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NATSEM
at the University of Canberra



Trends in Poverty and Inequality in Decentralising Indonesia

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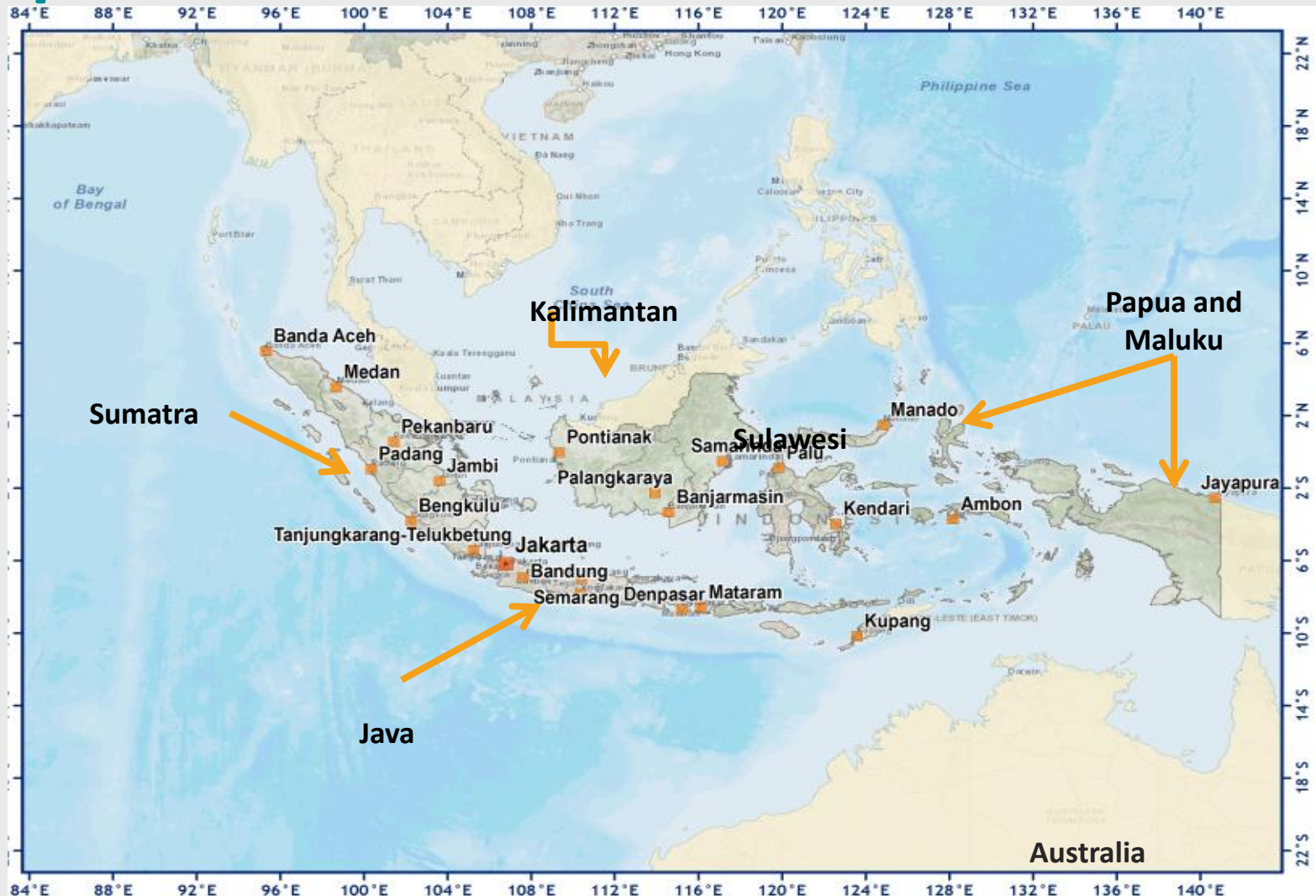
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Framework of the Presentation Today

- Map of Indonesia
- Decentralisation in Indonesia
- Economic and Employment Indicators
- Indonesia vs other Countries
- Trends in Poverty and Inequality
- Regional Disparity
- Characteristics of People Vulnerable to Poverty
- New Estimates of GEP and IEP
- Conclusion and Summary

Map of Indonesia



Source: ArcGIS Map Service, World_Topo_Map, <http://services.arcgisonline.com/arcgis/services> and CV. SPATIAL DIGITAL MAPPING, Peta Dasar Indonesia, <http://spatial-mapping.blogspot.com.au/2011/12/download-peta-dasar-indonesia.html>

Decentralisation in Indonesia

- Big bang decentralisation
- Substantial delegation of authority from the central to local/regional government
- Decentralisation Laws No 22/1999 and 25/1999
- Crucial context in terms of poverty and inequality discussion
- Some consequences: inspiration to form their own regional area and therefore create several new Provinces and Districts.
- In 2010 there were 33 provinces in Indonesia from a previous 26 and 491 Districts from a previous 293.

Macro Indicators – Decentralisation (1)

growth in sectoral GDP

	Prior to the crisis (1990-1996)	Crisis Period (1997-1998)	Recovery Period (1999-2002)	Early Stage Decentralisation (2001-2004)	Full Implementation (2005-2010)	Entire Decentralisation period (2001-2010)
GDP	7.2	-13.1	4.0	4.8	5.7	5.4
GDP per capita	5.3	-14.3	2.5	3.0	4.1	3.7
Manufacturing GDP	9.9	-11.4	4.2	5.7	3.9	4.6
Agriculture GDP	3.9	-1.3	1.9	3.4	3.7	3.5
Mining GDP	5.2	-2.8	3.1	-1.6	2.4	1.1
Service GDP	8.8	-3.8	2.5	4.5	6.3	5.6

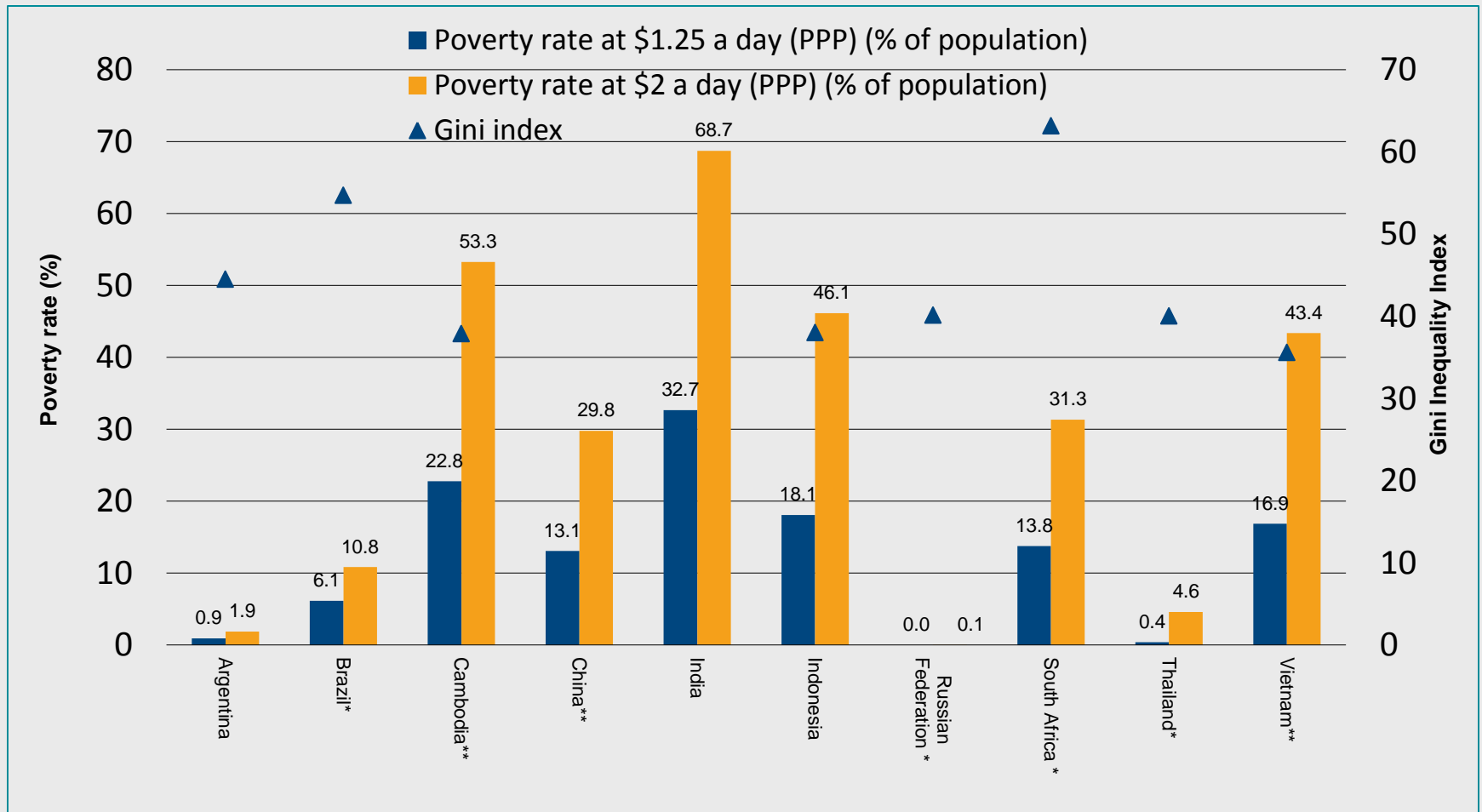
- Economic growth lower during the decentralisation period
- Agricultural growth – relatively stable, prior and after the crisis while service sector grew the strongest compared to the other sectors after the crisis.

Employment Indicators – Decentralisation (2)

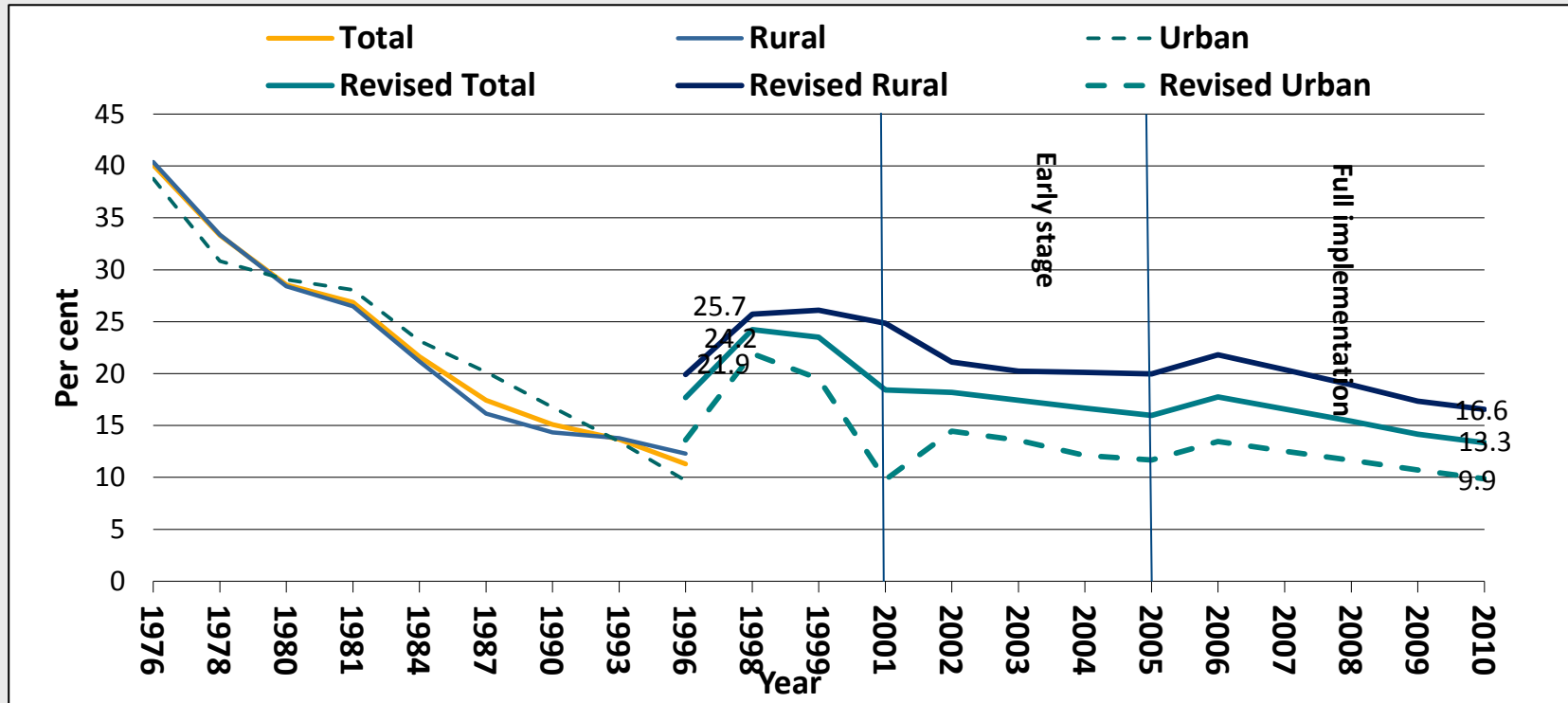
growth and shares in employment by sector

Growth episodes	Agriculture, Forestry & Fisheries		Manufacturing		Services	
	Employment Growth (per cent p.a.)	Average Share of Total Employment (per cent p.a.)	Employment Growth (per cent p.a.)	Average Share of Total Employment (per cent p.a.)	Employment Growth (%p.a.)	Average Share of Total Employment (per cent p.a.)
Prior to the crisis (1990-1996)	-1.9	49.6	5.8	11.6	5.9	34.1
Crisis Period (1997-1998)	6.4	41.9	-12.9	11.9	-0.4	39.8
Recovery Period (1999-2002)	1.9	44.1	1.7	13.1	-1.2	37.6
Early Stage Decentralisation (2001-2004)	0.7	44.4	-2.9	12.6	2.3	37.2
Full Implementation (2005-2010)	-0.2	40.9	3.5	12.4	4.8	40.2
Entire Decentralisation period (2001-2010)	0.5	42.3	1.5	12.5	3.3	39.0

Indonesia vs EEs and ASEAN countries

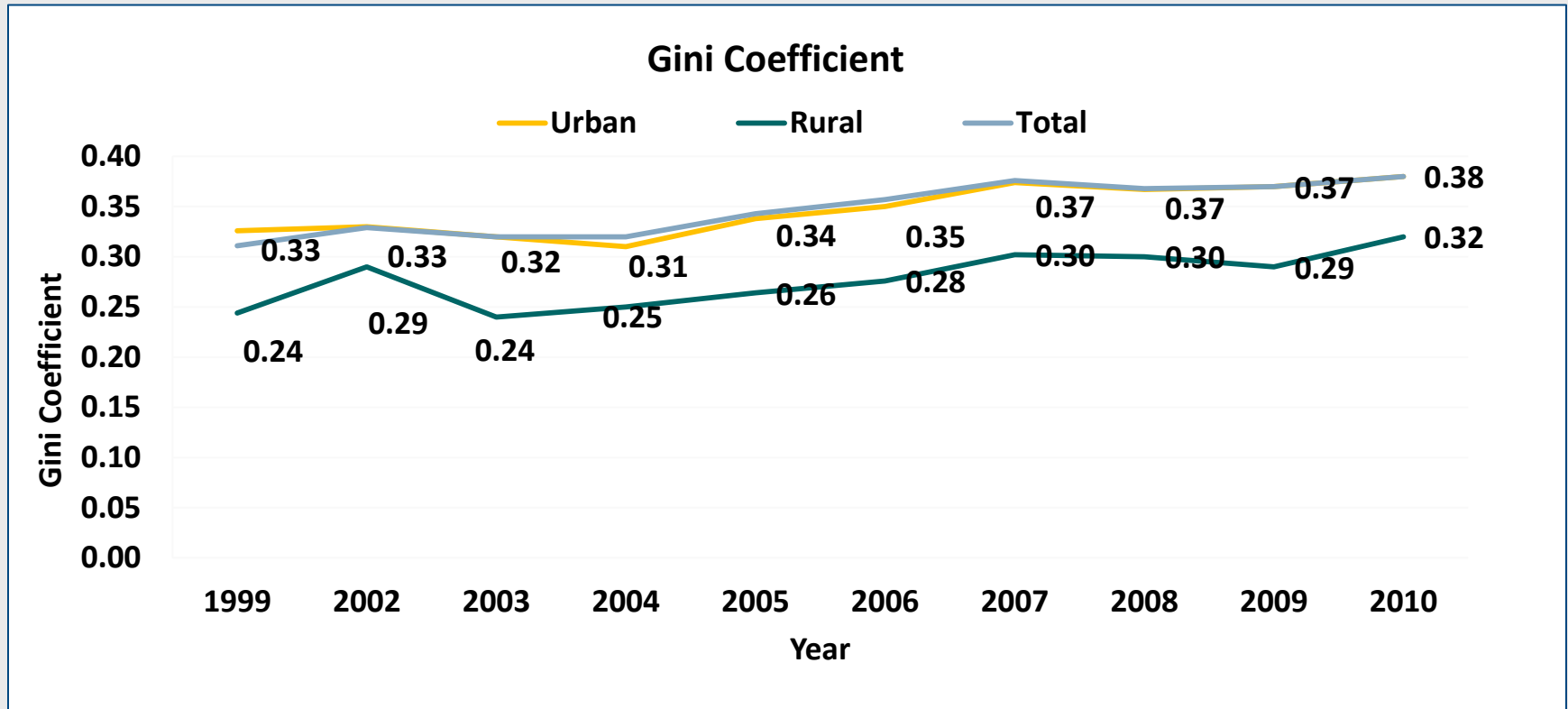


Trends in poverty – official BPS data



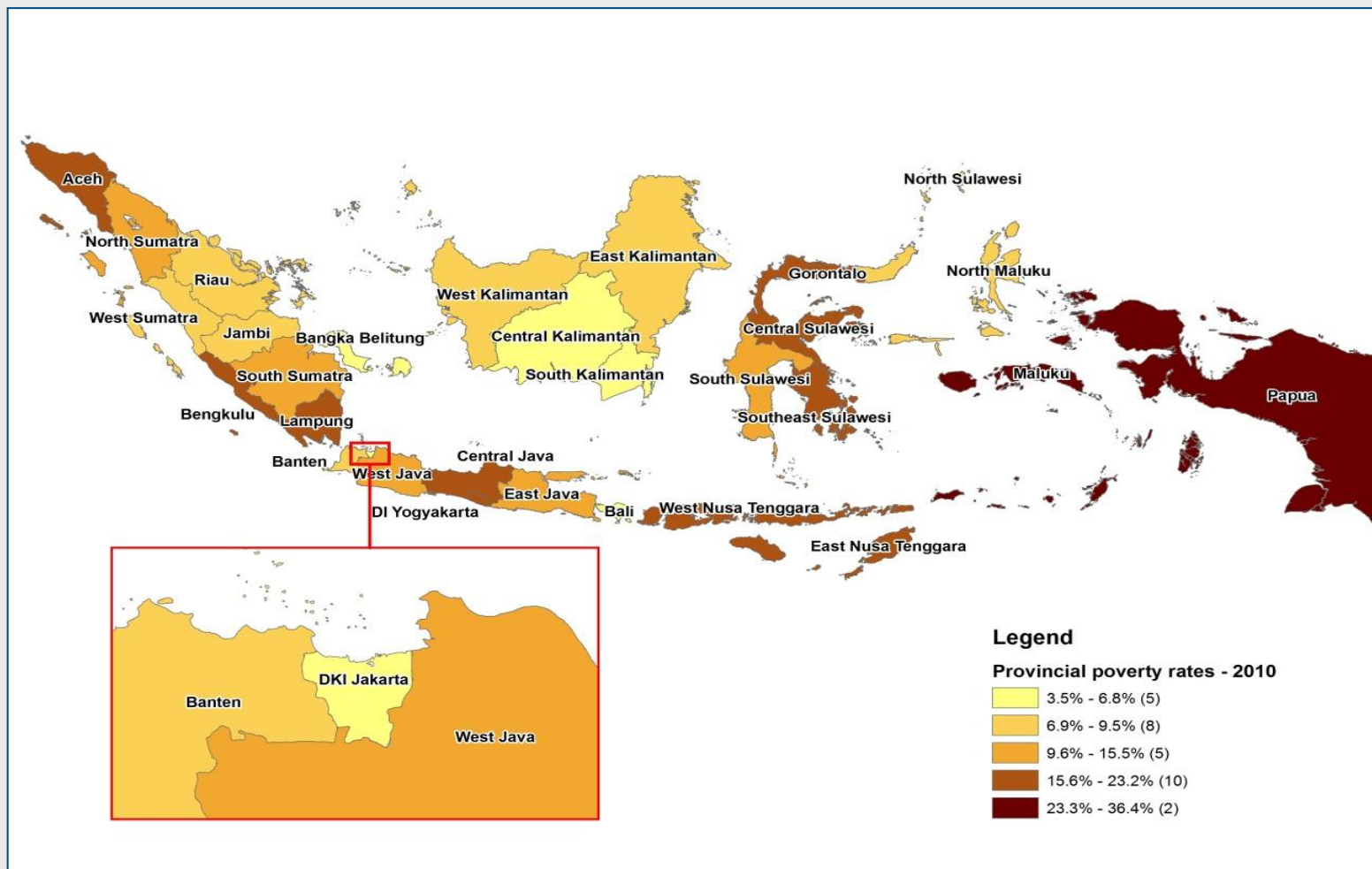
- Overall poverty rate have been decreasing
- More gradual decline in terms of poverty rate during the decentralisation period than prior to the crisis
- There is gap between rural and urban over time.

Trends in Inequality

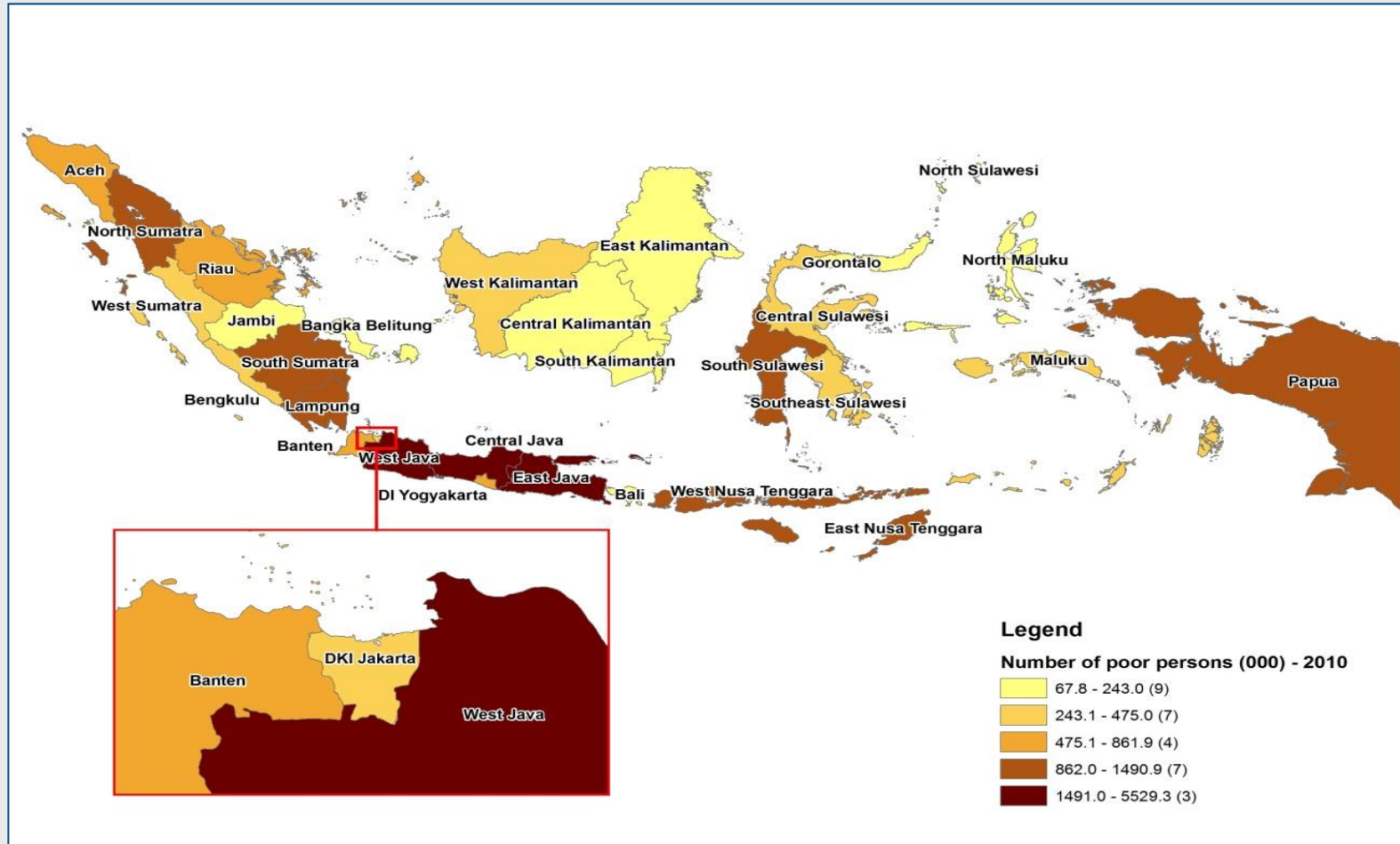


- A general pattern of rising inequality over the last decade
- Rural inequality lower than urban inequality – reflecting large increases in urban populations in recent years

Regional Disparity – Poverty Rates (%)



Regional Poverty – Number of Poor ('000s)



Characteristics of People Vulnerable to Poverty – selected indicators

- Labour force participation rates for persons aged 15-64 years are very similar across the distribution.
- Almost 60 per cent in the bottom quintile work in the primary sector of agriculture and related industries. This contrasts to only 12 per cent in the top quintile.
- Only 18 per cent in bottom quintile work as formal employment compared with almost 56 per cent in the top quintile.
- This suggest that poverty risks depend less on whether an individual work or not but rather in what industry and whether the person work in formal employment
- Educational attainment still varies with many adults in the bottom and second quintiles not having any education.

Estimating the Impact of Consumption Growth and Inequality on Poverty during Decentralisation Period

- To explore the direction and strength of associations between poverty, inequality and growth over the main development periods in Indonesia.
- Extending previous work (Miranti 2007; 2010) – now 2002-2010
- Examines the consumption growth elasticity of poverty during the fourth major decentralisation period, again taking into account changes in inequality.
- Has the decentralisation period been pro-poor? To what degree has the change in the degree of inequality offset the alleviating impact of growth in consumption on poverty?

Estimation Results:

Consumption Growth and Inequality Elasticity of Poverty in Indonesia

Period	GEP	IEP
First liberalisation period (1984-1990)	-2.00	0.50
Second liberalisation period (1993-1996)	-2.33	0.93
Recovery period (1999-2002)	-2.29	0.92
Decentralisation period (2002-2010)	-2.46	1.13
All periods (average)	-2.28	0.86

Quantifying the Contribution to Poverty Change

Period	Contribution to poverty change (percentage points)		Total poverty change (percentage points)
	Growth	Inequality Change	
First liberalisation period (1984-1990)	-3.54	-0.61	-4.15
Second liberalisation period (1993-1996)	0.54	0.79	1.33
Recovery period (1999-2002)	-4.84	0.99	-3.85
Decentralisation period (2002-2010)	-5.71	1.88	-3.83
All periods (average)	-13.55	3.05	-10.50

Conclusion and Summary

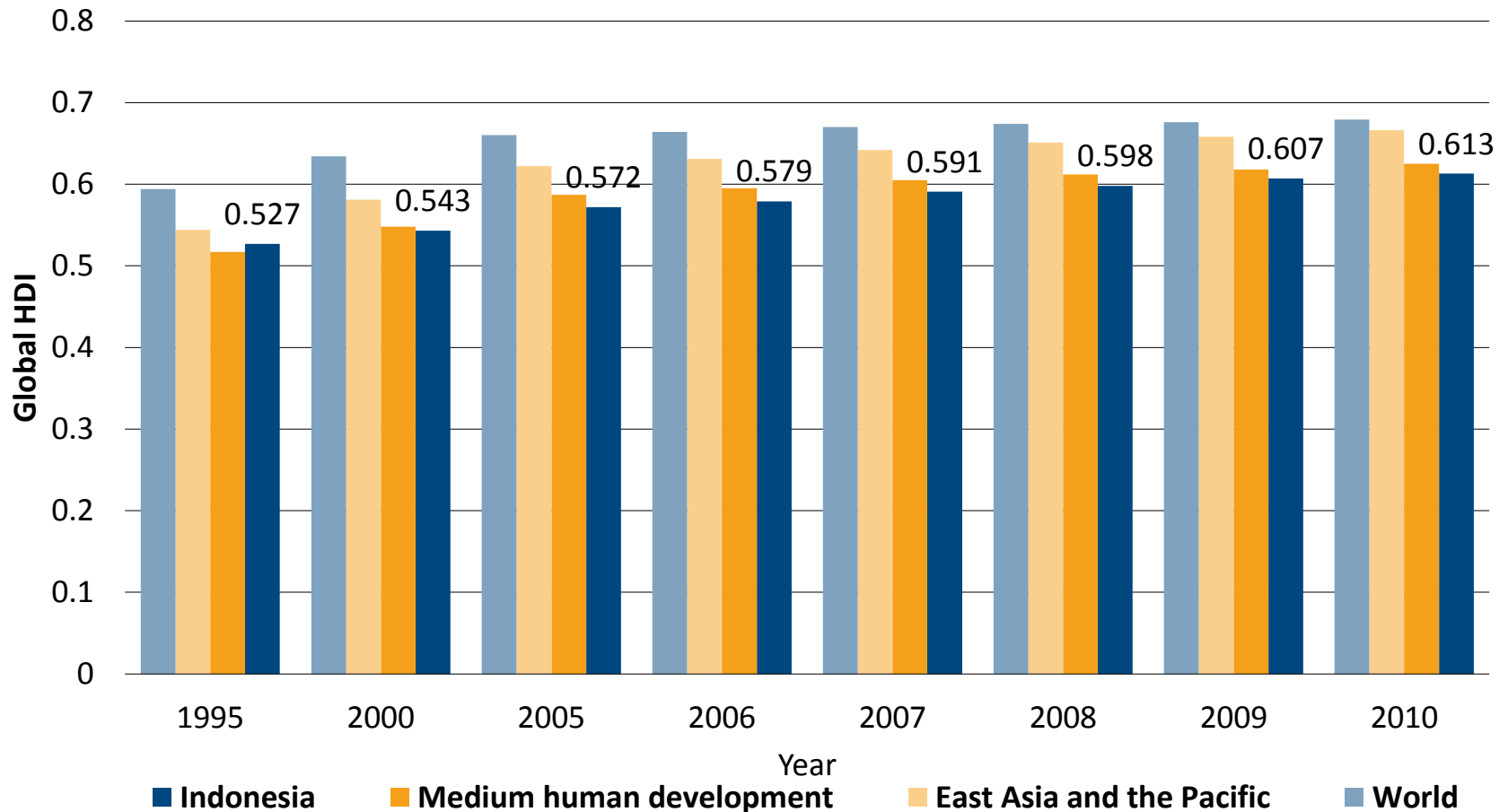
- Decentralisation brought significant change in the Indonesian political structure and consequently economic and social development of the nation.
- Continued improved performance in terms of poverty rate however inequality increases
- Poverty risks depend on what industry a person works and whether the person work in formal employment
- Regional disparities are still a major issue
- New estimates of GEP and IEP in this report suggest that rising inequality has been strengthening the offsetting positive benefit of consumption growth on poverty.

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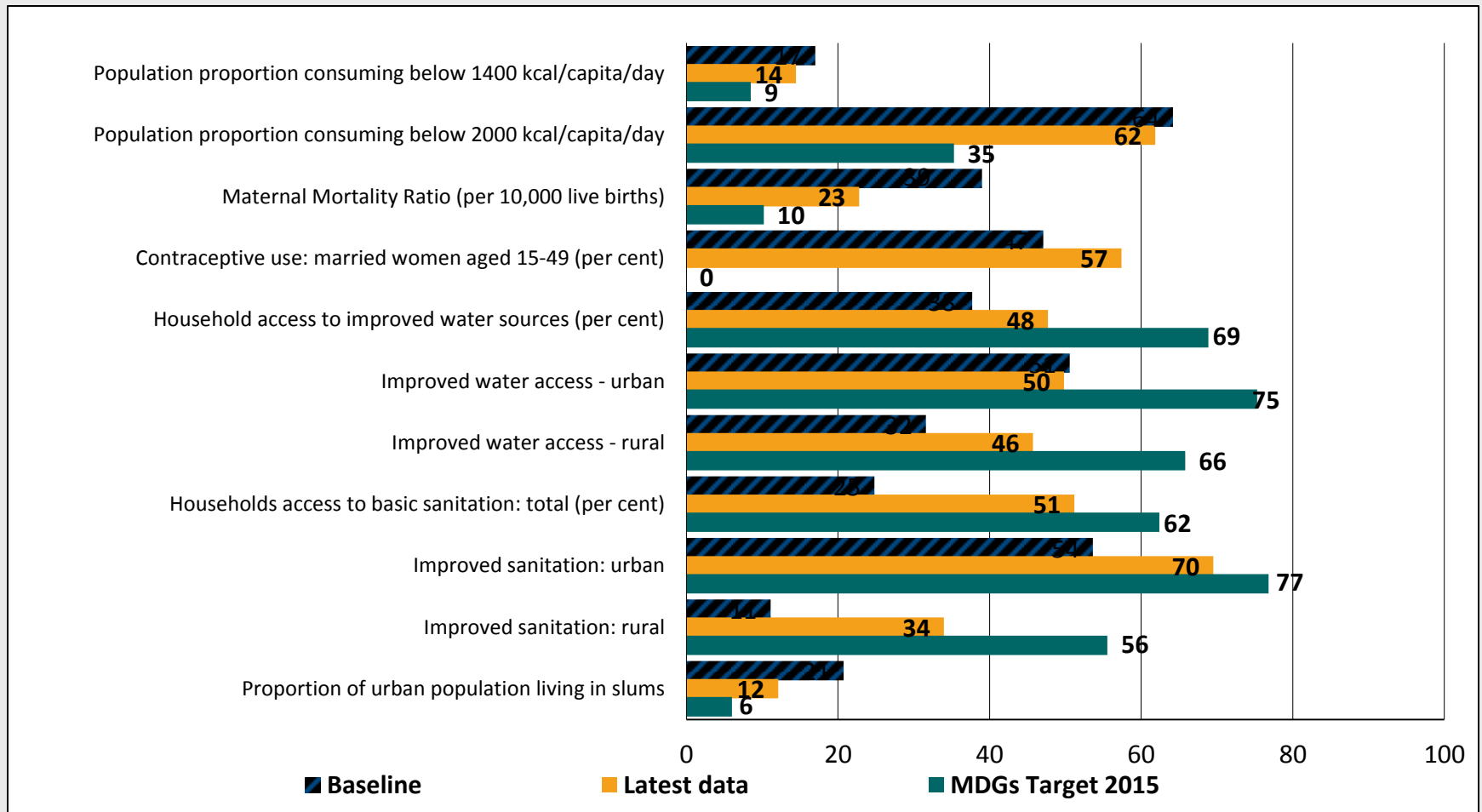
Alternative Wellbeing Indicators

Human Development Index (HDI)

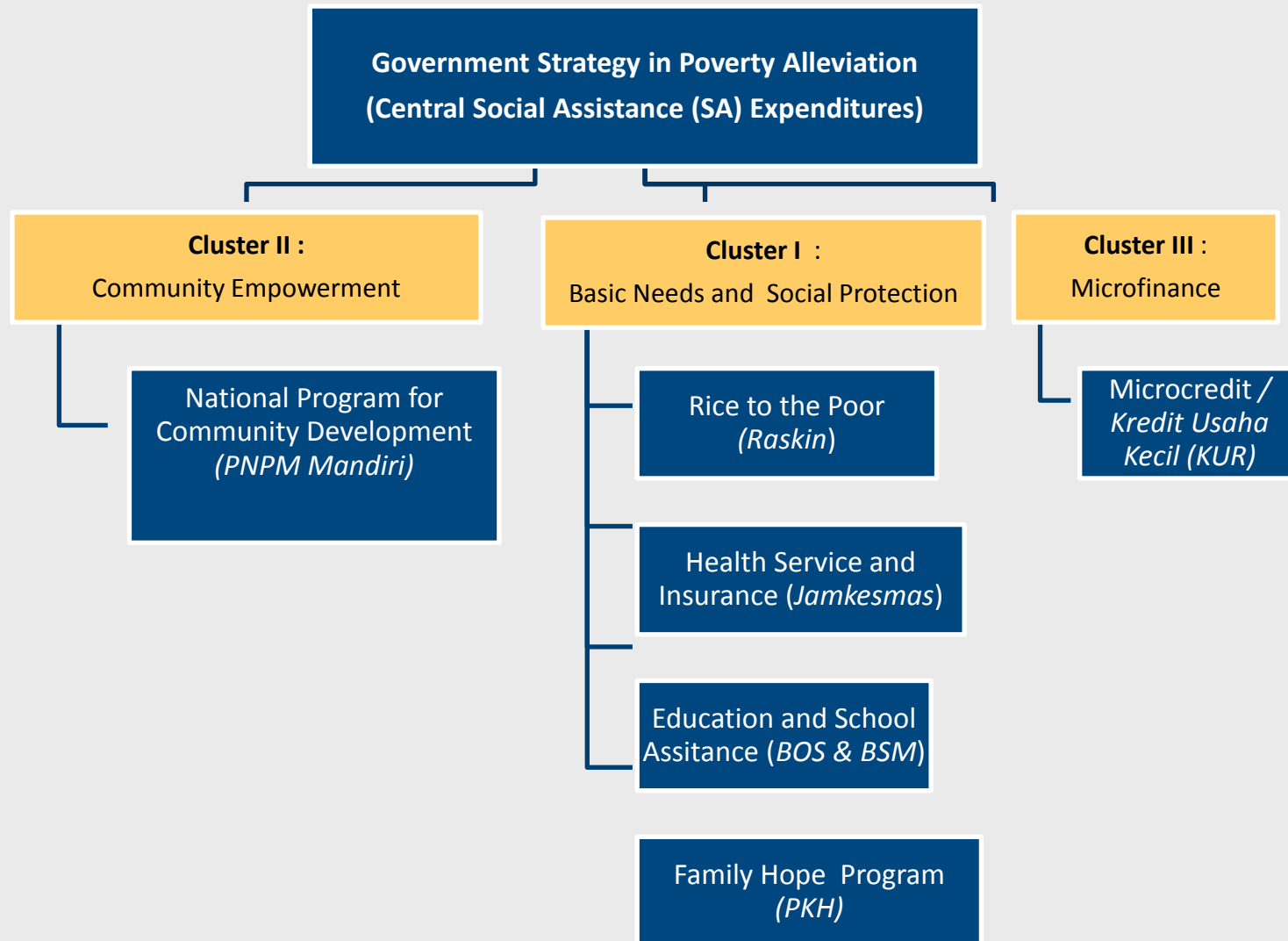


Alternative Wellbeing Indicators

Selected MDGs, Areas of Concern



Clusters of Poverty Reduction Strategy



Issues and Challenges

- Mistargeting issue remain as a major challenge for government authorities to make the programs more effective and thus accelerate poverty reduction. For example, RASKIN

Targeting	Proportion of household recipient by quintile (per cent)	Distribution across quintiles (per cent)
Quintile 1 (most disadvantage)	80.6	30.4
Quintile 2	72.4	27.3
Quintile 3	58.8	22.2
Quintile 4	38.8	14.6
Quintile 5 (least disadvantage)	14.7	5.5
Total	53.1	100

- Access to the program sometimes too limited - costs to access the services are too high for people in rural areas
- Supply side constraints such as inadequate service provision and perceived low service quality.