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**Reducing Poverty and Inequality to
Improve Social and Economic Welfare
in Indonesia**

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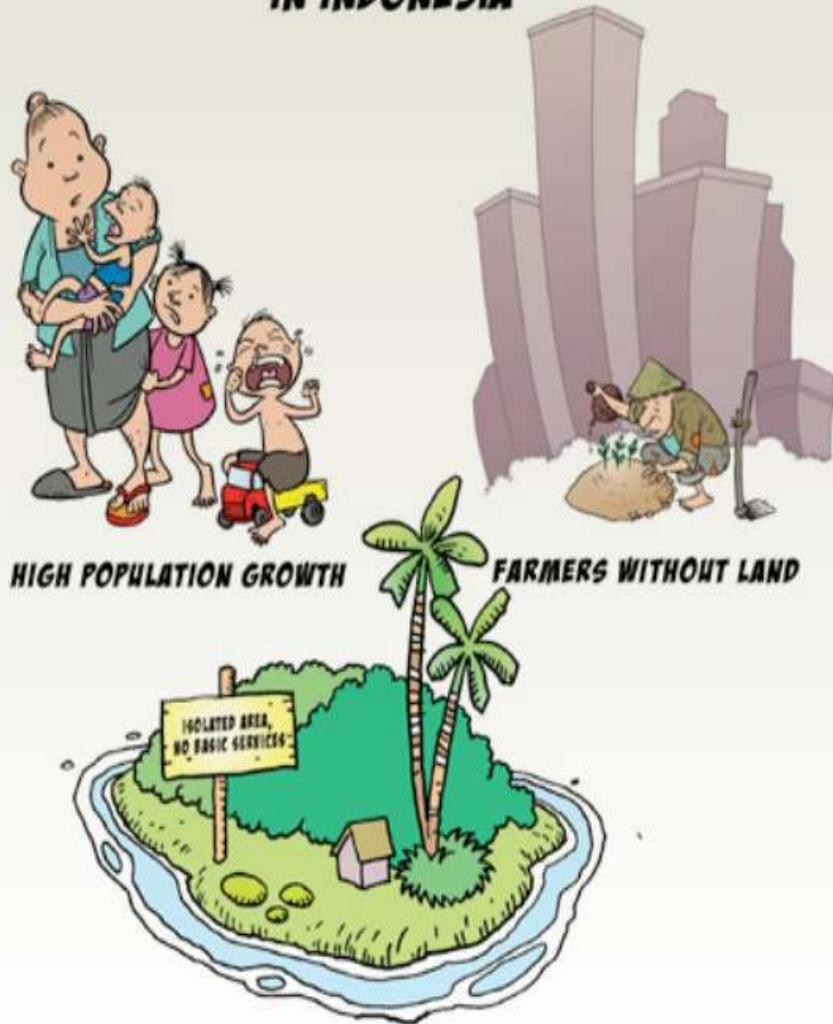


- Government programs for reducing poverty have been established since 1960s
- Starting 1967 to 1996, Indonesia recorded a relatively high decline in poverty level compare many LDC's.
- However, the Gini coefficient, a measure of national consumption inequality, has increased significantly
- Though poverty has been significantly decreasing to one digit (9.78%), yet the number of absolute poverty is still large.

It's need very serious concern and efforts to improve social and economic welfare!!

Poverty Reduction Challenges in Indonesia

POVERTY REDUCTION CHALLENGES IN INDONESIA

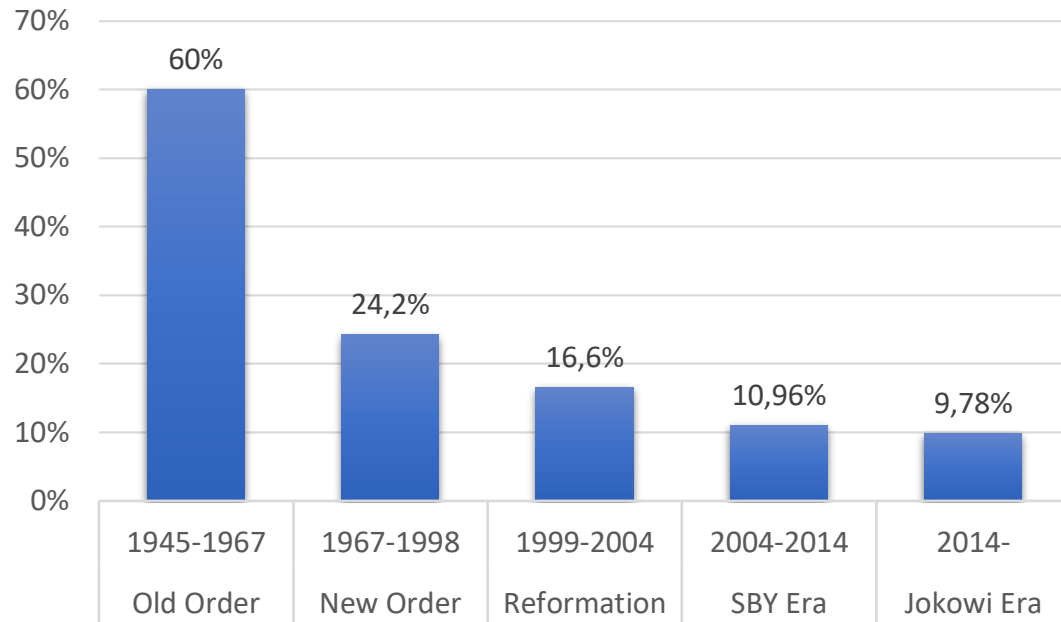


Role of Research

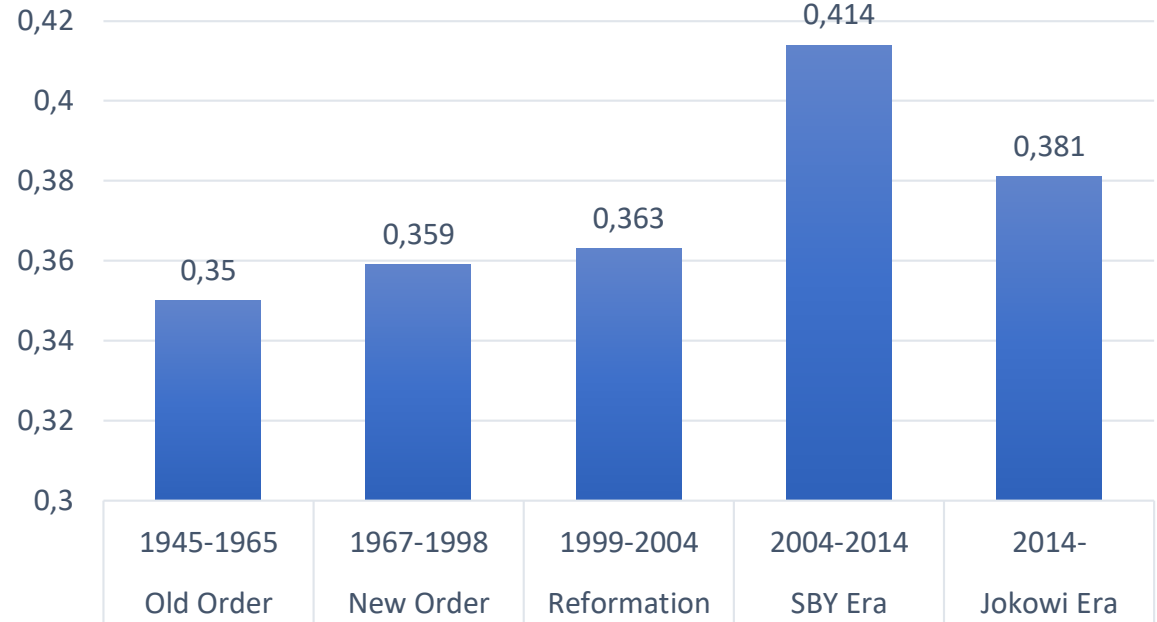
- There has been a lot of research conducted in Indonesia on the topic of poverty and income inequality :
 - One of the most monumental research conducted by Masri Singarimbun and David H Penny (1973). Research carried out in the village of Sriharjo (Bantul) had drawn public attention to the extreme poverty in Indonesia. The lack of land for agriculture and high population growth became main problem in Sriharjo. This had influenced policy makers in Indonesia to take efforts to reduce poverty and inequality problems more seriously....
 - Asian Development Bank (2017) found that the main sources of inequality in Indonesia is education, wealth, and the employment sector from 2000-2007. The combination of these factors can explain almost 60% of income inequality. Therefore, more efforts should be aimed at reducing unequal access to education as well as finance. It aims to improve the inequality measure.
 - The results of these researches have generated attention and have become input into poverty reduction programs by Government

Indonesia Poverty and Inequality

Indonesia Poverty Rate (percentage of total population)



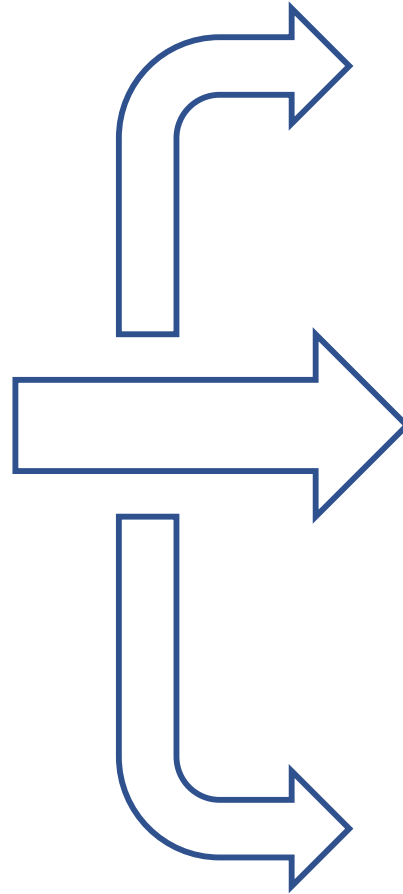
Indonesia Gini Ratio



- Indonesia government has implemented various policies to address those issues. However, the strategies have not been considered as fully successful to improve the welfare of society, especially the poor people.
- At the beginning, late of the Old Order government in 1967 there were more than 60% of the total population are poor people, while at the moment (2020) the poor only 9.78% (26.42 m. Meanwhile, Indonesia's Gini Ratio increased from 0.350 (1965) to 0.381 (2020)

Indonesia Poverty Dimension

Characteristics of Poverty in Indonesia



1.) Large Poor People

2.) Poverty Gap
between Regions

3.) The low Quality of
Basic Services for the
Poor People

4.) High Unemployment

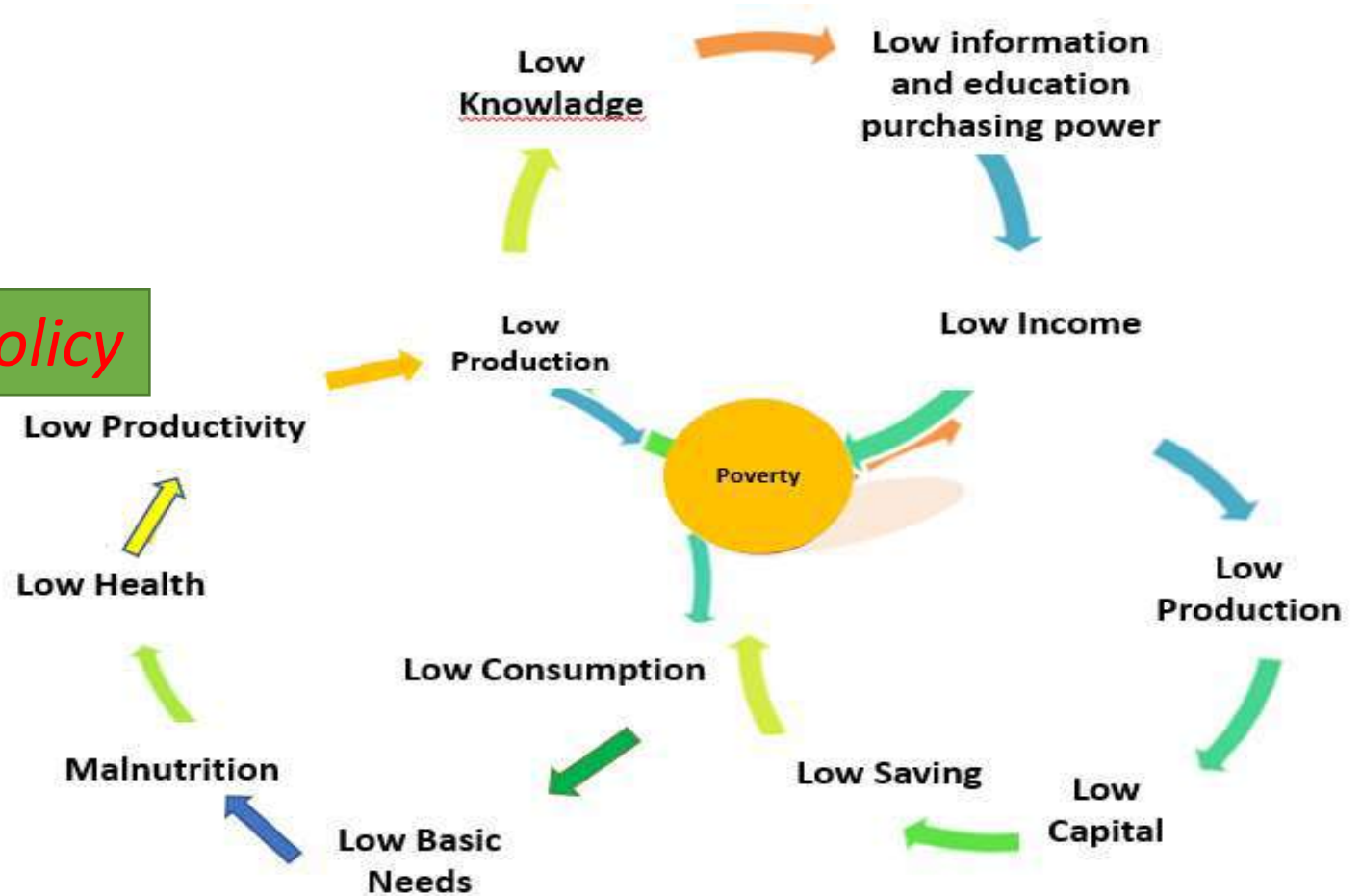
5.) Low Quality and
Productivity

The Vicious Circle of Poverty

Vicious Cycle: They Are Poor because poor...(??)

They are poor Because Poor Policy

They are poor because:
Inability of the government to
formulate good poverty
alleviation policies

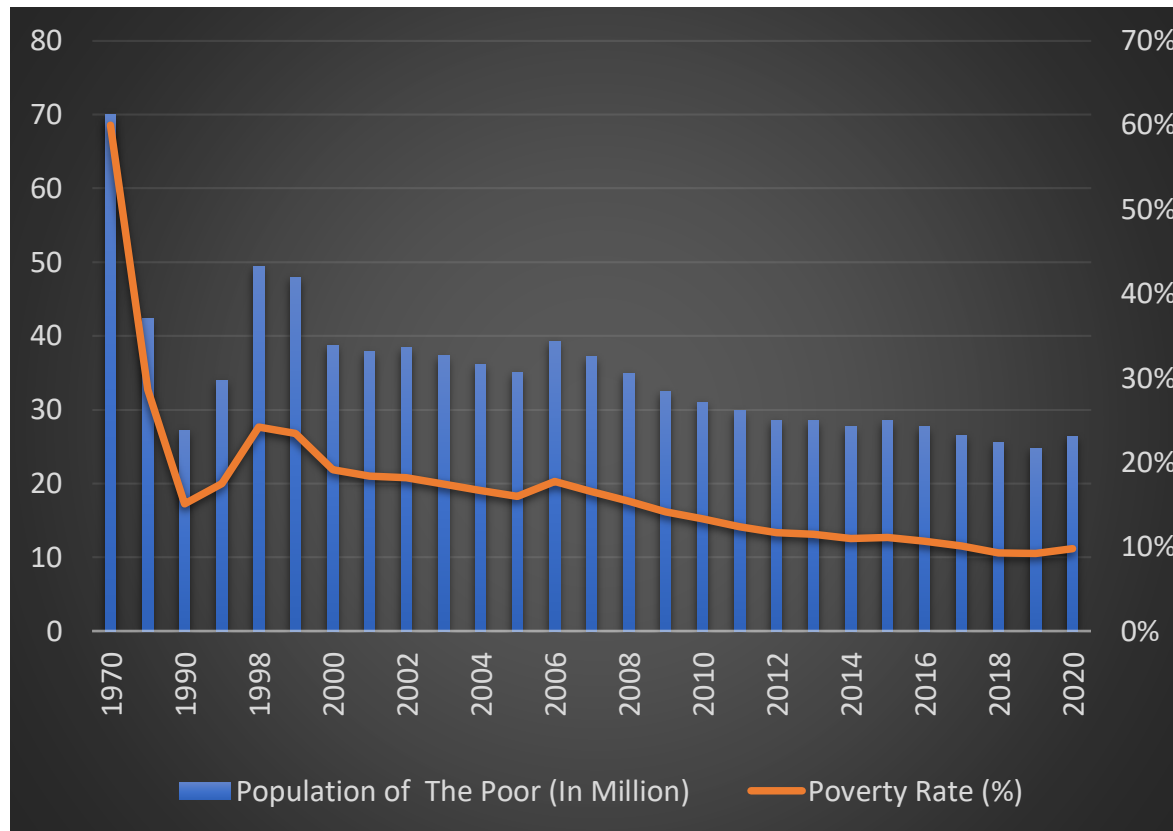


Measures of poverty in Indonesia

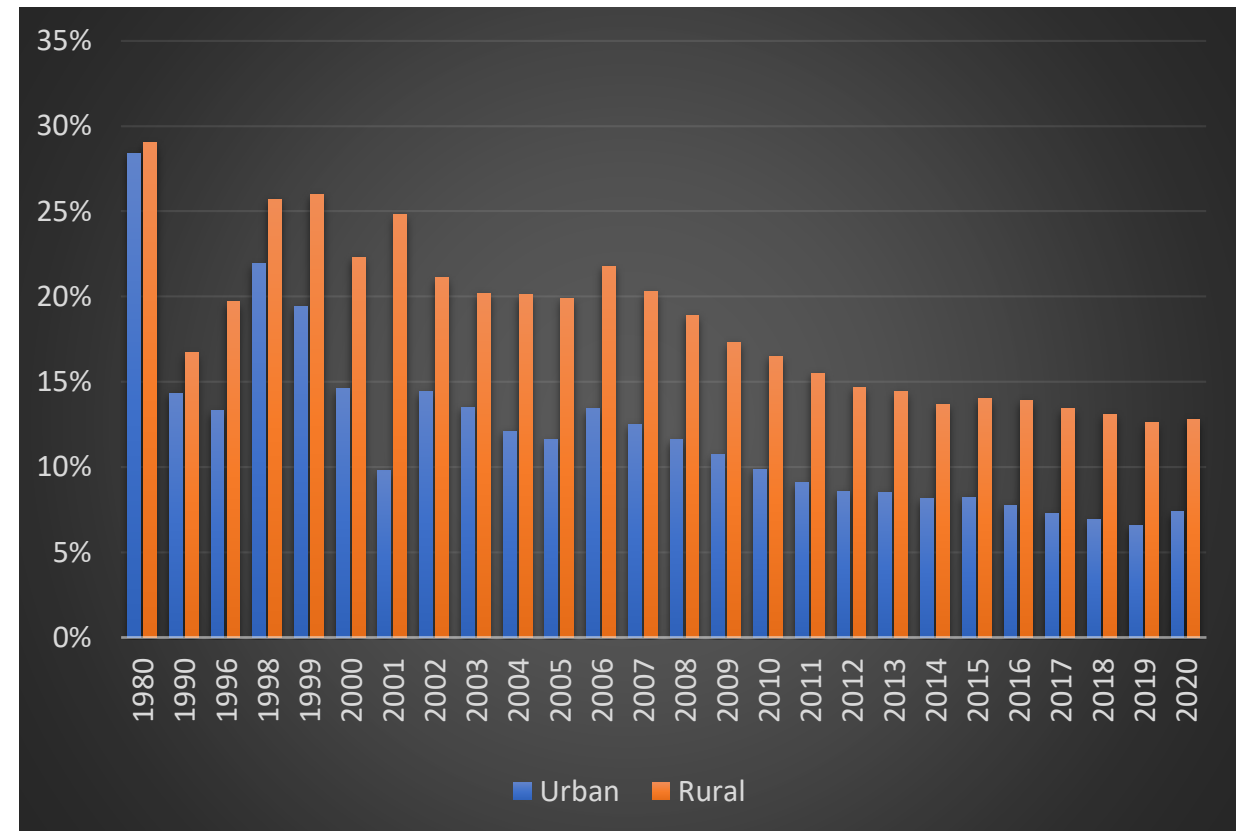
- Central Statistics Agency or Badan Pusat Statistik (BPS) using *absolute poverty* looks at the ability of households to meet *basic needs approach*: people will be poor if they cannot achieve 2100 calories / capita / day in wages and seen from household expenses.
- Using the BPS measurement, the poverty rate dropped to 9.78 percent in March 2020. But in absolute terms, the number of poor people still large or twenty-six million people living below the poverty line.
- The number of poverty will be different if Indonesia poverty rate measured by relative poverty approach of World Bank (US \$2 per day). The number of poor people in Indonesia, could be much higher than the size of the BPS.

Year	Indonesia Poverty Rate	Urban Area	Rural Area
1970	70 (60%)	-	-
1980	42.3 (28.6%)	9.5 (28.4%)	32.8 (29.0%)
1990	27.2 (15.1%)	9.4 (14.3%)	17.8 (16.7%)
1996	34.01 (17.4%)	9.42 (13.3%)	24.59 (19.7%)
1998	49.5 (24.2%)	17.6 (21.9%)	31.9 (25.7%)
1999	47.97 (23.4%)	15.64 (19.4%)	32.33 (26.0%)
2000	38.74 (19.1%)	12.31 (14.6%)	26.43 (22.3%)
2001	37.87 (18.4%)	8.6 (9.79%)	29.27 (24.8%)
2002	38.39 (18.2%)	13.32 (14.4%)	25.08 (21.1%)
2003	37.34 (17.4%)	12.26 (13.5%)	25.08 (20.2%)
2004	36.15 (16.6%)	11.37 (12.1%)	24.78 (20.1%)
2005	35.1 (15.9%)	12.4 (11.6%)	22.7 (19.9%)
2006	39.3 (17.7%)	14.49 (13.4%)	24.81 (21.8%)
2007	37.17 (16.5%)	13.56 (12.5%)	23.61 (20.3%)
2008	34.96 (15.4%)	12.77 (11.6%)	22.19 (18.9%)
2009	32.53 (14.1%)	11.91 (10.7%)	20.62 (17.3%)
2010	31.02 (13.3%)	11.1 (9.87%)	19.93 (16.5%)
2011	29.89 (12.3%)	10.95 (9.09%)	18.94 (15.5%)
2012	28.59 (11.6%)	10.51 (8.6%)	18.09 (14.7%)
2013	28.55 (11.4%)	10.63 (8.52%)	17.92 (14.4%)
2014	27.73 (10.9%)	10.36 (8.16%)	17.37 (13.7%)
2015	28.51 (11.3%)	10.62 (8.22%)	17.89 (14.0%)
2016	27.76 (10.7%)	10.49 (7.73%)	17.28 (13.9%)
2017	26.58 (10.1%)	10.27 (7.26%)	16.31 (13.4%)
2018	25.67 (9.26%)	10.14 (6.89%)	15.81 (13.1%)
2019	24.79 (9.22%)	9.9 (6.56%)	15.15 (12.6%)
2020	26.42 (9.78%)	11.16 (7.38%)	15.26 (12.8%)

Indonesia Poverty Rate



(Indonesia Poverty Rate 1970- 2020)



(The Disparity of Poverty Rate between Urban and Rural Areas)

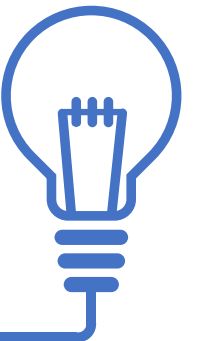
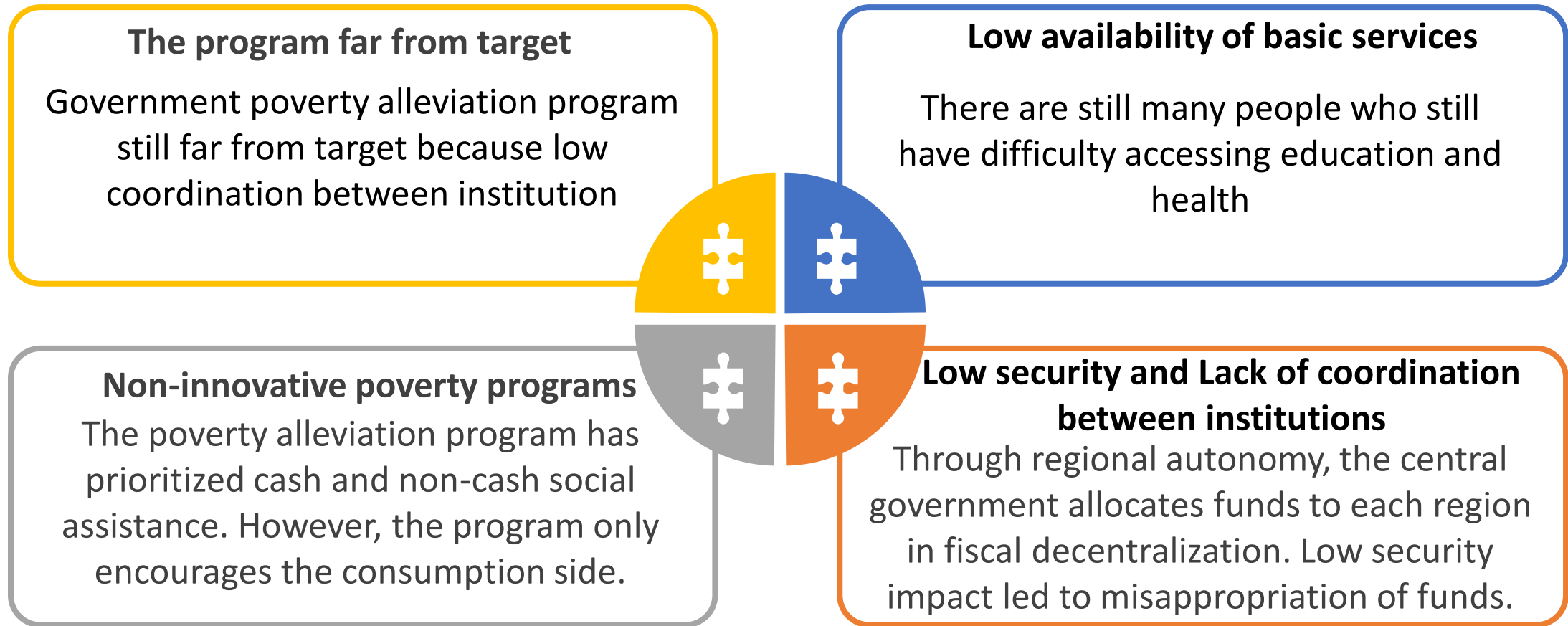
Indonesia Poverty Rate: Covid 19?

- The main problem of Indonesia poverty is vulnerable people
→ Covid 19: economic shocks → they would fall into deeper poverty.
- Due to the COVID 19, Government predicts the poverty rate to reach around 10.6% (2020); World Bank: increase to 10.7% (mild scenario), or to 11.6 (severe scenario)
- To benefit of the poor and the vulnerable, the government have to grow social aid, subsidy program, and strengthen security.

Indonesia Poverty Urban-Rural Areas

- Central Statistics Agency or BPS reported there is a gap between rural and urban areas. Rural areas contributed a larger than urban area of total poverty population.
- Urbanization activities from villages to cities are a major problem because villagers will seek opportunities to decent live.
- So far, the government has issued various rural poverty reduction programs such as village funds, internet infrastructure, and non-cash assistance.
- However, in the last 10 years reduction of rural poverty is still slowing down due to the low skills and productivity, limited job opportunity, and now also due to the Covid 19.

What are the obstacles to the poverty in Indonesia ?



Problem of Indonesia inequality

- The level of expenditure inequality of the Indonesian population as measured by the Gini ratio
- Gini coefficient: based on the Lorenz curve and the Gini coefficient ranges from 0 to 1. The Gini coefficient of 0 means perfect equality and a value of 1 means perfect inequality.
- If, Gini Ratio < 0.3 low inequality, Gini Ratio $0.3 - 0.5$ moderate inequality, and Gini Ratio > 0.5 high inequality.

Level of Inequality in Indonesia

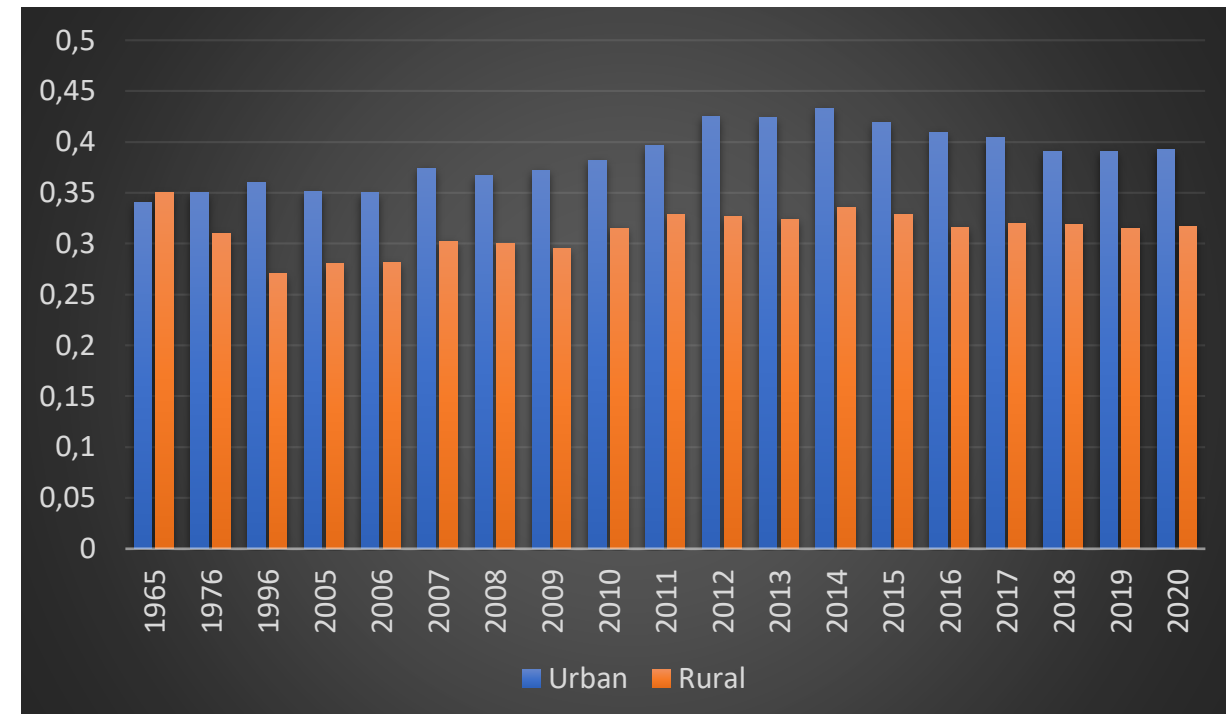
Year	Indonesia Gini Ratio	Urban	Rural
1965	0.350	0.340	0.350
1976	0.353	0.35	0.31
1996	0.355	0.36	0.270
2005	0.363	0.351	0.28
2006	0.362	0.350	0.282
2007	0.364	0.374	0.302
2008	0.35	0.367	0.30
2009	0.37	0.372	0.295
2010	0.378	0.382	0.315
2011	0.388	0.396	0.329
2012	0.413	0.425	0.327
2013	0.406	0.424	0.324
2014	0.414	0.433	0.336
2015	0.402	0.419	0.329
2016	0.394	0.409	0.316
2017	0.391	0.404	0.321
2018	0.384	0.391	0.319
2019	0.38	0.391	0.315
2020	0.381	0.393	0.317

Level of Inequality in Indonesia

Indonesia Gini Ratio

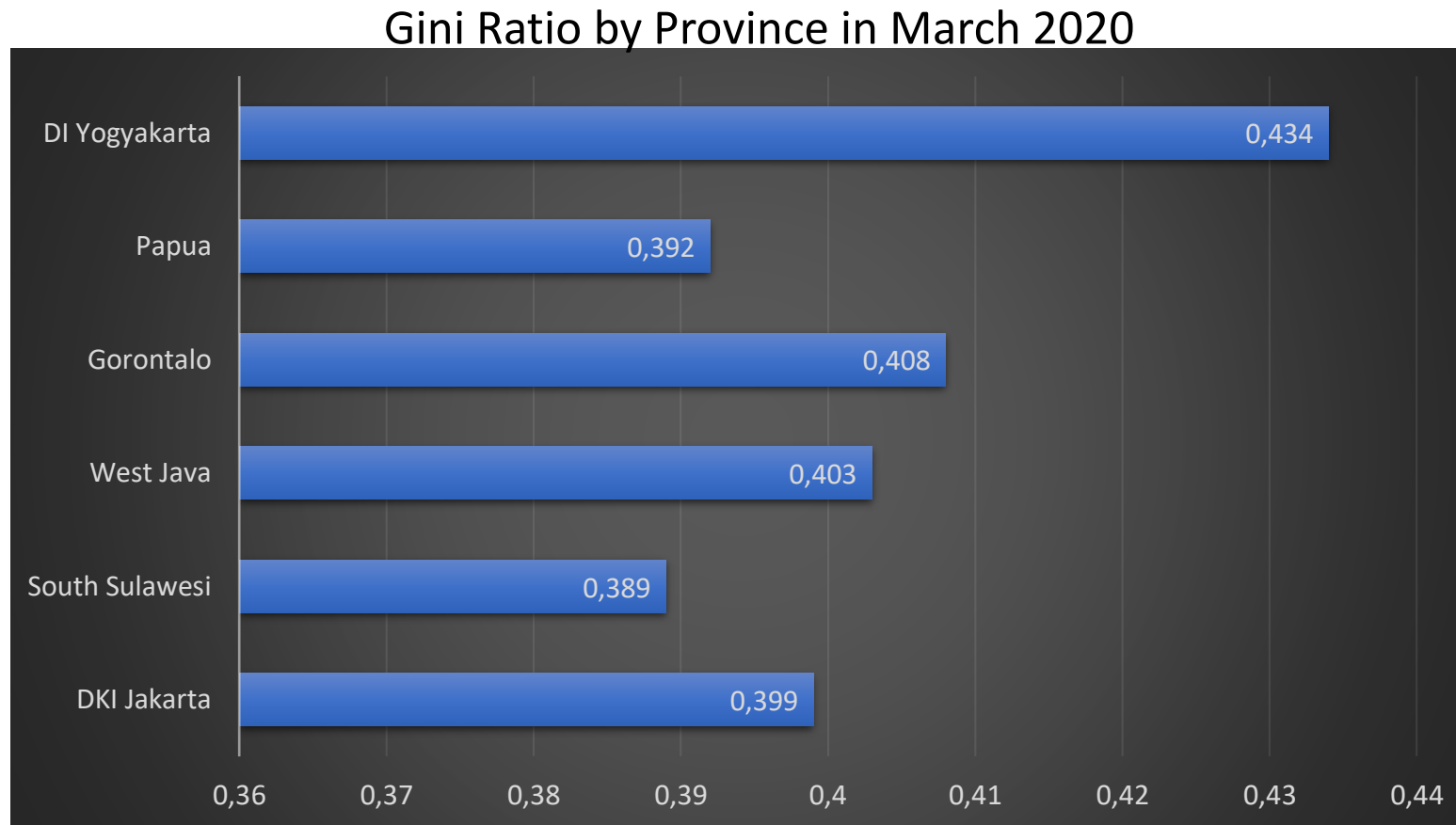


Indonesia Gini Ratio by Urban and Rural Areas



- The level of Indonesia inequality was categorized as moderate inequality. The distribution of income has not been carried out properly.
- More available and varied jobs in urban area became one of the main problem there is gap between people in urban and rural area.

Level of Inequality in Indonesia



- The highest Gini Ratios were Yogyakarta at 0.434, Gorontalo 0.408, West Java 0.403, DKI Jakarta 0.399, Papua (0.392), and South Sulawesi (0.389). The lowest Gini ratio in Babel Province Bangka Belitung (0,262).
- Gap between regions show that government policies and programs have not provided benefits in all regions of Indonesia.

Problem of Indonesia Inequality

Human Resource Quality

The government needs to encourage education and health sector to improve the quality of human resources.

Development Gap

Every region of Indonesia has a development Gap that will have an impact on economic aspects

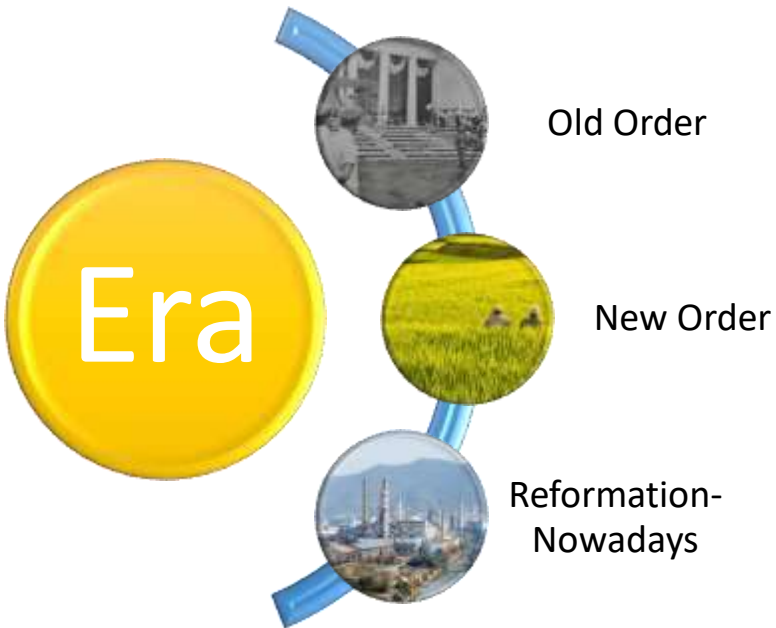
Low Competitiveness

The impact of the low quality of human resources will lead to a decrease in the competitiveness of workers

Low availability of Basic Services

Improvement of basic services for the poor and vulnerable people in education, health, sanitation, housing, electricity, etc.

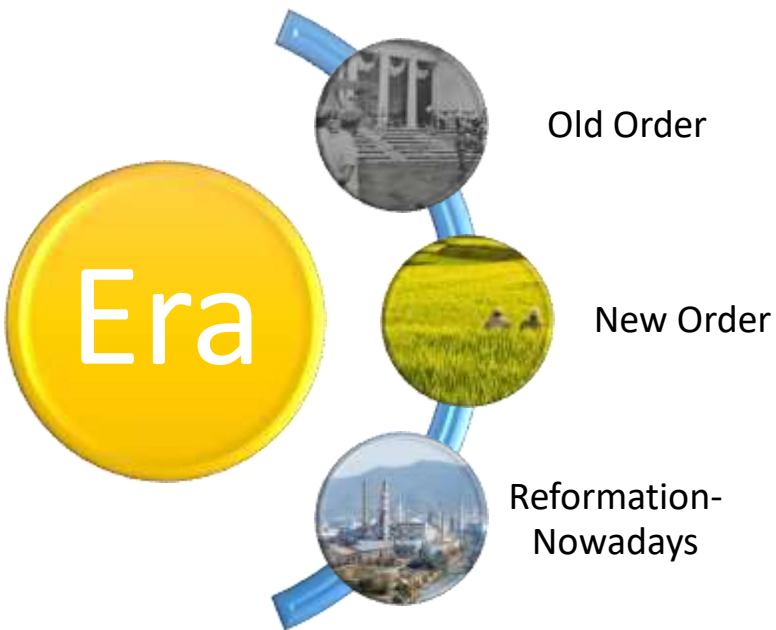
The government's strategy to overcome poverty and inequality



Source: Hamid (2017)

- In the Old Order Era, the National Development Plan for Eight Years or *Pembangunan Nasional Berencana Delapan Tahun* (Penasbede) was implemented. The strategy in this program tends to meet the basic needs of the people. The policies emphasized by the Old Order government were based on education, housing, health and people's income.
- In the New Order era, the Presidential Instruction Program was also issued for underdeveloped villages, the Development of Integrated Self-Funding Areas or *Program Pengembangan Wilayah Terpadu Swadana* (PPW-Swadana), the Special Program for the Integrated Area Development *Program or Program Khusus Program Pengembangan Kawasan Terpadu* (PKT), construction of infrastructure for supporting underdeveloped villages, and the green revolution.

The government's strategy to overcome poverty and inequality



Source: Hamid (2017)

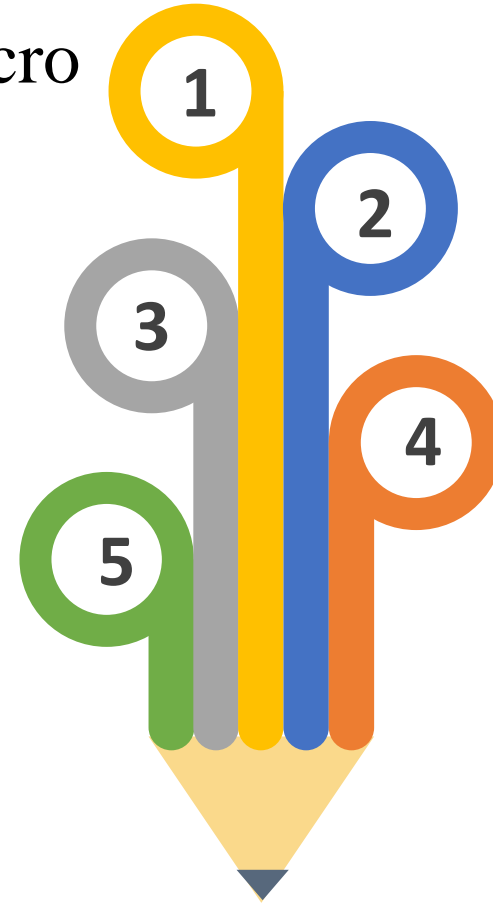
- During the Reformation period, many poverty and inequality reduction programs had been implemented. In the era of Habibie, Abdurahman Wahid, and Megawati, for instance, there were poverty reduction programs, food security credits, and the formation of poverty alleviation committees.
- President SBY era formed the National Team for the Acceleration of Poverty Reduction or *Tim Nasional Percepatan Penanggulangan Kemiskinan* (TNP2K) with the School Operational Assistance program, the Family Hope Program, the Community Health Insurance Program, the Rice Program for Poor Families
- In the era of President Jokowi, the eradication of poverty and inequality tended to improve social protection programs, improve basic services, and empower groups.

Poverty and Inequality Reduction Strategy

Strengthening Indonesia's Macro
Economy

Assistance and Social
Protection

Pro-Poor Program

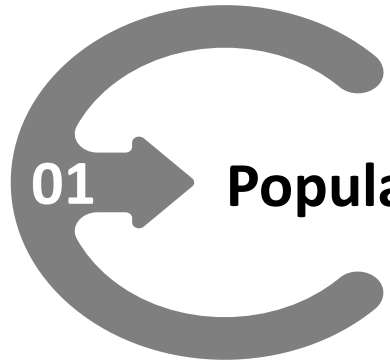


Small-Medium Enterprises
Empowerment

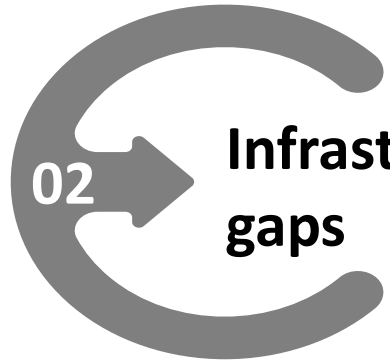
Human Resource Quality
Improvement



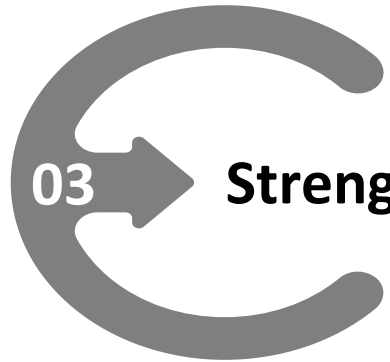
Poverty and Inequality Reduction Strategy



Population control, through Family Planning Program



Infrastructure development to address the development gaps



Strengthening government and community institutions



Social protection framework is necessary to respond poverty problem

The government has provided assistance for the poor through social protection programs:

1

Non-Cash Food Assistance or Bantuan Pangan Non-Tunai (BPNT)



2

The Family Hope Program or (Proram Keluarga Harapan



3

Healthy Indonesia Card or Kartu Indonesia Sehat (KIS)



4

Smart Indonesia Card or Kartu Indonesia Pintar (KIP)



5

Business Support to Poor People



The weaknesses of poverty and inequality programs

- The Accuracy of budget allocations far from target due to obstacles in verification of recipient data.
- High moral-hazard. For example, Using fake identities to get social assistance funds.
- Infrastructure development has impacted to increase population density. If the program are not followed up with a quality human resource programs, the poor will be lose in competition
- Oriented to macroeconomic growth rather than equity
- There are no specific poverty reduction instruments available→ because the problem of poverty in each region is different

- Political programs are more dominant than strategic and economic aspects.
- Poverty alleviation programs is partial and not integrated and comprehensive
- The perspective on poverty reduction is still oriented towards 'charity' rather than 'productivity'

Some notes on the problems of alleviating social problems in Indonesia



Policies tend
to be
consumptive

The trickle
down effect
has no impact
on the
people's
economy

No Follow-up
Program

Assistance to
social
protection
programs that
are not
extensive

Role of Institutions

- Domestic and foreign institution have been involved to address the problem of poverty and inequality in Indonesia :



Kementerian
Pekerjaan Umum Dan
Perumahan Rakyat



KEMENTERIAN KEUANGAN
REPUBLIK INDONESIA



KEMENTERIAN PERTANIAN
REPUBLIK INDONESIA



KEMENTERIAN
KETENAGAKERJAAN
REPUBLIK
INDONESIA



KEMENTERIAN
KESEHATAN
REPUBLIK
INDONESIA



KEMENTERIAN
PENDIDIKAN DAN KEBUDAYAAN



KEMENTERIAN
LINGKUNGAN HIDUP DAN KEHUTANAN
REPUBLIK INDONESIA



KEMENTERIAN LUAR NEGERI
REPUBLIK INDONESIA



Conclusion

- Many policies have been implemented by Indonesian government to eradicate poverty. In relative perspective, there is decrease in the number of poor, but the number of poor in absolute poverty is still high. This needs serious concern, since there has been the tendency of slower poverty decrease for the last decade.
- In the context of discrepancy, the level of income disparity has not shown significant change. Indonesia has been in a moderate level of disparity for more than half century, but there is the tendency of increase in Gini Index. Although the development policies have resulted in high economic growth, they still benefit the wealthy as well.
- Reducing both poverty and inequality requires a holistic strategy that consists of providing equal access to services, enhancing the productivity of the poor, and improving social protection programs that would help shield the poor from economic shocks.*
- Government policies that specifically eradicate poverty and eliminate disparity of income, or that are favorable for those in low economic level, should be continuously conducted. Government intervention is important so that the poor can have access to increase their income and decrease income disparity in the society.