years of basic education. While Indonesian students have improved their performance in reading and math skills, they continue to remain behind other comparable countries. PISA 2009 results indicated that 40 percent of Indonesian students attained below the lowest level in math. The low quality of schooling raises questions about the adequacy of the school system in delivering returns and improving the employability and income prospects of young graduates.

Given that only one-quarter of the workforce has completed a senior secondary level of education – low even by regional standards – a “promotion” strategy focusing only on formal education is inadequate. A complementary strategy is needed to provide second chances for uneducated workers through non-formal training. Indonesia's public training centers (*Balai Latihan Kerja* - BLK) are unprepared to meet the demand. There are only approximately 184 centers located across the country, training a small number of workers. Assessment in 2010 indicated that less than 50 percent of BLK equipment was in good condition. These

limited resources have resulted in a gap in providing skills for the unemployed or new entrants to the labor market.

International experience shows that training interventions, such as the *Jóvenes* programs in Latin America, have been successful in improving labor market outcomes for participants. Rather than simply providing classroom-based learning, these programs offer a broader array of services: internships, job search assistance or on-the-job training and wage subsidies. The curriculum does not only include training in technical skills, but also soft “life” skills. Indonesia needs a new skills training program that is sufficient in scope to reach out to those who do not have access to formal education or public training facilities. The program should target young, poor and informal workers who would benefit the most from a second chance. Using public-private partnerships will help to build links with prospective employers and ensure that training providers survey local employers to ascertain the needs of the local labor market.

The next challenge of a “promotion” strategy is to help poor and low-income workers make the transition from school to work. If provided with a good and decent job, they can have an opportunity to earn their way out of poverty. Despite sustained economic growth and a positive trend of job creation, however, the pace of job creation has not kept up with the growing workforce that is looking for “better” jobs in the formal and non-agricultural sectors. Almost one-quarter of the active workforce is informally employed in the service and industrial sectors, while more than one-third works informally in agriculture. Indonesia’s informality rate – 58.4 percent in 2011 – is significantly

higher than other countries in the region.

Not all formal jobs, however, are “good” jobs. Most formal sector employees are in lower quality jobs; more than 80 percent work with no contract, mostly in small businesses. As a result, Indonesia’s workforce is highly segmented with most workers facing a high degree of income insecurity. Job creation is hampered partly because Indonesia is less competitive than other countries in the region. Accelerating job creation, therefore, starts with addressing Indonesia’s infrastructure problem. The World Bank’s *Doing Business Survey* and previous *Rural Investment Climate Survey* show that infrastructure problems – road access and quality and the cost of transportation – rank among the top constraints for prospective employers.

Analysis indicates that improving the quality of roads in villages would be associated with a rise in the average proportion of income coming from non-farm enterprise income, salaries and wages by 33 percent. Currently, around four-fifths of all roads now fall under the responsibility of district governments, and 60 percent of these roads are considered to be in less than good condition. Tackling constraints to investment could play a major role in creating more jobs and allowing the poor to benefit from growth. Job creation is also constrained by Indonesia’s current labor regulations. High *de jure* severance rates and restrictions on temporary contracts discourage entrepreneurs and stunt creation of “good” jobs. Meanwhile, low *de facto* severance pay (as reported by workers) leaves the majority of employees unprotected, especially young and low-wage workers. This traps employers and most workers in a “lose-lose” situation that is

hurting both workers and employers.

Simplifying the legal complexities of current severance regulations and adjusting rates in line with regional standards can accelerate job creation by improving Indonesia's investment climate and global competitiveness. To compensate workers for lowered severance rates, the government can consider introducing alternative mechanisms that do not distort the labor market. These options include a pooled fund from which terminated employees can draw payments, an individual account severance system or a flat-benefit unemployment assistance program. Eventually, Indonesia may move towards a full-fledged unemployment insurance program as found in developed

The most important factor that can help agricultural workers, however, is sharing and strengthening knowledge networks. This can be done through financing agricultural extension services and research, providing information about higher value-added crops, and engaging with private or civil society organizations with expertise about farming practices and agricultural markets.

Promotion strategies, however, are not enough to prevent vulnerable families from falling back into poverty. Much of Indonesia's population is clustered just above the official poverty line: one-quarter live below the official near-poor line of 1.2 times the poverty line. Another 40 percent of the population is almost equally vulnerable, liv-

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economies.

Labor regulatory reform will not directly affect the majority (65 percent) of the working poor who are in the agricultural sector. Therefore, intense revitalization of agriculture productivity remains essential for broad-based poverty reduction efforts. Some of the possible solutions are technical: improving seed quality and post-harvest production. Again, investments in infrastructure, such as irrigation systems and rural roads, will not only generate temporary employment but also improve agricultural outcomes.

ing below 1.5 times the poverty line. Thus, living standards remain low for many Indonesians who are not officially classified as poor, and relatively small shocks to their income and consumption can send them into poverty.

To prevent vulnerable households from falling back (or deeper) into poverty, Indonesia needs to also develop “protection” approaches including social safety nets. If designed and implemented correctly, social safety net programs can reduce the likelihood of poor and vulnerable households resorting to negative coping strategies, such as



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pulling children prematurely from school to enter the workforce.

They can also help in replacing inefficient redistribution elements in other programs, or in facilitating changes in the economy aimed at supporting economic growth. For example, reorienting spending towards progressive transfers and providing consumption support during the acute inflationary environment that follows a subsidy reduction can help sustain pro-poor reforms.

Indonesia has already introduced a range of household-centered social assistance programs, which form the building blocks of a social safety net. The first generation of these programs began when the government temporarily introduced a number of initiatives to protect the poor from the effects of the 1997-98 Asian Financial Crisis. A second generation of more permanent

programs was introduced in 2005 after fuel subsidy cuts. Although many of these individual initiatives show promise, much work remains to be done to develop a true social safety net that protects all vulnerable households from the risks they face. It is clear that Indonesia needs to reform and re-engineer its social assistance programs to better protect the poor and vulnerable. *Raskin*, the largest standing social safety net program in Indonesia, delivers subsidized rice throughout the country. Serious problems, however, undermine the ability of the program to provide reliable protection for poor and vulnerable households. In 2010, the program promised beneficiaries 14 kilograms of rice per month but only delivered an average of 3.8 kilograms, representing only 3 percent of the household poverty line.

Jamkesmas is similarly generous by

design, protecting households from health shocks by offering a fee waiver for nearly all medical services available at public hospitals and primary care centers. The program, however, does not provide the facilitation and outreach that could make the benefit packages accessible to poor households. At the same time, new programs are needed to protect especially vulnerable groups such as destitute elderly and disabled individuals who are at high risk of falling into poverty. No standing program currently exists to cushion households facing idiosyncratic risks such as temporary unemployment. In addition, Indonesia does not have an automatic safety net that protects households from the effects of global, macro, regional or micro shocks, whether caused by economic, socio-political or natural forces.

The country needs to develop an automatic crisis monitoring and response system with programs that can effectively catch households at risk of falling into poverty. It is important to respond to shocks as they occur and not after. Therefore, if a monitoring and response system is not in place at the time of the shock, key monitoring data will not be available in a timely manner, the nature of response required cannot be determined and the appropriate responses may not be ready for deployment. Consequently, the effects of a shock will be more severe than necessary. Among the possible response mechanisms, Indonesia should explore the possibility of institutionalizing the unconditional cash transfer program (*Bantuan Langsung Tunai* - BLT) as part of an automatic crisis-and-response benefit package because it can be quickly deployed and reach households when they need protection. Triggers for BLT deployment, overall benefit levels, length

of response, and conditions for termination should all be agreed in advance to avoid the politicization of safety net programming.

Critics may question whether Indonesia can afford to reform and expand its promotion and protection programs. National expenditures on household social assistance programs are now estimated at almost Rp30,000 billion (\$3.3 billion), equivalent to 2.6 percent of total national expenditures, or 0.5 percent of GDP. The average developing country, on the other hand, spends around 1.5 percent of GDP on social assistance. The average for East Asian countries is 1 percent, while Latin America countries, where safety nets are relatively comprehensive, spend on average 1.3 percent of GDP.

Given its high vulnerability rates and the need for effective safety nets, alongside its strong economic position, Indonesia can afford to spend more on reforming the social assistance sector to more effectively protect from shocks, promote investments in the future and enable pro-poor reforms.

It is not only a matter of spending more, but also spending better. Currently, spending on social assistance programs, as a whole, is not strictly pro-poor. Around one-third of total benefits from the four largest programs go to poor and near-poor households, almost half goes to vulnerable households (the bottom 40 percent) and one-fifth goes to the top 40 percent of households. Targeting performance across programs can be assessed by comparing the gains over random targeting for each of three programs in 2009. According to this measurement, BLT performed the best, with targeting gains of 24 percent. That is, targeting outcomes under BLT are 24 percent better than if the same number of ben-

efits had been distributed randomly.

Jamkesmas had targeting gains of 18 percent and Raskin just 11 percent. The targeting gains for each program, however, are still relatively low, even for the best. Consolidating support operations under one roof, such as targeting, socialization, complaint handling and monitoring and evaluation, would yield greater economies of scale and improve outcomes by establishing higher standards and performance indicators. Improving outreach, socialization and advocacy would also allow the Indonesian government to build public support for household social assistance initiatives and facilitate future policy reform.

Current government efforts to establish a national targeting system, featuring a unified registry of potential beneficiaries identified through improved targeting methods, will strengthen targeting and program outcomes. With this single source of quality-controlled data, programs can improve their targeting outcomes. Moreover, programs with the same target population will have consistent beneficiary lists, which currently do not exist.

One of the main challenges in establishing a targeting system is to ensure that the system is dynamic enough to respond to the highly fluid nature of poverty in Indonesia. Dynamic mechanisms will be needed to keep beneficiary lists current, such as community and self-targeting methods that can be used to update beneficiary lists as household circumstances change over time, or to determine beneficiaries altogether.

Tackling poverty and vulnerability through protection and promotion strategies is challenging in a country as large and

diverse as Indonesia. One challenge faced by the government is that although poverty incidence is far higher in eastern Indonesia and in more remote areas, most of Indonesia's poor live in the densely populated western regions of the archipelago.

For example, while the poverty rate in Java is 13 percent, the island is home to 56 percent of Indonesia's total poor. In contrast, the poverty rate in Papua is much higher at 36 percent, but the poor there constitute only 3 percent of the poor in Indonesia. Services are also unequally distributed across regions, with an undersupply of facilities in remote areas. In Java, the average distance of a household to the nearest public health clinic is 5 kilometers, whereas in Papua it is 36 kilometers. The different structures of the regional economies are revealed in the highly diverse responses of poverty to local economic growth. Not every region has the same history of poverty reduction — poverty reduction in some regions has been much more rapid than in others. For this reason, tailored approaches to poverty reduction efforts are critical.

The National Community Empowerment Program (*Program Nasional Pemberdayaan Masyarakat Mandiri - PNPMMandiri*) operates on the principle of community-driven development, providing community block grants and allowing communities themselves to identify projects that will overcome their unique barriers to development. This approach not only supports poverty reduction efforts, but also helps to provide much-needed temporary employment in rural areas. Sufficient resources exist to support local approaches to poverty reduction. Since the launch of one of the biggest decentralization efforts in the world

in 2001, provincial and district governments play a major role in developing local policies and budgets, and implementing these policies on the ground. Today, sub-national governments have significant control over financial resources, and develop their own plans and budgets. Transfers to local government since 2001 have multiplied by five. Given that 48 percent of total public spending is now the responsibility of sub-national governments, district and municipal spending patterns and processes are critical.

The pro-poor focus of public spend-

civil service salaries, have dominated the determination of DAU allocations. Wage costs absorbed about 50 percent of all DAU funds, thus reducing the significance of the poverty proxy. In practice, the wage bill requirement creates significant perverse incentives for sub-national governments to maintain large district-level civil service corps.

Simply increasing local funding, however, does not necessarily translate into improved service delivery. While the promise of democratization and decentralization was that elected officials and civil servants

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ing in Indonesia is contingent on the performance of lower levels of local government, and experience since decentralization provides some lessons. To date, planning and budgeting at the provincial and district levels have not been as pro-poor as they could have been. The general allocation fund (*Dana Alokasi Umum* - DAU), which is the primary instrument for equalizing sub-national fiscal resources, is not structured to target areas with a high incidence of poverty. While there is a formula for the allocation of the DAU across districts that includes a poverty variable (or proxy in the formula), this “fiscal gap” formula only partially determines how much districts receive in DAU funds. Administrative costs, specifically

would become more directly accountable towards the citizens they serve, it is at best debatable whether this has yet happened in the majority of localities in the country. Not all local governments were fully prepared for the new responsibilities that they had to shoulder. Service delivery arrangements continue to be hindered by overlaps and gaps among various agencies and between levels of government.

There are three issues. First, the central government does not focus as much as it could on making good policies, setting standards, and/or oversight and monitoring roles, all of which would improve the quality of service delivery. Second, overlaps and lack of coordination (uncoordinated spend-

ing) between the tiers of government in service delivery are common, making accountability ambiguous. Third, local governments and service delivery agencies often plan and budget in an unpredictable environment.

At the same time, capacity for translating poverty reduction objectives and targets into relevant and effective programs varies across local governments. Implementation is often negatively (though sometime positively) affected by local level politics.

ment levels, linking analysis with spending allocations, improving incentives and capacity, as well as making processes more inclusive and results-oriented will strengthen the pro-poor focus of local budgets and implementation.

To improve the poverty focus of regional and local government spending, poverty reduction planning and budgeting should be based on an understanding of the poor and their needs. Connecting the process of pov-

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Weak socialization of existing programs and inconsistent monitoring mean that local implementers are free to adapt procedures to suit what they feel is needed or desired by the community. This often means minimum service standards for basic services cannot be guaranteed. Consequently, both implementation and outcomes can vary widely from region to region. Even so, local governments, service providers and beneficiary communities all play important roles in making “promotion” and “protection” strategies work. Clear program socialization and grievance redress systems can ensure that local participation is not only top-down but also bottom-up.

What are the policies that can help make decentralization work for the poor? At the district and municipal govern-

erty assessment and program monitoring to the process of planning and budgeting is crucial. Additional incentives for local governments to address poverty reduction can be provided by central government funding approaches that are tied to pro-poor outcomes and matching funds.

To improve the commitment and accountability of sub-national governments in achieving national-priority objectives and meeting their decentralized responsibilities, local governments also need incentives through performance-based allocation funds (*Dana Alokasi Khusus* - DAK). For example, allocation of an education DAK could be conditional on a pre-defined age increase of junior secondary school completion rates, or allocation of a health DAK could be conditional on specific improvements in the accessibility and quality of health services, or a

decline in the maternal mortality rate.

There are no easy answers for identifying the right mix of “promotion” and “protection” policy responses for Indonesia. Charting the way forward will require a new approach to social policy-making that is evidence-based and embraces constructive dialogue and debate about what works and what does not. While the experiences of other countries that have grappled with these same issues can help, Indonesia’s policy solutions will have to be tailored to the unique needs of this complex, diverse and highly decentralized country. The starting point, however, is articulating a bold vision that

starts with poverty reduction, but also extends to protecting and promoting all those who are vulnerable to falling into poverty. The task of defining and implementing this vision is not the government’s responsibility alone. Together – government agencies, local think tanks, research facilities and development partners – all play key roles in shaping future policy choices that will help Indonesia tackle present and future poverty.

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