

DECENTRALIZATION AND POVERTY ALLEVATION: INDONESIA EXPERIENCE¹

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ABSTRACT

Following the Asian financial crisis in 1997, Indonesia underwent a major political transformation. The old centralized system of government was replaced by decentralized one. This transformation became effective in 2001. The essence of decentralization is improvement of people welfare through betterment of public service provision. Therefore decentralization can not be viewed as a separate issue from national development objective, especially poverty alleviation. Nonetheless, implementation of decentralization has brought about some undesired effects. Many regional governments focus more on raising their own revenues by introducing regional regulations that hampered economy at much larger scale. On the other hand, the progress of economic recovery was slow, where for some their welfare level has not moved back to pre-crisis level. Therefore Indonesia is facing two great challenges in its future. This paper intends to explore these issues and what to be coped in the near future.

Keywords: decentralization, poverty, poverty alleviation, Indonesia

1. Introduction

Although concerns on poverty have been raised long enough, but it had become a formal international attention since the UN Millennium Declaration in 2000 that later was adopted as Millennium Development Goals (MDGs). At the top of the list is eradication of extreme poverty, to be led by Asia where reductions in poverty have been seemed to be most fruitful. A report published in 2005 showed that in the last decade of 20th century the number of people living on less than US\$1 a day had dropped by almost a quarter of a billion (UN, 2005).

Nevertheless such achievement to reduce poverty was accomplished amidst the disruption of the Asian financial crisis started on 1997. The crisis ended up not only in alteration of the economies of Asian countries, but also brought about political changes. One very significant political change occurred in Indonesia. In this country the crisis not only caused the New Order regime to collapse but in the aftermath the system of government had been altered. The previously centralized system of government was modified into a decentralized one.

In the next section progress of the political transformation in Indonesia will be further discussed. It can be seen that such transformation was actually a delayed development of Indonesia's politics. The section presents some concerns over implementation of decentralization in the first years as well. The third part of this paper briefly depicts the poverty in Indonesia. This section also discusses poverty alleviation as an important part of development. In the closing part, challenges in desegregating progress of decentralization and goal of poverty reduction are put forward. Briefly stated, the political transformation took place ought not to be an alternative of improvement of welfare of the people, particularly poor people. Instead, it should be an encouraging platform to fight poverty. After all, as a country whose one of its constitutional objective is to promote people's welfare, reduction of poverty incidence can never be overemphasized.

2. Implementation of Decentralization in Indonesia

Decentralization and restructuring of sub-national governments has been widely adopted worldwide. This is true in federal as in many unitary countries. Decentralization has been used as a mean to achieve development goals, especially in

provision of better public services. Politically this tendency, in part, reflects political shift where democracy is tried to be implemented more effectively. The shift is also hoped to help increased participatory nature of government.

Discussion below will review in brief the experience of Indonesia with decentralization. As is reviewed below, Indonesia had already addressed this issue as early as 1950s. This section also looks at the implementation of the policy after the fall of New Order regime, as well as some revisions in the key laws of decentralization.

2.1. From Pre-independence to the Fall of New Order Regime

Idea of decentralization is actually not new for Indonesia. Prior to her independence, during the Dutch colonial government, in 1903 a law on decentralization had been stipulated. The *Decentralisatie Wet 1903* is known as the first law on the subject in Indonesia (Brodjonegoro, 2007).

During 1900-1930, the colonial government devolved some of its powers to provincial administrations in Java. Nevertheless, this can not be accounted as an implementation of decentralization. The devolution of powers had been highly centralized in nature and practice both in the appointment and in monitoring process (Booth, 2002)².

Up to 1949, idea of federal constitutional structure was actually a serious option. Even Prime Minister Hatta, who then became a prominent figure in dissolving federal structure, was once among those who advocated a federalist model. Nevertheless, incidents with Dutch experiment in federalism during 1946-1949 force the Indonesia leaders to discard the option. This was a rather expected situation if one recalls what the Dutch had done to implement its scheme of a federal Indonesia.

In 1959, President Sukarno decreed a decision to return to the 1945 constitution (UUD 1945). From that time up to 1999, when the New Order era came

² The section discussing pre-1966 decentralization is mainly based on Booth (2002).

to its end, Indonesia had consistently followed centralized system. Nonetheless, in a brief period of 1950-1959, issue of regional disparities had already come to light. Discontent occurred in the 1950s was mostly caused by the fact that exporting regions (provinces outside Java) albeit their contribution to national wealth, were neglected when it came to decision on its expenditure. Two laws were then passed in 1956. First is Law 32/1956, on financial relations between the centre and the autonomous regions, which provide “important concessions to the regions in that it allowed the proceeds of both income taxes and foreign trade taxes to be shared between provinces where the tax revenues originated and the centre”, and; second, Law 1/1957, on local government, set up “procedures governing the relationship between appointed regional heads and regional parliament” (Booth, 2002). Under Law 1/1957 regional parliament had more power *vis-á-vis* the regional executive, and local government elections did take place in Java during 1957. However, the 1959 Presidential Decree made this first attempt to embrace a decentralized system to be halted. This is why that for some, as Booth (2002) argued, that Law 22/1999 may be seen as to achieve the same objectives as Law 1/1957 but in somewhat different political and economic backgrounds.

As early as 1969, the first year of New Order *Pelita I* (*Pembangunan Lima Tahun Pertama*, or First Five Year Plan), the central government commenced a series of development programs termed as *Inpres* (*Instruksi Presiden*, or Presidential Decree). These programs, as pointed out in Booth (2002), were significant not only because they provide real evidence of the center’s concern to, especially, people in rural areas (whether on infrastructures condition or employment problem), but also they gave local governments (provincial, regional, sub-regional, and village administrations) certainty about flow of funds to carry out their functions from time to time. However, during the early 1990s, while the country was preparing to embark its second long-term development stage, issues on regional disparity emerged once again. In 1997 the Asian crises hit the country resulting a major political change of the collapse of Suharto’s administration. In the transition period, Habibie’s administration passed two laws (Law 22/1999 and Law 25/1999) as the key laws which modified the centralized system of the country.

2.2. Initial Concerns on the Decentralization Policy Implementation up to the Revision of the Key Laws

Often quoted aims of Indonesia decentralization include promotion of democratization through local participation and improvement of people's welfare. Every region has its unique characteristics which in turn reflected in its distinctive needs. In a centralized system, the central government must attend to all regions simultaneously. High diversity in Indonesia in almost every aspect makes span of management by the centre extremely large. As will be discussed further in the paper, centralization in the New Order regime turned out to be ineffective to overcome regional disparity. With decentralization, regional governments (both *kota* and *kabupaten*), with improved level of discretion to determine expenditure priorities, should be able to provide what is most needed by their own people. Nonetheless, the first years of decentralization implementation appeared to be far from this ideal. The major source of this situation is the hastiness of the preparation process.

Before addressing decentralization, it helps to notice the structure of sub-national governments in the country. Indonesia has multi-levels sub-national administration. Directly under the central government is the provinces including two ad hoc sub-national institutional arrangements, namely Special Regions (*Daerah Istimewa*, or DI) and the Capital (Jakarta). The lower level under province is regional governments of *kota* (city) and *kabupaten* (county). The distinction is mainly based on the region's nature. *Kota* is refer to an urban area, while *kabupaten* to rural one. Both *Kota* and *Kabupaten* comprise sub-regional level of administration i.e. *kecamatan*, which further consists of *desa* or *kelurahan*. Again, the distinction is solely based on rural (*desa*) or urban (*kelurahan*) characteristic of the region. Prior to decentralization, sub-national government was formed by two level of governments; provinces were termed as level one (*Dati I*, or *Daerah Tingkat I*) while regional governments as level two (*Dati II*, or *Daerah Tingkat II*).

Effectively Indonesia decentralization policy was implemented in 2001. Legal frameworks for such policy, however, had been passed by the parliament two years earlier. The most frequent criticism expressed, on the first years of implemented, is about the rapidity of the preparation process. Some even termed the process as a 'big-bang' approach of decentralization (ADB, 2006; Fitriani, *et al.*, 2005). The term also

relates to the massive transfer of government functions from central government to the sub-national ones.

In terms of the tempo of the process, a criticism argued that “the general framework was pushed urgently, without much thought given to how to make it work” (World Bank, 2005). It was a deliberate action, indeed, but the preparation of the fundamental laws (Law 22/1999 and Law 25/1999) was strongly urged by growing political pressures at the time. There was no grand design to direct the decentralization in the future. In the absence of such design, it is not surprising that the two laws are almost independent to each other (Brodjonegoro and Simanjuntak, 2006). One serious impact was that the principle of ‘finance follow functions’ became difficult to adhere. It also resulted in confusion among local governments officials, particularly because no clear direction from central government on monitoring as well as the implementation itself.

Besides the brief time period in the preparation, doubt also expressed regarding the significant transfer of powers and responsibilities to the sub-national governments. Law 22/1999 stipulated that all administrative sectors of government to be devolved to *kabupaten* and *kotamadya* (second level) governments, except for security and defense, foreign policy, monetary and fiscal policy, judicial and religious affairs. Such transfer of functions, inevitably, brought with it expenditure consequences. It is this kind of consequence that became a major concern. Even at the provincial level, this is not something trivial. Alm *et al.* (2002), for instance, questioned the capability of local governments to absorb the ‘back office’ functions that had hitherto been centralized. These include personnel management, data processing, procurement, contracting, and so forth that in essence are the full range of governmental services to be performed. The question put forward was not only concerning the number of personnel available but also about, and perhaps mainly, the quality of the human resources on hand both at provincial and regional governments.

The above concern closely related to the power of regional governments to raise revenue. It was worried that unaccustomed with then new system, local governments might introduce regulations that disadvantageous to the economy at national level. This concern then proved to be true. Only in one year and a half period of decentralization implementation, over 1,000 rulings relating to local taxes and

charges have been issued by regional governments (Athukorala, 2002). As noted by Azis (2003), regions with limited own revenue sources (PAD) reverted to introduce new regional regulations, particularly taxes and licenses which eventually obstructed domestic movement of goods. “Excessive attempts by local governments to raise revenues through either charging higher rates or introducing new “price” (non-tariff barriers) have raised the business sector’s burden” (Azis, 2003). Deuster (2002) pointed out that these exercise was the result of enactment of Law 34/2000 which replaced Law 18/1997. This new law:

... authorised local governments to create new taxes and charges, subject only to vague, hard-to-administer principles and a 30-day review by the central government. If no action is taken by the centre within that time period, the regulation in question stands. Despite identifying as problematic at least 100 local regulations out of over 3,000 submitted, the centre has not yet acted to rescind any regulations, instead asking local governments to reconsider them. Many local governments are applying levies and ‘voluntary’ contributions that distort trade and that fall outside Law 34/2000. Levies and other charges on agricultural produce transported across subnational borders, ..., and road and transport charges that duplicate national charges are all common (Deuster, 2002).

Other serious concern can be seen from the effect of provision of fiscal transfer on national budget (Figure-1). During 2000-2006, provision of regional budgets (APBDs) has detrimental effect on the national budget (APBN). Over the period, national budget saving as percent of GDP, on average, has been less than 1%. From 2000 to 2006, the saving, indeed, showed a tendency to decrease. On the other hand, the average provision of regional budgets over the period has always above 1% of GDP, even in 2006, the number rose to more than 3%. It also tends to move the other way. As illustrated in the figure, the net impact on national budget has always been negative over 2000-2006 period.

In October 2004, the two key laws of decentralization were replaced. Law 32/2004 and Law 33/2004 substituted Law 22/1999 and Law 25/1999, respectively. From a political standpoint, the revision is a result of the widely dispersed guidance and supervision function to be performed by the central government over the implementation of decentralization. Under the original law of decentralization, regional heads did no longer have to report to the governor of the province. Instead, they were responsible to the regional parliament (DPRD). In other words, at the onset

of decentralization, the centre had to orchestrate 340 regional governments simultaneously, while previously it only needed to organize 27 provinces. This situation seemingly emphasized the need to devolve power in policy making, at least it accentuated the role of provinces to bridge the regions' and center's interests. This sudden change in span of management obviously posed a serious threat for a successful decentralization. As articulated in some early assessments, there was a serious question on accountability of regional authorities. Mushrooming of regional charges and levies that placed burden on business sector also reflected difficulty to direct the progress of decentralization.

Under the new Law 32, regional governments are no longer independent from the province. The law rules that governors have responsibility to guide and supervise regional governments, as well as to manage implementation of the center's affairs in the province in question. However, this revision, may also be viewed as an attempt to enhance governors' position (and thus, the center's as well) before the regional government.

Main feature of revision in the other law, Law 33, is deletion of 'hold-harmless rule'. In the original law, Law 25, under the 'hold-harmless' rule, a region would receive a total amount of transfer at least equal, nominally, to the amount it obtained in the previous year. This practice had proven to worsen the fiscal disparity and the national budget as well. This law also limits the regions to establish regional regulations, thus tackling the problem of issuance of rulings that brought harm to national economy. Since implementation of this law will be commenced in 2008, more time is needed to assess its progress and impacts come up.

3. Poverty and Its Alleviation Efforts in Indonesia

3.1. Depiction of Poverty in Indonesia

Observing poverty incidence in Indonesia from 1996 to 2008, (Figure-2), it can be found that there was no improvement of people's welfare, the incidence of poverty is not significantly changed from 1996, as can be seen from the headcount ratio. In 1996, 17.5 percent of Indonesian population lived below the poverty line, and decrease slightly at level 15.4 in 2008. Thus, there is no significant change in the percentage of poor people in ten years period.

Depiction of poverty at national level can also be seen from changes of poverty gap and poverty severity indices. As presented in Figure-3, over 1999-2008 period the Indonesia poverty gap index showed general tendency to decline. From 4.3 at the end of 1990s, the gap index was significantly declining through the whole period; with the lowest point attained in 2005 and 2008. This indicates that during the period, the expenditure level of poor people, on average, has been increasing, closing the poverty line. Nevertheless, it also important to notice that there was a jump, when the index rose from 2.8 in 2005 to 3.4 in 2006 then fell back in 2007 and 2008.

Tendency to decline is also shown by the poverty severity index during the same period. This index gives picture of how dispersed the expenditures among poor people. The changes of the index during 1999-2008 are not as sharp as the gap index; however there was also a raise in 2006 from 0.8 in 2005 to 1.0 then fell down to 0.8 in 2007 and 2008.

The three measures reveal that something(s) happened in 2005-2006. In fact, in 2005 the oil price raised twice, in March and October of that year. This raises led increases in other goods prices and cause inflation to rise to 17.95% during February 2005-March 2006 (BPS, 2006). The average price of rice, for instance, rose 37.72% from 3,415 rupiahs in February 2005 to 4,703 per kilogram in March 2006. Considering that about 20% of poor people expenditure (both in rural and urban areas) is on rice, this rise must have significantly reduced their purchasing power.

Beside description at national level as a whole, it is also important to analyze demographic features of poverty in Indonesia. One interesting analysis is to compare poverty condition between rural and urban areas. One particular phenomenon is observed: poverty incidence in rural areas is greater than in urban areas both in relative and absolute terms. In 2006, percentage of urban poor is 13.47% while in rural it amounts to 21.81% (Harmadi, 2007b).

Demographically, poor households tend to have large members of family, and this is true either in rural or urban areas (Table 1). The reason behind this tendency may be simple, with low level of health; mortality rate tends to be high so that poor people assume that increasing number of children reduces the risk of having no descendant at all. Thus, it is obvious from this notion that children are valued high in most Indonesian poor communities. This is because they view children as a crucial

factor of production. Nonetheless, this also reflects that poor household carry heavier burden than the non-poor.

Health Statistics 2004 reveals that in general urban people have better lives than their rural counterparts. A bit different from common belief, people in urban area sleep more sound, and have healthier behavior. The behavior aspect can be seen, among many others, from the fact that more people smoke daily in rural area (30.26%), while in urban area the percentage is smaller (25.95%). About 70% of urban outpatient healthcare facilities are accessible in less than 30 minutes, while the number in rural area is only 58%, even though the queuing time is relatively equal for both areas. The number of people obtain medical treatment from physicians in urban area are also higher (about 64% of population), while in rural only 30%. Healthcare services in rural area mainly are provided by paramedics (nurses, midwife, etc.), which serve 69% of rural population. In contrast only 35% of urban population resort to paramedics. These descriptions reflect that people who live in cities are equipped with better chance to enjoy adequate healthcare services. Bearing in mind that Indonesia has around 70.000 villages dispersed in numerous islands and remote areas, it can be inferred that to live in cities will provide one with better access to healthcare facilities. Therefore, urban poor people also have better chance to enjoy them.

Table 1 also shows that urban household in which the breadwinner is woman tends to be poorer than those in rural areas. This indicates that access for woman to earn adequate income in urban areas is still low. In addition, women commonly are also expected to do domestic works, thus limiting time available to perform paid jobs. It is also interesting to notice that schooling year of the breadwinners is relatively equal between those in urban and rural areas. From the above table it is obvious that on average the breadwinners of poor household do not complete elementary level of education. In contrast, non-poor households on average have breadwinners whose education level reaches junior high school. SUSENAS (*Survei Sosio-Ekonomi Nasional*, or National Socio-Economic Survey) panel data 2006 also reveal that 11.54% of breadwinners of urban poor household are illiterate, while in rural area the percentage is 22.40%. In general, education for breadwinner is better in cities. This discussion again suggests that people live in cities, either poor or non-poor, are in better condition than their rural counterparts. In addition, the situation may also

give way for inter-generational poverty trap to occur, where lack of education causes poor people to suffer poverty for generations. This situation is worst the larger the number of children in a family.

3.2. Poverty Alleviation in Decentralized Indonesia

The above discussion points out the multidimensional characteristics of poverty. It therefore, requires that policy interventions are implemented in several areas. Political and economic policies are at the front of interventions to reduce poverty. One interesting issue regarding policy implementation is measurement of poverty.

Main data source for poverty measurement in Indonesia is the SUSENAS database. This is a household expenditure survey. Thus the poverty measures resulted reflects the consumption pattern and composition of the poor people. Nevertheless, there is one thing that should be scrutinized. The measures do not capture the value of public services. As pointed out by Kanbur (2001), it is quite possible that the effect of changes in public services not show up in the measurements. If the doctor failed to visit a health post in a particular small island, it will not show up. If the class is cancelled because water pours into the classroom in rainy days, it will not show up. If the health facility in a remote location runs out of medicines, it will not show up. This is of course not to say that those measures are not useful, but rather, there are desegregated details which influence the perceptions and assessments of the measures.

Poverty alleviation has been attempted under a few terms in Indonesia. During the Soeharto administration, numerous poverty-related development programs had been implemented. In general, it can be stated that through the New-Order era there were significant benefits gained by poor people from implementation of those programs. From the source of financing point of view, those programs may be funded out of public expenditures or as donor-funded initiatives.

Nevertheless, those programs can not be termed as conscious poverty alleviation efforts. The reason is simply because the benefits received by poor people are actually by-products of much larger objectives of national economic development. These programs include general improvement and expansion of public infrastructures and social services. Thus, in other words, during the New-Order era, poverty

reduction was mainly achieved through rapid economic growth rather than specifically targeted policies. An exception perhaps should be placed on a particular program, namely IDT (*inpres desa tertinggal*). This was a Presidential Decree (*Instruksi Presiden*) initiated in 1994 to tackle poverty at the lowest level of government (*desa* level). This was the first nationally coordinated attempt specifically addressing poverty in New-Order period, aimed to build productive assets in rural areas. The Asian financial crises in 1997 put IDT to its end.

The financial crises put a fundamental question on the connection between economic growth and poverty. Has the growth taken place benefited the poor? As shown in Figure-4, it can be inferred that, in general, negative relation exists between the two. Upward movement in economic growth has accompanied by tendency to decline in poverty incidence, especially during 2001-2008. Although it is commonly understood that economic growth is a necessary condition to reduce poverty, nonetheless, the tendency shown above has not touched a more fundamental question of whether the growth has been 'pro-poor' in nature.

A study of Timmer (2004), found that within 1996-2002 period Indonesia experienced unfavorable growth for poverty alleviation, as this was the period of crises and the early stage of recovery. Figure-4 above also indicates the same picture. However, over 1967-96 period economic growth had been accompanied by significant reduction in income inequality. During this period (i.e. New Order era) Indonesia had been among the best records of pro-poor growth regionally. Average per capita income as well as incomes of the bottom quintile of population has increased by 5.1% annually. In short, the rapid growth performed had always benefited the poor. Thus, the study concluded that there was a period of strong 'pro-poor' growth in Indonesia and this was under the centralized system of New-Order regime.

One criticism can be put forward upon such conclusion is that the economy under examination is at the national level. Different conclusion will be obtained if one observes the inter-regional level. As demonstrated in many studies on inter-regional inequalities (for example Booth (2002), Akita and Alisjahbana (2002)) sharp disparity exists between eastern regions of Indonesia and Java/Bali region. It is widely known that the eastern part of Indonesia has been the least beneficiary of development during

the New-Order regime. Thus, the above picture of pro-poor growth during Suharto's era should be read with the facts of inter-regional inequalities occur.

The question arises, obviously, will Indonesia, with the fundamental change in the country's political setting, be able to at least achieve the same outcome? Or, as Timmer (2004) put it, "will what worked then work now?". This question can not be answered immediately. First, decentralization in Indonesia is still searching for its optimal form. Indonesian decentralization is a mega project in any term. Within its seven years of implementation, both the central and regional governments had no adequate experience and knowledge about the subject. Prior to the revision, decentralization implemented at regional level of government had caused the span of management by the central government become extremely large. This, then, caused the central government faced great challenges to direct its progress. The nature of Indonesia itself had helped to amplify the challenge. This country is highly heterogeneous in almost every aspect. So immense the level of diversity so that if decentralization is something referred to variety of preferences, then what occurred during the first three and a half years of implementation can be thought of as performing a full symphony orchestra with only a single musician. In general, however, favorable signs of functioning of mechanism of democracy have emerged. People participation has been encouraged and increased. In addition, although there was no total failure in public service delivery, however, the danger towards that way was not irrelevant. Interviews with some officials of newly created regional governments (*daerah pemekaran*) revealed that a few positions in governments in question have not fully equipped with, or even absolutely lacking of, personnel. In other department (*dinas*), the challenge is of qualification of personnel. One thing should be noticed is that better basic public services delivery will yield their benefit in the long run. Thus, direction of the progress of decentralization becomes crucial, especially to prepare a comprehensive grand strategy of decentralization.

During implementation of decentralization, both the central and regional governments are more focus on sharing of funds, and still need to discuss a strategy to create conducive environment for the people to live better. Decentralization is not a tool to fight poverty, but rather a mean to accelerate improvement of the living quality of the people. It is true that one main issue in implementation of decentralization is

about preparing a comprehensive grand design. Within the grand design the stages, policies and targets must be outlined clearly. One supporting mean for decentralization to be success is the provision of minimum standard of services (MSS or *Standar Pelayanan Minimum*, SPM) by the central government. This standard is provided to assure that every region at the minimum level will deliver a certain standardized services. In the long run, however, it must be arranged that regional governments will be able to intervene to and determine policies that make their people have better standard of living over time. In other word, decentralization must be arranged to make the people can have inherent capabilities to be self-reliant, so that policy intervention will only act just as a trigger of empowerment.

Second, even though the economic crises can be judged as over, from financial variables point of view, recovery process taking place has been slow. As Timmer (2004) pointed out, the real wage of agricultural workers in 2003 was still 20% below its level in 1997. BPS (2006) also found that this wage in 2006 had declined from its previous year level. As already put forward above, the greatest poverty incidence in Indonesia is in rural areas where these workers live. This situation indicates that major numbers of Indonesian are still plagued by transient poverty. This also reveals their vulnerability to fall into poverty and a rather urgent need for a systematic attack on poverty. In other words, although the crises may be considered over, but the welfare level of the people has not bounced back to the pre-crisis level. The slow recovery process is also indicated by employment elasticity. During 2001-2005 economic growth taken place has not been accompanied by strong employment creation (Figure-5). In fact, within the period, there was a tendency to decline.

The above situation also depicts that the political commitment of decentralization has not been understood well by the regional governments as an opportunity to develop their unique competitiveness, create opportunities for their people, and become a reliable partner for the business sector. Regional government should be able to plan its development that anticipates as many likelihood in the future as possible. Planning should not be based on past experience only. In the time when globalization is an inevitable reality, change—especially in business environment—happens in almost no time and so does uncertainty. Inability to anticipate the change will put a region into risk of being vulnerable against external

shocks. Therefore it is necessary that decentralization is directed towards creation of capabilities of regions to have their unique competitiveness which will become a foundation of their self-reliability. This competitiveness will be easily achieved when the regions develop their own core-competence. Such reliability will empower the people in each region to have the capacity needed to damp down external shocks.

4. Summing Up and Looking Forward

Indonesia had experienced a period when economic growth had strong tendency to become pro-poor in nature. Nevertheless, the policy packages were implemented when the country followed the centralized system. The crises in 1997 have brought about not only economic impacts, but also significant modifications in political setting of relations between the central and sub-national governments.

Therefore, in the aftermath of the crises, Indonesia not only had to deal with effort to recover from economic deteriorations, but also to cope with a giant project of implementing decentralization. The change in political setting in the first years of implementation had raised great anxiety, especially on possibility that organization of regional governments come to a halt. This worries, then, proven to be untrue. Nonetheless, many regional governments produced numerous regulations that had been disincentive for the economy at national level.

On the other hand, the detrimental impacts of the crises have not been completely resolved. Indonesia economic recovery process is slow, because, among other things, investment in the real sector has not recovered as well. This situation affected households' economy, especially in rural areas, which is still unable to cope with external shocks adequately. Specific poverty-targeted programs were indeed implemented in the aftermath of the crises, but effectiveness of these programs were questionable. Perdana and Maxwell (2004), studied implementation of JPS programs and concluded that such implementation are determined by, especially, the type of targeting, administrative capacity, program design and publicity, and the quality of monitoring. This is not to say that such programs are not necessary, but rather, they can not be utilized as a main weapon to attack poverty.

There are four challenges to notice for Indonesia today in addressing reduction of poverty. First is to manage the grand framework of development to demonstrate

significant nature of 'pro-poor'. The Medium Term Development Plan (MTDP, *Rencana Pembangunan Jangka Menengah*, or RPJM) put poverty alleviation in the first chapter. This development becomes the foundation for sub-national governments (provincial and regional alike) and to be adopted in their own development plans. It is necessary, then, for such adoption to maintain the crucial strategy in poverty reduction fields. There is a danger that, in the present of increasing polemicists and interest parties, the objective to fight poverty may be deflected to other objectives, for instance to pursue rapid regional growth, that could fail, or even brought harm to, the poor. Decentralization aims at delivering services to a variety of preferences, so that eventually inter-regional disparity can be minimized. Nevertheless, in practice this has also produce a wide range of programs and treatments to deliver public services. Therefore guidelines of standardized minimum service delivery are needed for provincial and regional governments to direct progress of decentralization in the right track. Currently minimum service standard (*standar pelayanan minimum* or SPM) available are only for three ministries: the Ministry of Health, Ministry of National Education, and Ministry of Public Works.

Second, poverty in Indonesia is characterized by three important features: lack of access to infrastructures, lack of productivity growth in agriculture, and high vulnerability to shocks (ADB, 2006). The last point is perhaps the most difficult to overcome. From time horizon point of view, vulnerability to shocks calls for both short and long terms policies. In short run, poverty targeted programs are needed, and Indonesia has much enough experiences with these ones. Apparently, what to be improved is the allocation of incentives that will dismiss problems of targeting. Nevertheless it should also be remembered that poor communities aware that the assistance they received is temporary. They actually do not want to be dependent on those aids from time to time. Moreover, the assistance available has a rather limited outreach in terms of number of population and quantity. Essentially, the role of the institutions as expected by the poor communities should be more directed to creating independency on the part of the poor to improve the quality of their life, and not the kind of assistance for consumption only. Evidently to become facilitator and catalyst in development, institutions (both government related or not) that are going to be involved must be aware of the preferences of the local people, the sensitivity of the

local needs, and able to establish good communication with the poor communities. Bearing in mind that measures of poverty are still inadequately capture the value of public services, implementation of a decentralized system of government, where authority and responsibility of the local administration are enhanced, should be a good platform for a strategy to reduce poverty.

Poverty is a multidimensional phenomenon. In general it is related to economic, social-cultural, and structural-political dimensions. Economically, poverty turns up in various basic needs of food, clothing and housing. This aspect is easier to measure in monetary terms. In spite of its controversy, measurements based on income/expenditure survey have proven to be great help to understand poverty from economic point of view. Economic aspect of poverty also associated with access to market. From factor of production market standpoint, the poor people have no bargaining power in the labor market and they have limited access to capital, as such their capital accumulation is also low. While in the commodity market, as consumers they have no sufficient purchasing power, and as producers they have to face the reality of their low yields and the difficulty to market their products so that they tend to maintain subsistence agriculture rather than commercial agriculture. Such condition is most likely to affect the economic life of the poor people.

The social and cultural dimensions have greater difficulties to be measured quantitatively. Thus, to understand the phenomenon it is better to use qualitative approach. In this case, people who are economically poor would form pockets of poverty culture. A poverty culture is indicated by institutionalization of some values such as apathy, apolitical, fatalist, powerless, etc. Therefore, to attack poverty is to change those values in a community. Without such change, it will be difficult to eradicate the economic poverty.

People who suffer from economic poverty are also lack of access to be able to take part in political processes. They have no political power, so that they are put in the lowest rank of social structure. Therefore people who are poor materially (economically) will also poor in terms of structural and political dimensions. A comprehensive poverty alleviation strategy should take these dimensions into consideration.

Third, reconnection of poverty alleviation and economic growth. In spite of disputes over growth, increased income, undoubtedly, is one major elements of escaping poverty. Demographically, rural areas have been the worse poverty stricken ones. This is because in those areas many markets are not functioning well. It is therefore necessary, besides provision of 10 basic rights explain in the MTDP³, pro-poor economic strategy should also includes creation of capability of the poor to be self-reliant. Market is one major element that will allow the poor to have that capability. However, the existence of market structure and power must also put into consideration. Product and factor markets in many regions in Indonesia are segmented either because of poor infrastructure or because of local monopoly power (for instance the present of middlemen or moneylenders). Capital and labor bargain over wages and employment. Failure to capture these into economic policy packages risks not only hurting the poor, but also those whose lives are barely above the poverty lines.

Fourth, experience with the economic crises indicates that external factors have strong influence on Indonesia economy, so that it affected every region in the country. This is a natural symptom of globalization. Under decentralization, it is hoped that gap of information in policy making can be reduced, so that external shocks will have more limited outreach. To achieve this end, direction of the progress of decentralization by the central government is important. On the central government side, a grand design of decentralization with clear statement on stages, policies and targets should be prepared. Demographic observation on poverty reveals that women and people in rural areas are more vulnerable. Thus, preparation of grand strategy of

³ These comprise: availability of good quality, affordable food; availability of good quality health care; availability of good quality basic education; opportunity to work and operate private business; availability of adequate and healthy housing; availability of clean and safe water and good quality sanitation; assurance for and protection of rights of individuals and communities to land; access to the poor for management and utilization of natural resources and protection of the environment; assurance for security from violence and conflicts, and; improved participation of the poor in the management of poverty-related issues.

decentralization should also include rural development and non-bias gender. For the regional governments, they need to develop the regions to have their own competitiveness. This is an important measure for the regions to become more resilient of external shocks as the globalization is inevitably affects every corner of the world.

Tables and Figures

Tables

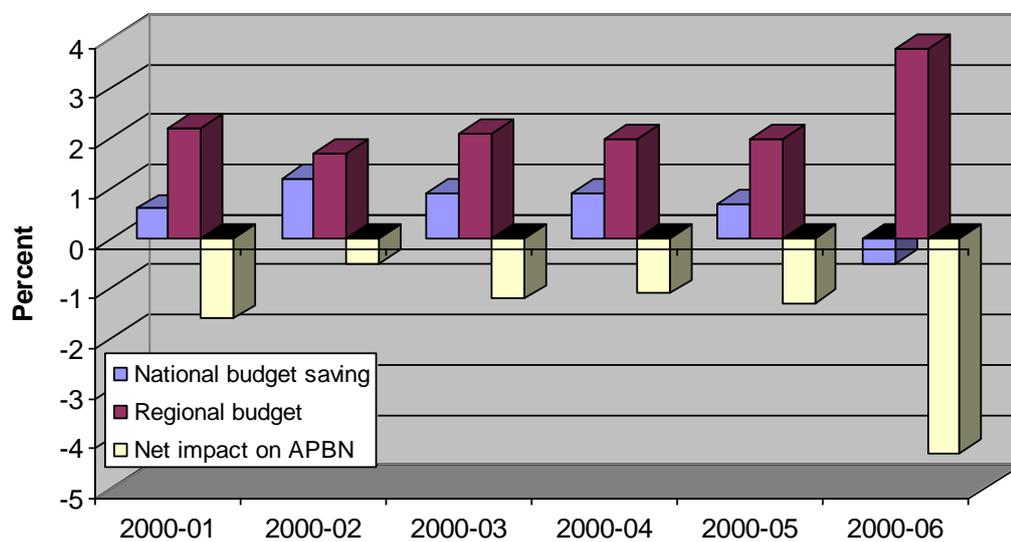
Table-1. Poor and Nonpoor Households Social Demographic Characteristics, 2006

Household/Regional Characteristics	Poor	Nonpoor
Average member of household		
- Urban	4.70	3.91
- Rural	4.75	3.69
- Urban + Rural	4.74	3.80
Percentage of Women as Breadwinner		
- Urban	15.35	13.57
- Rural	10.55	13.03
- Urban + Rural	12.30	13.30
Average schooling years of Household Breadwinner		
- Urban	5.42	8.73
- Rural	4.18	5.49
- Urban + Rural	4.63	7.06

Source: BPS, 2006

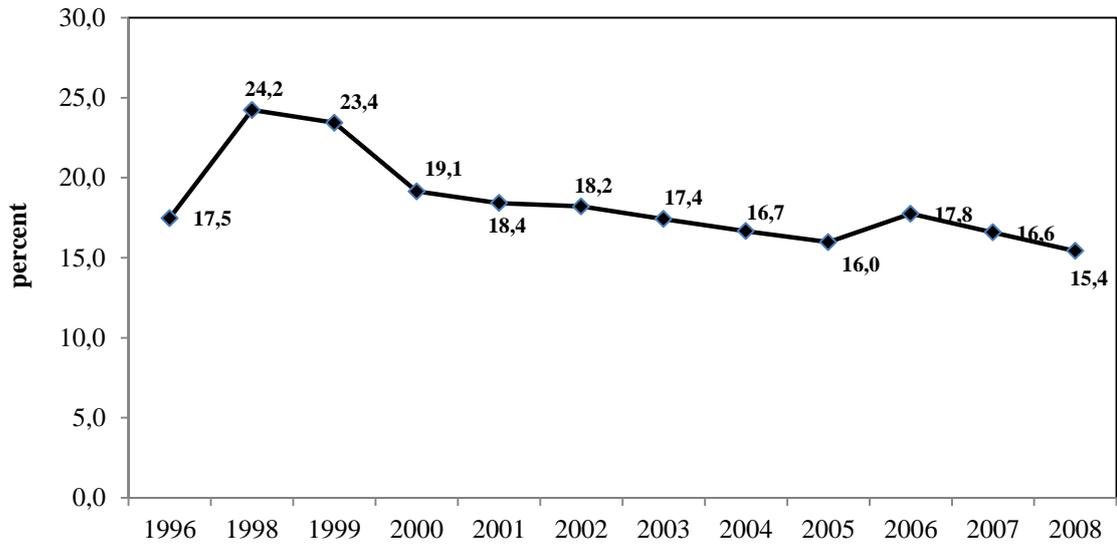
Figures

Figure-1. Inefficiency of National Budget 2000-2006 (percent on average)



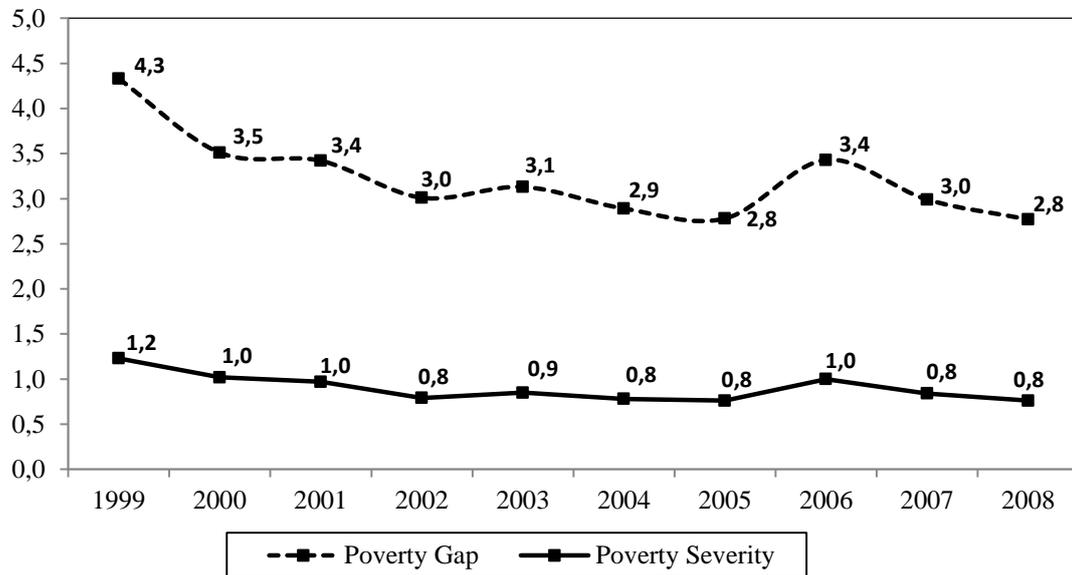
Source: Mardiasmo (2006)

Figure-2. Poverty Incidence in Indonesia, 1996-2008.



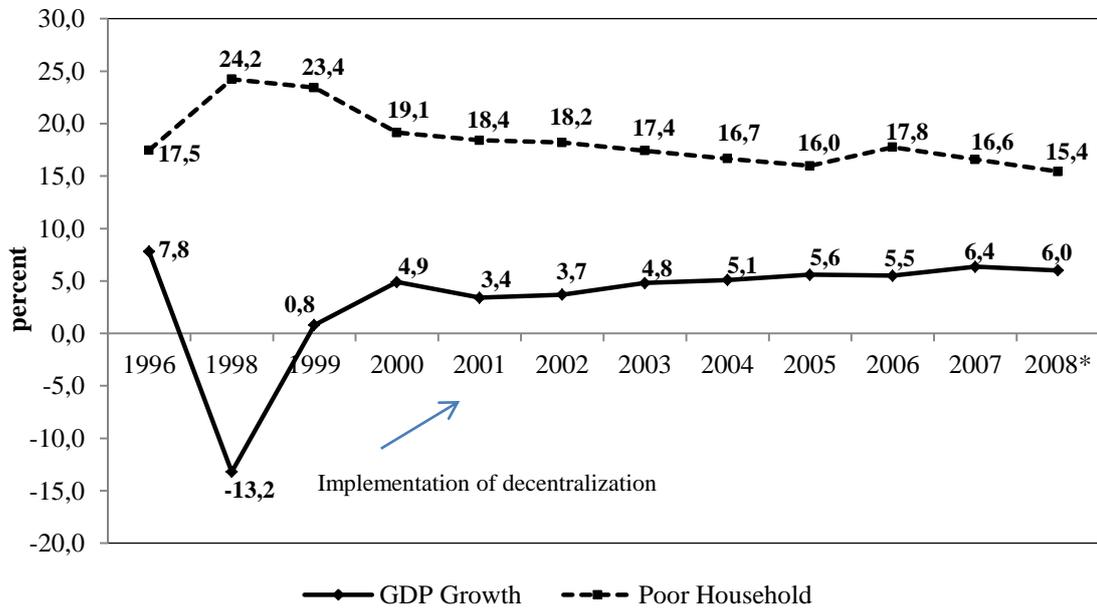
Source: Statistic of Indonesia 2010, BPS

Figure-3. Poverty Gap and Poverty Severity Indices in Indonesia, 1999-2008.



Source: Statistic of Indonesia 2010, BPS

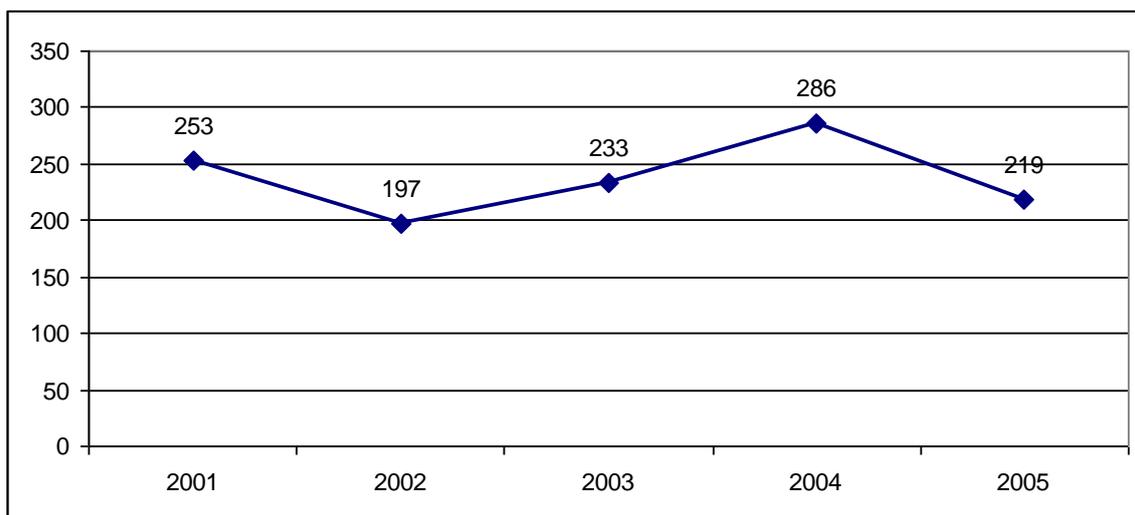
Figure-4. Indonesia GDP Growth and Percentage of Poor Household, 1996-2008



* temporary data

Source: Statistic of Indonesia, various editions, BPS

Figure-5. Indonesia Employment Elasticity, 2001-2005 (in thousands)



Source: Nazara, 2006

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