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"Lessons from Indonesia's Economic Reform:
Poverty Alleviation and Implications of the Global Economic Crisis"

An Open Forum with

Dr. Sudarno Sumarto

2009-2010 Visiting Fellow, Stanford University
Former Director, SMERU Research Institute, Indonesia

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USINDO and The Asia Foundation hosted a forum with **Dr. Sudarno Sumarto** on the topic of poverty alleviation.

Dr. Sumarto discussed lessons learned from Indonesia's 1997 and 2008 policies to mitigate the impact of the economic and financial crises on the poor and newly poor.

Dr. Sumarto began with a summary of Indonesia's economic picture. Indonesia has weathered the current economic crisis well, and even managed to grow 4.5 percent in 2009 while growth in many neighboring countries has contracted. Due to sound fiscal and monetary policies, inflation was kept in check, unemployment declined slightly, and the instances of poverty decreased.

Between 1998 and 2000, the poverty rate dropped from 24 percent of the population to 14 percent. Currently, 43 percent of Indonesians still live on less than $2 (USD) per day. While decentralization – instituted during the Reformasi era – aimed to encourage growth in the regions, large regional disparities continue with massive poverty in areas such as Papua. Various other indicators – such as access to healthcare, sanitation, and water – are also worrisome.

Dr. Sumarto continued his discussion with a comparison of the social programs enacted by the government to mitigate the impact of the economic crisis in 1997 and again in 2008 on the poor and newly poor: food security, education, health, and employment.

In 1998, two major government programs were created to meet Indonesia's food needs: rice subsidies, and a supplementary feeding program for students in primary school. During the recent crisis, the government created another rice subsidy program. Under this program the government has agreed to sell 15kg of rice per household per month at a price of Rp1.600 per kg.

To prevent a negative impact on access to education, the government created new scholarships and grants for schools, both in 1998 and during the recent crisis. Primary schools received Rp254.000 per student, and junior high schools received Rp354.000 per student. This money made it easier for families to keep children in school, which in turn helped to keep “at risk” families educated and prevented them from dropping into the poverty level.

In the Health sector, the government has created subsidies for medical services as well as operational support for health centers. Recently, provisional health insurance has been provided for the poor that covers basic outpatient care, third class hospital inpatient care, as well as immunization and medicines.

One of the more generic programs has been a cash transfer of Rp100.000 per household per month, distributed quarterly to approximately 19.2 million households. At the very low end of the poverty spectrum, Rp2.2 million per household per year has been provided that is conditional on health and education results.

Overall, these social programs have helped many households mitigate the effects of the economic crises, but there has been evidence of “leakage,” where funding for programs designed to reach the poor actually benefit the less needy. Dr. Sumarto followed up with an analysis of the programs as well as several lessons that should have been learned.

Dr. Sumarto noted that while long-term poverty alleviation programs or strategies are unsuitable for emergency situations, this does not mean such programs should be ended during times of economic crisis.

In order to get large programs up to scale quickly, the government and other institutions need to be fully committed and create programs that have clear objectives and that are based on a simple design. Local institutions need to be involved as well, as they are able to provide needed flexibility to match local needs.

One of Dr. Sumarto’s main criticisms of the various programs was that they were designed to protect those who were already poor, but did nothing for those who were at risk of dropping below the poverty line. If nothing is done to protect those at risk of falling below the poverty line, the number of impoverished Indonesians will grow despite expansions in poverty alleviation programming.

Dr. Sumarto also pointed out that the lack of data collection during the past two economic crises has prevented the compilation of necessary information to inform new policy and to make government better able prevent and manage future downturns.

In addition, policy makers need to keep in mind the costs of removing programs. Some programs, while no longer necessary from an economic standpoint, require large amounts of political capital and courage to change. Subsidies – food and fuel – are examples of policies to which the populace has become used and which are difficult to remove, despite the fact that they are financially burdensome and are no longer necessary to mitigate the effect of economic crises.

One of the main conclusions Dr. Sumarto’s research found was that sound policies and good governance matter when it comes to poverty alleviation. In fact, increasing the instance of good governance can sometimes do more to reduce poverty than increased spending can alone. Sending money to an impoverished region will do nothing if that region's government is ineffective or non existent.

For example, land certification policies can have a large impact on poverty. With better standards and a more efficient bureaucratic infrastructure for land distribution, banks will have a stronger sense of the amount of land an individual has for collateral and in turn be able to give out more capital.

Legal and illegal regulations and levies particularly hurt poor farmers. Goods transported throughout the country are taxed. A farmer in Bogor would not make as much profit if he sells his goods in Bekasi rather than in Bogor due to the heavy levies and illegal bribing necessary to transport the goods.

In addition, public money does not always mitigate the effect of economic downturns on the poor as it is meant to, according to Dr. Sumarto's research. For example, fuel subsidies mostly benefit the top quintile of the population. The poorest 20 percent of the population only utilizes 5 percent of the fuel subsidies. In turn, this program also takes money away from spending on more effective pro-poor development programs.

Generally speaking, growth is important to poverty reduction according to Dr. Sumarto. Indonesia saw its fastest rate of poverty reduction during the big growth period of the 1990s. However, social, regional, and ethnic inequalities can actually increase the instances of poverty, despite massive amounts of growth.

In Dr. Sumarto's final policy lesson, he explained that the poor are rational actors. They want to pull themselves up and will readily engage in productive economic activities when provided the opportunity. However, these opportunities are rare. Access to formal lines of credit and entry level training remains low and policy measures should be taken to rectify this imbalance.

Over the years, Indonesia has made progress in poverty reduction. If another economic crisis occurs, Indonesia will be much better prepared for it. However, much more needs to be done to push the country forward, including increasing the number of SMEs and expanding labor intensive industries in order to create new jobs. Links within the government also need to be improved and different departments and ministries need to work together more efficiently in order to tackle this problem. Poverty reduction is a very attainable goal, Dr. Sumarto concluded, but it needs to be given the attention it deserves.