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Multidimensional Poverty in Indonesia: Trends, Interventions and Lesson Learned

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Summary

Despite the Government of Indonesia's commitment to address human security as stated in its ambitious medium-term development plan and the Millennium Development Goals, poverty in its multidimensionality remain a major issue in Indonesia as a significant proportion of the Indonesian population is still consumption poor. Whilst the number of the poor has been decreasing consistently since 2002, most of those escaping poverty are still vulnerable and just a small shock can send them quickly below the poverty line. Using the PPP $2/day poverty line as a vulnerability measure, the World Bank (2006) found that 45% of Indonesians remain vulnerable to poverty. Nonconsumption poverty is even more problematic which includes malnutrition, maternal health, and access to basic services. For example, a quarter of children below the age of five are malnourished, only about 72% of births are accompanied by skilled birth attendants, 45% of poor households have no access to sanitation, more than half have no access to safe water, and around 20% of children from these households do not continue to junior secondary school.

The current state of Indonesian multidimensional poverty can be traced back to the time of the economic crisis that struck Indonesia in mid-1997. Before the onset of the crisis, Indonesia was one of the fastest growing economies in the world. This rapid growth had generated an unprecedented reduction in poverty within a remarkably short period of time. In mid-1997, after nearly a quarter of a century of rapid growth and welfare gains, a

currency crisis struck Indonesia, and by early 1998 the country was suffering from the combined effects of financial, economic, and political crises.

The social impact of the crisis was enormous. The national poverty rate soared 13 percentage points in the period of 1996–1998, implying that an additional 22.5 million people were pushed into absolute poverty (BPS 1999) due to the crisis. More than half of the increase in poverty during the crisis was due to an increase in chronic poverty. The crisis primarily affected the poor and vulnerable nonpoor through falling real wages and a large increase in the prices of basic commodities. The economic crisis that threw millions of Indonesians into poverty had forced the Government of Indonesia to launch social safety nets (as social protection programs were largely based on informal arrangements) to help the poor and newly poor cope with the impact of the economic crisis. The programs covered employment creation, education, health, food security, and community empowerment.

A decade after the crisis, as the economy slowly recovers and welfare has stabilized around precrisis levels, the government has redesigned several of these programs and discontinued others. Throughout this latter postcrisis period, the government also implemented a range of new social protection programs to replace highly regressive fuel subsidies. The new programs have included unconditional cash transfers, school operational assistance, and community-driven development programs. These programs are designed to promote movement of poor households out of poverty and to prevent nonpoor households from falling into poverty. Some progress has been made in addressing multidimensional poverty in Indonesia but more must still be done, including a greater focus placed on inclusive economic growth.

This paper first describes the current state of multidimensional poverty in Indonesia. It then briefly outlines the characteristics of several major programs designed to address multidimensional poverty, both during and after the crisis, and describes their implementation problems and likely impacts. Finally, it details the lessons which can be applied to future targeted social protection programs to address human security in Indonesia.

I. Introduction

Before the onset of the economic crisis in mid-1997, Indonesia was one of the fastest growing economies in the world. This rapid growth had generated an unprecedented reduction in poverty within a remarkably short period of time. Based on the official figures, between 1976 and 1996, absolute poverty fell by around 29 percentage points (BPS 2006), accompanied by substantial gains in education and health standards. In the first half of the 1990s GDP grew at an average annual rate of 7%, and the poverty rate had fallen dramatically from 15.1% in 1990 to 11.3% by 1996.

In mid-1997, after nearly a quarter of a century of rapid growth and welfare gains, a currency crisis struck Indonesia, and by early 1998 the country was suffering from the combined effects of financial, economic, and political crises. Within one year, the value of the rupiah fell by 85%, domestic prices soared by 78%, nominal food prices increased threefold, and the economy contracted by almost 14%. The social impact of the crisis was enormous. The national poverty rate soared 13 percentage points in the period of 1996–1998, implying that an additional of 22.5 million people were pushed into absolute poverty (BPS 1999) due to the crisis.

A decade after the crisis, Indonesia's economic condition is in much better shape, though in the period of 2005–2006 there was a net increase of four million poor people (or about 1.78 percentage point) within a year, reaching a total of 39 million and bucking a four-year trend in poverty reduction. In the last one year, from 2006 to 2007, there was a slight decrease of poverty rate for about 1.17 percentage point or about 2.13 million people moved out of poverty. However, the level of the decrease in that period is still

lower than the previous increase. In percentage terms, this condition is back to the precrisis level, but in absolute terms, it is still higher than the precrisis level. Therefore, it can be seen that poverty remains a crucial issue in Indonesia.

Aside from a declining trend of consumption-based poverty indicated in recent years, there are also improvements indicated in nonconsumption poverty, such as infant mortality rate, enrollment rate particularly for elementary education, and life expectancy at birth. In many aspects, however, nonconsumption poverty is still more of a serious problem than consumption-based poverty. Malnutrition rates, for instance, are high and have even risen in recent years: a quarter of children below the age of five are malnourished in Indonesia. As in the case of malnutrition, the condition of maternal health is worse than comparable countries in the region: based on 2002-2003 Demographics and Health Survey (DHS), Indonesia's maternal mortality rate (307 deaths in 100,000 births) is three times that of Vietnam and six times that of China and Malaysia; only about 72% of births are accompanied by skilled birth attendants (World Bank 2006).

The various degrees of success in poverty reduction may correlate to the types of efforts that have been taken place as a response to the negative impact of the crisis, particularly high poverty and vulnerability. As was reported by Sumarto *et al* (2002), starting in 1998, the central government brought about numerous social programs targeted at the poor, and has set up a number of new initiatives in the last five years. These programs take up a significant proportion of the government's budget. Moreover, social protection is still particularly relevant as the government takes steps to correct

inefficiencies prevalent in the economy, mostly in the form of regressive subsidies and over zealous trade protection regulations. Recognizing this, the government has been increasing its spending on social protection programs and experimenting with new schemes. One of these is the conditional cash transfer—a novel social protection system— that has seen enormous success in Mexico which then spread rapidly to other Latin American countries.[1] The conditional cash transfer, which is known as *Program Keluarga Harapan*, is being piloted in seven provinces in Indonesia.

These aforementioned attempts are essential, not merely for poverty reduction purposes, but also to promote human security. It is understood, that human security has become an international concern. The emphasis on human security was taken by the UNDP in the 1994 Human Development Report with its insuring "freedom from want" and "freedom from fear" argument for all people in tackling the problem of global insecurity. In that report, the definition of human security is expanded to include threats in seven areas: (i) economic security; (ii) food security; (iii) health security; (iv) environmental security; (v) personal security; (vi) community security; and (vii) political security. In addition, human security is "people-centered" and focuses on human individuals and their communities worldwide, regardless of gender, race, religion, ethnicity, citizenship, or other distinguished characteristics.

The grand design of a human security oriented poverty reduction strategy, therefore, suggests a scheme of social safety net programs such as an emergency funds and food-for-work program that are adopted when people face risks. Furthermore, such sustainable social protection programs,

[1] In Colombia, the poverty rate decreased by 6%. School participation increased by 8% in Mexico, 13% in Colombia, and 22% in Nicaragua (Alatas 2007).

particularly for those who are poor and vulnerable, should be taken into consideration in the poverty reduction strategy.

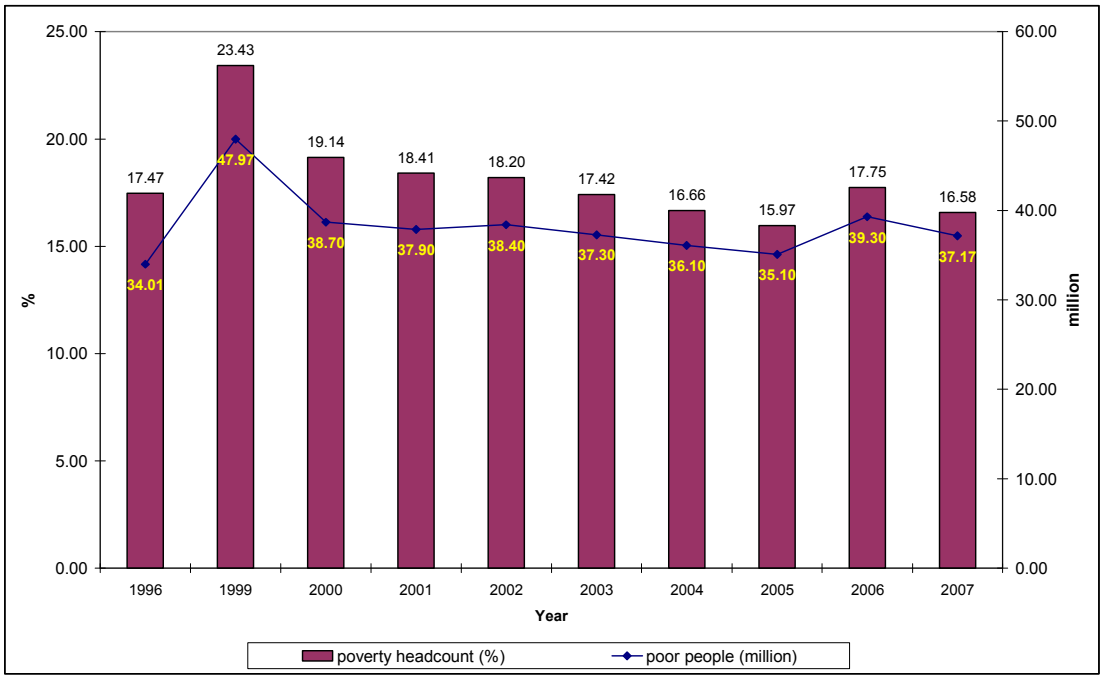
Given the fact that millions of poor people depend on those programs, it is imperative that lessons are learned to ensure that subsequent programs are improved and targeted to the needs of the Indonesian people. On a global level, the experiences of Indonesia might provide insights for other developing countries as they implement their own social protection programs.

The second section of this paper provides a description of the evolution of targeted social programs for reducing poverty in Indonesia. It starts by outlining the characteristics of each program and then discusses the results of an impact evaluation study conducted by The SMERU Research Institute, the University of Indonesia, and the World Bank. In addition, this section also provides a description about ongoing and upcoming social protection programs, as well as enhancement of the previous social protection programs. This section also includes a review of the impact of the latest interventions. The final section of this paper lists the lessons learned and how they might benefit similar programs in the future.

II. The Current State of Multidimensional Poverty in Indonesia

In the aftermath of the economic crisis in Indonesia, poverty increased dramatically from 17.47% in 1996 to 23.4% by 1999. However, the poverty rate then gradually decreased during the period of 1999 to 2005. Nevertheless, due to the high increase of world fuel prices in 2005, poverty increased again. In a year, the poverty rate increased by 1.8 percentage point or about 4.2 million people fell into poverty between 2005 and 2006. After

some policy adjustments and macroeconomic stabilization, poverty in 2007 fell slightly and in relative terms, poverty in 2007 was back to the precrisis level. However, in absolute terms, poverty was still higher than the precrisis period, due to the relatively high population growth. Indonesia's consumption-based poverty figures in the period of 1996 to 2007 are illustrated in Figure 1.

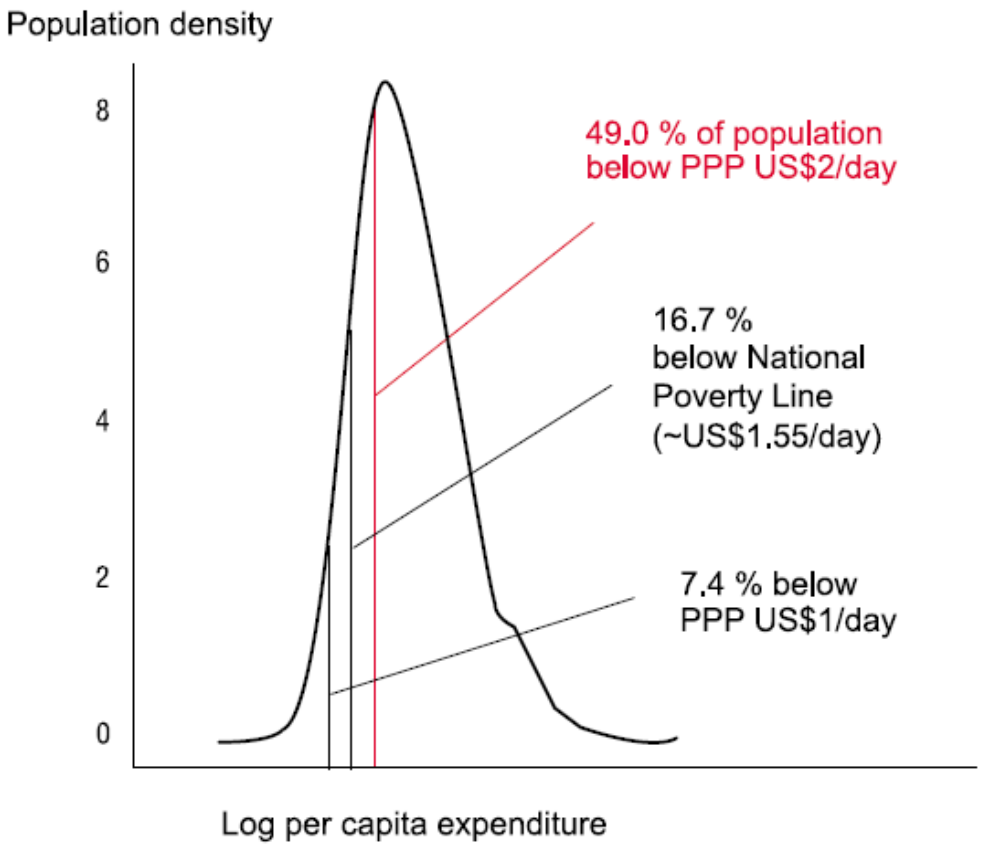


Source: BPS 2006

Figure 1. Poverty Head Count and Number of Poor in Indonesia, 1996-2007

Whilst the number of the poor had been decreasing since 2002, most of those escaping poverty are still vulnerable and just a small shock can send them quickly below the poverty line. Nonetheless, such interventions to those who are slightly below poverty line may help them to move out of poverty. It means that vulnerability to poverty in Indonesia remains high. This can be seen by using the PPP $2/day as poverty line for vulnerability measure, the World Bank (2006) found that close to 42% of Indonesia's population who

lives between PPP $1 and PPP $2/day remain vulnerable to poverty (Figure 2).

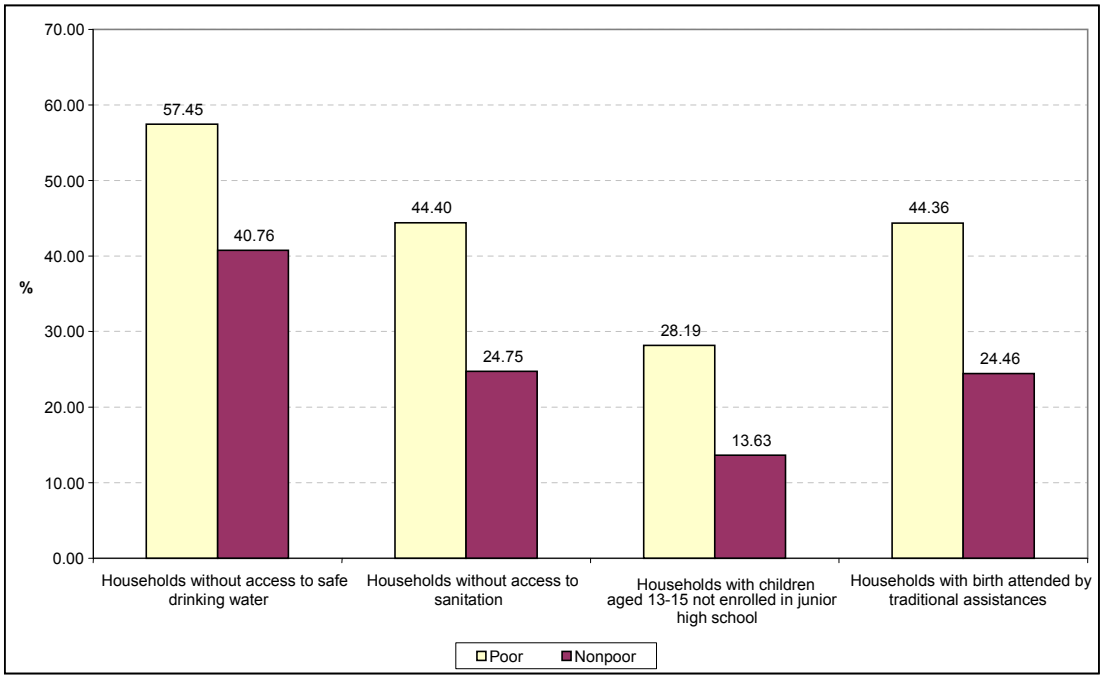


Source: World Bank (2006)

Figure 2. Close to 42% of Indonesia's population lives on between PPP US$1- and US$2-a-day

The high poverty and vulnerability figures based on consumption are also confirmed by the nonconsumption poverty measures. The nonconsumption indicators indicate that the poor are widely deprived of public services access, such as health and education. Based on the 2004 National Socioeconomic Survey (Susenas), Figure 3 shows that many poor households experience lack of access to public services, such as lack of access to sanitation (44.4%); many rely on traditional assistance when

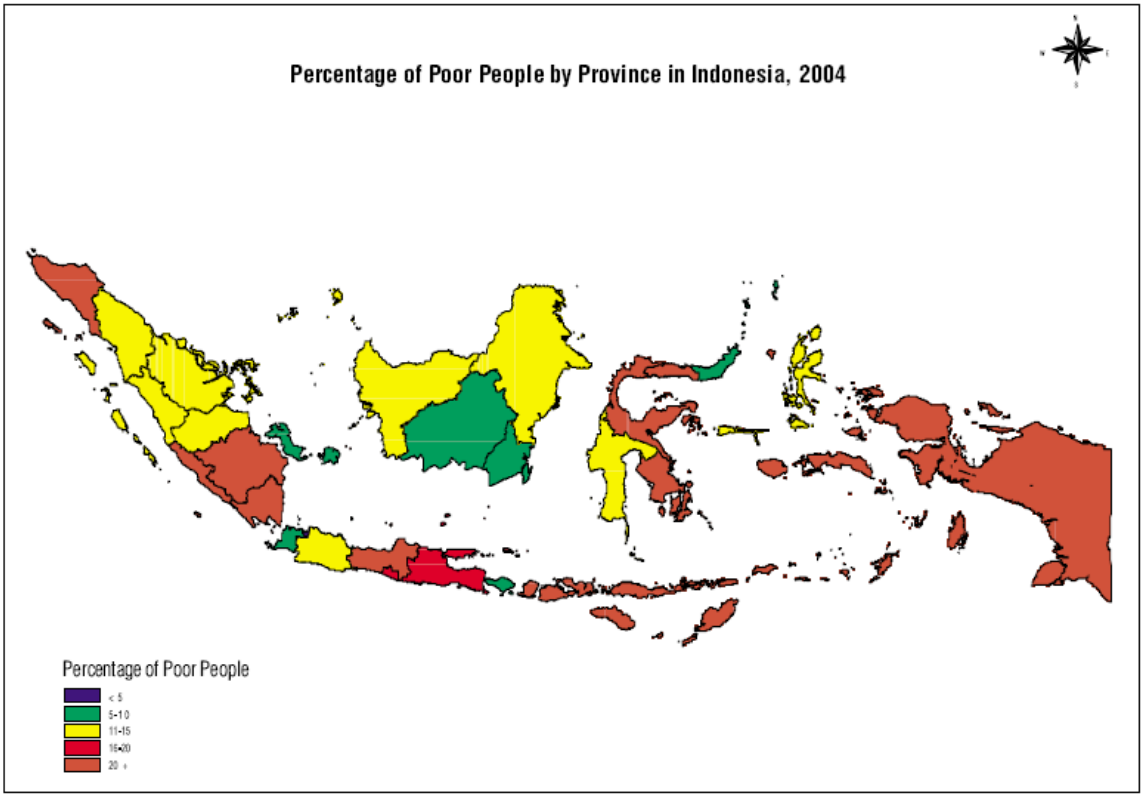
delivering birth (44.4%), have no access to safe water (57.5%), and do not send their children to continue schooling at junior secondary level (28.2%).



Source: Author's calculation based on Susenas Core 2004 data

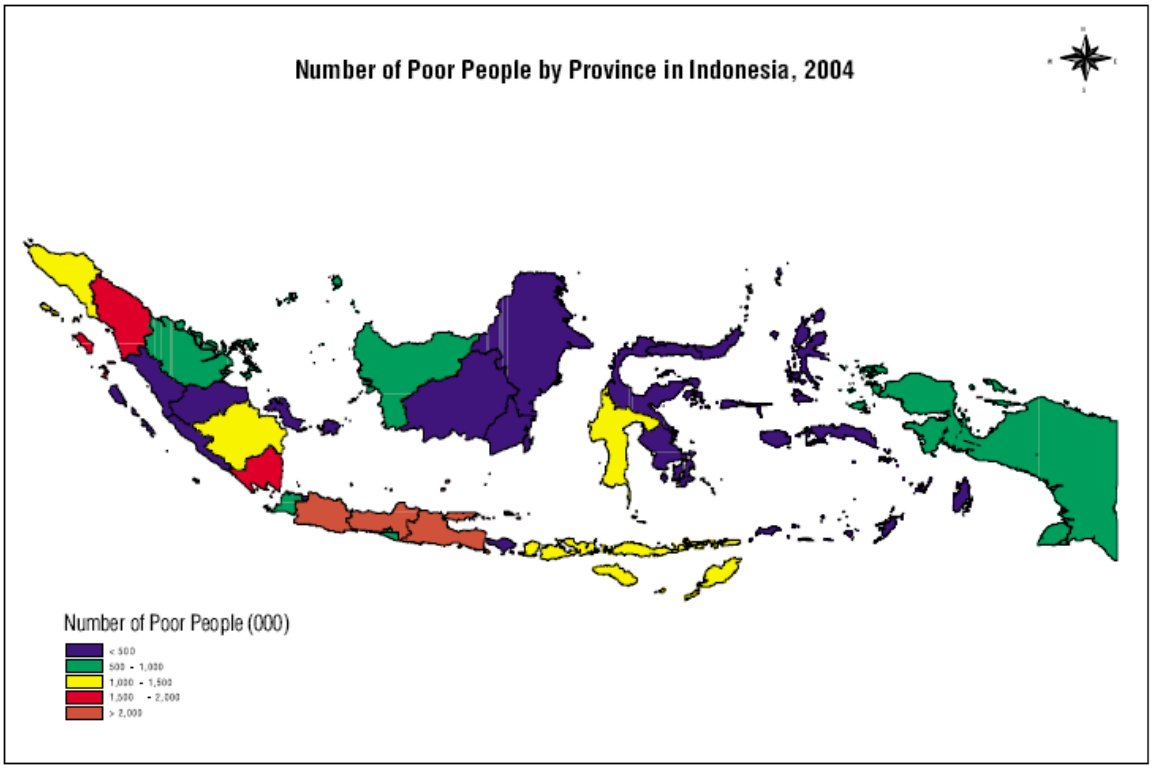
Figure 3. Nonconsumption Poverty Indicators, 2004

Furthermore, it is well-known that Indonesia is a highly diverse country. Thus, the high disparity in poverty is also important to note. As illustrated by Figure 4, in percentage terms, it can be seen that the Eastern part of Indonesia is prominently noted for its higher poverty rates than other parts of the country. Whilst in absolute terms, the high number of poor people is found in many provinces in Java Island (Figure 5).



Source: World Bank (2006)

Figure 4. Regional Disparity of Poverty in Indonesia (%), 2004

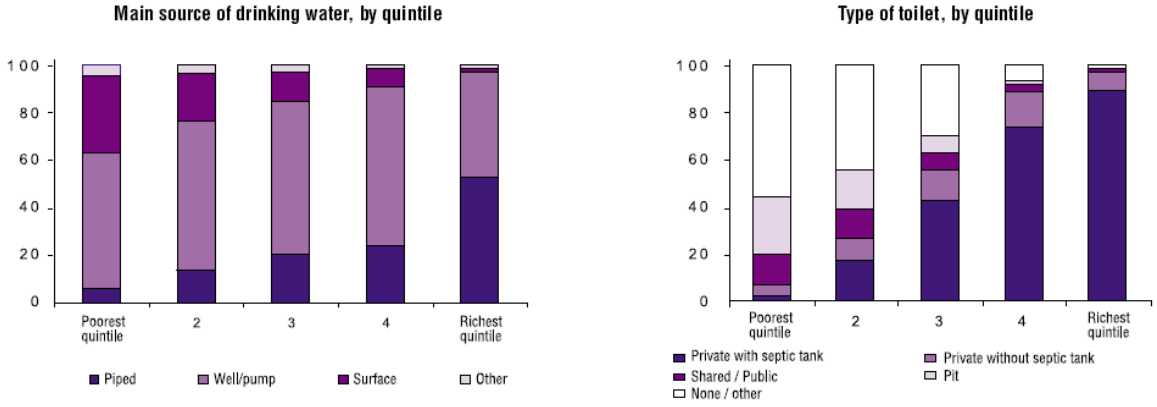


Source: World Bank (2006)

Figure 5. Regional Disparity of Poverty in Indonesia (Absolute Number), 2004

In addition, based on the UNDP Human Development Indicator (HDI),[2] Indonesia's HDI value of 0.728 was ranked 107 out of 177 countries in 2005. This rank is only one level higher than the previous year, where Indonesia was ranked 108. However, it should be taken into consideration that the index is not such a comprehensive measure of human development. It does not, for instance, include important indicators such as income or gender inequality, and more difficult indicators such as respects for human rights and political freedom (UNDP 2007/2008).

Inequality is another concern aside from poverty. Figure 6, which shows inequality in access to services or facilities, confirms the fact illustrated previously in Figure 3 that people who are less well off have lower access to services. It can be seen that the percentages of poor people who have access to piped water as a main source of drinking water and private toilet with septic tank facility remain very low.



Source: World Bank (2006)

Figure 6. Inequality in Access to Services Remains High

[2] The UNDP Human Development Index (HDI) provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrollment at the primary, secondary, and tertiary levels), and having a decent standard of living (measured by purchasing power parity income).

III. The Evolution of Indonesia's Targeted Social Programs to Address Multidimensional Poverty

General improvements in the macroeconomic environment are necessary to reduce poverty and also vulnerability among the nonpoor; however, they are not always sufficient. Macroeconomic upturns are, in most circumstances, quite insufficient to lift the chronic poor from the depths of poverty. In order to reduce the adverse socioeconomic impact of the crisis, therefore, starting in 1998, the Government of Indonesia (GoI) launched a number of social safety net (SSN) programs—called Jaring Pengaman Sosial or JPS—that aimed to prevent the chronic poor from falling more deeply into poverty and to reduce the exposure of vulnerable households to risk.

The JPS involved four strategies: (i) ensuring the availability of affordable food; (ii) improving household purchasing power through employment creation; (iii) preserving access to critical social services, particularly health and education; and (iv) sustaining local economic activity through regional block grants and the extension of small-scale credits. It was hoped that the implementation of the JPS programs would prevent or at least significantly reduce the worst effects of the crisis.

Without a clear institutional precedent, policy makers faced the challenging task of undertaking these social interventions amidst severe political instability and an increasingly unfriendly fiscal environment. In July 1998, with financial support from international donors that included the World Bank and the Asian Development Bank, the Indonesian government allocated Rp3.9 trillion directly to JPS programs out of a total development budget of

Rp14.2 trillion.[3] The JPS programs covered education, health, community empowerment and employment creation, in addition to the rice subsidy program known as Operasi Pasar khusus or OPK. The magnitude of this social protection initiative was quite unprecedented in Indonesian history. The summary of the social protection programs during the crisis period is provided in Table 1.

Table 1. Descriptions of Social Protection Programs in the Crisis Period

Program	Description of Benefits	Coverage	Likely impact
OPK (subsidized rice)	Sales of subsidized rice	12.8 million KPS & KS I households	Households which participated in subsidized rice have 3% lower probability to be poor
Padat Karya (employment creation)	'Labor intensive' programs across variety of government departments	12.7 million person-days	Increased income for participated households and reduced probability to be poor
SBG (scholarships and block grants to schools)	Scholarships for elementary, lower secondary, and upper secondary students. Block grants to selected schools	6% of primary, 17% of lower secondary, 10% of upper secondary school students, 60% of schools	• The scholarships for students enable them to stay in schools • The block grants to schools helped them to continue operating
SSN-BK (health cards)	Subsidies for medical services, operational support for health centers, medicine and imported medical equipment, family planning services, supplemental food, and midwives' services	7.4 million KPS households	SSN-BK program increased access to health services and household consumption levels, except nutrition
PDM-DKE (community empowerment)	Block grants for villages for public works or revolving funds for credit	Almost all villages in the country	Households which participated in subsidized credit have higher probability to be poor $\Rightarrow$ not suitable as a crisis program

Source: SMERU's various presentation files.

[3] The average exchange rate around this time period was approximately Rp10,000 to the US dollar.

Drawing lessons from the JPS programs, policy makers and researchers are attempting to create a more efficient, equitable, and coherent social protection policy. The aim is not merely to provide risk-coping mechanisms in response to crises but also to institute sustainable programs that will enable the children of the poor to move out of poverty permanently. While the targeting of the JPS programs has been called into question by numerous researchers, social welfare would not have recovered in such a relatively short time without these kinds of programs. The JPS programs and its aftermath have since helped to maintain these postcrisis gains despite periodic bouts of economic fluctuations and, more importantly, have enabled the central government to make the transition to a more progressive public spending regime. Today, however, Indonesia's budgetary allocations to social and human development priorities as a proportion of Gross Domestic Product (GDP) still remain among the lowest in Southeast Asia, and its policy makers face a critical trade-off between further assisting the state budget and making necessary social investments.

During the precrisis high growth period, government-run JPS programs had been almost nonexistent in Indonesia. The general antipoverty strategy at that time included (i) general social spending on health, family planning, and education; (ii) development programs aimed at increasing productivity among the poor; and (iii) some small programs for disadvantaged groups, such as the handicapped and orphans. There were also mandatory social security and health insurance schemes for employees in medium and large enterprises, the public service, and the military. These schemes, however, proved largely ineffective during the crisis because they excluded most of the population and

in particular the poor, as 65% of Indonesian workers can be found in the informal sector where compulsory social security schemes do not apply.

The Indonesian people were not simply passive victims of the crisis. They had never relied, to any significant extent, on public safety net programs in the past. Instead, they turned to many of their own private coping measures. Three main coping strategies were adopted during the crisis: reducing expenditures, borrowing, and/or attempting to raise incomes. Clothing and recreation expenditures were cut most frequently followed by transportation, not to mention reduction in the quality or, in some instances, even the quantity of food. Some households maintained expenditures by borrowing or selling assets. Meanwhile, households raised incomes by taking additional jobs, working longer hours, or increasing the number of family members who were working. In fact, children often augmented family income by engaging in labor activities in addition to schooling.

Several researchers have found evidence in Indonesia of what is identified as a moral economy in which the distributional outcomes of traditional government-run social programs might be achieved through private giving between families and within communities. The progressiveness of private transfers can be discerned from the fact that nearly 75% of households in the poorest quintile received transfers, which is equal to 20% of household expenditures. Drawing on the hypothesis that changes in consumption among rural households are largely determined by what happens to the rest of the village; there is evidence that a partial insurance effect among Indonesian households took place during the crisis. The household's own effects**,** however, dominated community-level changes in

income. Village-level income shocks only partially yield lower household consumption, which points to the presence of some inter- and/or intra-household insurance or redistributive mechanism at work. Undoubtedly, this "moral economy" complemented official JPS programs in limiting the worst effects of the crisis.

The JPS programs operated in five major sectors: food security, employment creation, education, health, and community empowerment. While different sectoral ministries and agencies designed and implemented each of the programs, the government also established a team specifically tasked with monitoring overall implementation. The team was headed by the National Development Planning Agency (Bappenas) at the central level and by the provincial and district development planning boards (Bappeda) at the local level.

In the food security sector, the government initially introduced a subsidized rice program (OPK) in July 1998 to ensure continued access among the poor to affordable rice. After a successful pilot program in Jakarta, the program was expanded to the rest of the country. The OPK program was the largest and arguably the most critical component of the JPS programs during the crisis. The initial target population included around 7.4 million households or roughly 15% of all households in the country. By far the most important commodity for poor households, rice comprises nearly a quarter of average monthly expenditures in poor households, contributing 34% and 26% to the official rural and urban poverty lines, respectively. By mid-1999, over 50% of households in all, but the richest quintile, reported receiving OPK rice.

The OPK program shared some similarities with traditional commodity subsidy programs in other developing countries. As an indirect income transfer, the program reduced the price of the largest component of most poor households' monthly expenditures. The OPK "transfer" constituted 9% to 11% of total preprogram monthly expenditure of the median participant household. Econometric evidence suggests that OPK recipients experienced an increase in per capita household consumption that was in the order of 4% higher than nonrecipients at similar welfare levels. Although poor households were explicitly targeted, the program also had an element of implicit self-selection by restricting the quality of OPK rice to that of medium quality rather than the higher quality rice traditionally purchased by wealthier households. Neither the explicit nor implicit targeting, however, was effective in limiting program participation to the poor.

In mid-2001, when program planners introduced a set of primarily cosmetic changes, including the new, somewhat ambitious program, Raskin, an acronym for *beras untuk keluarga miskin* ("rice for poor families"), 20.2 million households received subsidized rice, nearly double the target population, and yet only 52.6% of the poor participated. The Raskin program remained the most extensive JPS program through mid-2005. It had not, however, been effectively linked to the targeting and administrative apparatus of the new JPS framework implemented after the fuel subsidy cut-backs in 2005. To account for mounting criticism and perhaps the *de facto* distributional incidence, the official eligibility criteria were expanded to include both the lowest and the second lowest National Family Planning Board (BKKBN) welfare categories up until 2005.

Since 2006, however, the program has targeted households categorized as poor households (RTM) according to the results of PSE-05 data (Enumeration of Household's Socioeconomic Data 2005) that was collected by BPS-Statistics Indonesia. As RTM are spread across all administrative levels of all regions, the Raskin program operates in all regions, without differentiating between regional poverty conditions. In 2007, Raskin had targeted the provision of 1.9 tonnes of rice for 15.8 million poor households with the total cost of Rp6.28 trillion. Each targeted household should receive 10 kilograms of rice each month for Rp1,000 per kilogram at the distribution point (Hastuti, forthcoming). In 2008, Raskin is intended to cover around 19.1 million RTM or about 3.3 million higher than the intended target in 2007. Meanwhile, the unit price of Raskin rice is also increased up to Rp1,600 per kilogram.

A large component of the JPS was the employment creation program known as Padat Karya, which was launched in late 1997 and funded primarily through the state budget to a total of Rp2.1 billion. Although some employment creation programs were targeted to specific areas, particularly to hard-hit urban areas during the initial stage of the crisis, there was a notable lack of implementation guidelines. To the extent that there was household targeting, it was mainly through self-selection as workers chose to work based on the going wage rates. There was no fixed minimum wage rate, but in some regions the wage rate was actually set higher than the prevailing local wage rate, thus inducing those already working to switch jobs or to take additional jobs. Despite weak adherence to set wages below the minimum wage, households with at least one member participating in the program

experienced an increase in per capita consumption approximately 4% higher than nonparticipant households. The dynamic benefit incidence of the labor programs fared better than other JPS programs in health and education, largely due to the self-selection mechanism, which naturally responds to welfare changes more effectively than do administratively assigned benefits. In this regard, the labor programs may have effectively reached not only the chronic poor but also vulnerable near-poor households facing transitory shocks.

Fearing deterioration in public and family health as a result of the crisis, the Indonesian government established JPS programs known as JPS-BK (*JPS Bidang Kesehatan*, Health Sector JPS) in the health sector. The programs consisted of a targeted consumer price subsidy, nutritional supplements, and operational support for public health facilities and village midwives' services. The purpose of these programs was to enable public health providers to maintain the quality and availability of services and poor households to afford the higher costs of medical services. Based on BKKBN criteria, irrespective of health status, eligible poor households received health cards, which could be used to obtain medical services at public health clinics, free of charge.

Impact evaluations of the health program produced mixed findings. First, targeting was progressive as the poorest two quintiles received nearly 60% of the health cards. Roughly 18.5% of the poorest quintile received cards by comparison with only 3.7% of households in the richest quintile. Despite the pro-poor distribution of health cards, the actual utilization of the cards for outpatient care was limited by comparison with the number of cards

distributed. The low utilization rates among recipients perhaps stemmed from the same constraints that the poor face in noncrisis times, such as the high cost of time and travel to reach health facilities as well as limited access to information regarding health service quality and availability. The high rate of underutilization also reflected the weak linkage between the disbursement of health cards and the allocation of operational grants.

Nevertheless, among the poor, the health card program led to increased health care utilization and a moderate shift from private to subsidized public facilities. For the nonpoor, a similar shift in utilization was observed. Quasi-experimental evidence suggests that the operational grants had a relatively stronger impact on overall utilization than did the actual receipt of health cards. While household recipients of health cards may have experienced a 4% increase in consumption relative to similar nonrecipient households, the poorest nonrecipients were still demand-constrained and hence unable to utilize the expanded health services. In this aggregate sense, nearly all of the JPS programs were plagued by undercoverage due to the compounding fiscal constraints imposed by the crisis. These constraints disproportionately hurt poor households as they had to contend not only with leakage but also severe undercoverage in seeking to qualify for participation in JPS programs.

The PDM-DKE program (*Program Pemberdayaan Daerah Mengatasi Dampak Krisis Ekonomi* or Regional Empowerment to Overcome the Impact of the Economic Crisis) provided funds to villages across Indonesia. The program permitted maximum discretion at the local level with regard to the use of funds. The decisions about who benefited were left entirely in the

hands of the lowest level village body, that is, the Village Community Resilience Institution (*Lembaga Ketahanan Masyarakat Desa*–LKMD). Since the official guidelines on targeting were sufficiently general, almost any decision could have been justified as consistent with the program. Since the PDM-DKE program had been introduced as a “crisis program”, local officials often made decisions without adequate time for a proper public information campaign, training of program administrators, and community consensus building. In some communities, PDM-DKE appears to have reached the poor reasonably effectively, while in other locations the local community had never heard of the program, suggesting poor socialization and/or local capture.

The JPS education program had its origins in government concern that parents might withdraw their children from school as a way to cope with falling incomes and rising costs. The government responded to the possibility of a large increase in attrition rates by establishing an educational funding program in the 1998–1999 school year. The program included scholarships for students from poor families and block grants for schools to facilitate continued operations. Not unlike the *Progresa* program in Mexico, the JPS scholarships provided cash to students from poor households. The scholarships covered nearly 8% of average monthly per capita expenditure among recipient households in the poorest quintile. Meanwhile, 60% of schools in each district were to receive operational grants (DBO), which could be used to purchase school materials, make physical repairs, and cover other operational costs.

Although coverage of the poor was rather limited, the scholarship program generated welfare improvements at both household and aggregate

levels. Household recipients of JPS scholarships experienced a substantial increase in consumption almost 10% higher than similar nonrecipient households. Despite the severity of the impact that the crisis had on household welfare, attrition in large-scale was prevented. Although the JPS scholarships reached only 4.96% of all students in primary, junior, and senior secondary schools in the first year, strong econometric evidence suggests that the program succeeded in returning enrollment to precrisis levels, especially for primary school-age children in rural areas. Approximately 13% of JPS recipients would have dropped out of school if they had not received the scholarship, yielding an increase in overall enrollment of 0.6%. Unlike the JPS health programs, though, the demand-side (scholarships) had a larger impact on enrollment than did the supply-side (DBO operational grants). By raising the reservation wages of poor students, the JPS program reduced the use of child labor as a consumption smoothing mechanism in recipient households.

Meanwhile, the JPS scholarship program was progressively targeted in all years of operation until 2003. Households in the poorest two quintiles received nearly 65% of the scholarships from 2001 to 2003. Since July 2005, the JPS scholarship has been enhanced and experienced some changes in terms of target and delivery mechanism. The social protection program in education was then transformed into two forms, school operational assistance (BOS) for elementary and junior secondary schools and special assistance for students (BKM)—such as scholarships that were intended for poor students. Moreover, microsimulations suggest that the poor benefited most from improved targeting and not simply from program expansion. Nevertheless, the

effectiveness of targeting varied widely across districts and particularly across educational levels.

In the years since Soeharto's fall, successive administrations have strongly emphasized poverty reduction. While maintaining some of the JPS programs in the years after the crisis, the various governments also attempted to restructure the extremely regressive subsidies for certain fuel products (mainly kerosene, automotive diesel fuel, and gasoline, known as BBM or *bahan bakar minyak*) and to channel budgetary savings into targeted social protection and poverty alleviation programs. On several occasions the government, after reducing BBM subsidies, has reallocated a portion of the savings to social undertakings known in general as the Fuel Subsidy Reduction Compensation Program (*Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak* or PKPS-BBM).

In 2005, the fuel subsidy scheme was introduced following the economic crisis and the first massive reduction of the subsidy. Annual spending on fuel subsidies at that time absorbed nearly 2.9% of GDP (or Rp76.5 trillion). In March 2005, the government raised the price of fuel products by a weighted average of 29%, and promised to reallocate half of the expected savings to a compensation fund worth Rp11 trillion, to be directed to health, education, and infrastructure programs. Six months later, the same government further slashed the fuel subsidy, extending the reductions to premium gasoline, automotive diesel, and household kerosene. Consequently, the GoI then decided to again increase the fuel prices and compensate the

fuel price subsidy directly to the poor. The latter increase of fuel prices was notably high at around 125% in average.[4]

The skyrocketing of fuel prices has led to the increase of other commodities. Such potential shock to the general economy and particularly to household purchasing power was then clear to policymakers. The challenge for the government was to immediately reallocate resources to social programs so as to mitigate the impact of the price shocks on welfare.

In general, therefore, Indonesia's social protection programs can be divided into three large groups. Firstly, during the crisis period, the government instituted several programs under the umbrella of Social Safety Net (SSN) programs. These ranged from subsidized rice, nutritional supplements for infants, education scholarships, free health services, and employment creation schemes, to community empowerment programs. Sumarto, Suryahadi, and Widyanti (2002) reviewed the targeting accuracy of these programs and found an average of 35% leakage (the share of program benefits that went to nonpoor households) ranging from 70% in the subsidized rice program to only 5% in the nutritional supplement program.

Secondly, as the SSN programs were nearing completion, the government merged some of the programs into a new Compensation Program for the Reduction in Fuel Subsidy (PKPS-BBM), which was implemented between 2001 and 2004. During this period, programs included education scholarships, subsidized rice, cash transfer, revolving funds, free health service, and community-driven development (CDD).

[4] Percentages of price increase for premium gasoline, automotive diesel, and household kerosene were 87.5%, 104.8%, and 185.7% respectively.

Finally, in 2005/2006 the government implemented the PKPS-BBM II program, which contained many components from PKPS-BBM I but with an additional unconditional cash transfer (UCT) component. Following trends in other developing countries, the UCT aimed to duplicate the success of an unconditional cash transfer program in Mexico, the Progresa/Oportunidades.[5] The next section discusses the characteristics and impact of several components of the current PKPS-BBM II program.

IV. Characteristics and Impacts of Targeted Social Programs

Prior to the October fuel subsidy reduction, the government had allocated Rp5 trillion to education, Rp3 trillion to health, and Rp3 trillion to infrastructure. Initial estimates placed the expected savings from the October subsidy cut at Rp25 trillion, and the government planned to allocate Rp4.7 trillion to the first of four quarterly tranches for the transfer program. The following part of this section provides details of recently implemented, ongoing, and upcoming social protection programs. The details of the targeted social programs are summarized in Table 2 and Table 3. In addition, some of these programs are then further explained in the following subsections.

5 See, for example, Gertler, Martinez, and Codina (2006); Skoufias and di Maro (2006); and IFPRI (2000) for evaluations of Progresa.

Table 2. Details of Postcrisis Social Protection Programs

Program	Description of benefits	Program coverage	Implementation problem	Likely impact to the poor/vulnerable
Rice for the poor (Raskin)	Sales of subsidized rice	Intended to cover 15,8 million households in 2007	• Socialization to the community is still weak • The program is not fully transparent • Varying targeting accuracy	Help with food expenses, "taking a load off the minds" of recipients & their families, and being able to limit price fluctuations for rice in the local markets
School operational assistance (BOS)	School operational assistance for the 9-year primary education which is distributed to and managed by schools	July-Dec 2005: Rp5.136 trillion for 39.6 million students	• Lack of socialization & technical training particularly for school administrator • Time lag for the distribution of funds with the commencement of the academic year/semester	• Increased the availability of better equipment and teaching materials • School tuition and other school fees are reduced or even free
Unconditional Cash Transfer/UCT (BLT)	Direct cash transfer (Rp100,000/HH/ months) to poor and near poor households that were given quarterly for one year (2005/2006)	2005/2006 (started in Oct 2005): About 19.2 million households	• Program socialization to the public was lacking or even absent in some places • Complaint resolutions were not sufficiently accommodated in the original program design • Regional & local governments are generally unprepared to handle a program of this scale and in such a short implementation schedule	• Help the beneficiary households to cope with negative shock due to reduction in the fuel subsidy (it can be seen from the use of funds, e.g., rice or other food purchased, school fees payment, debts payment, and getting medical treatment)
Kecamatan Development Project (KDP)/Urban Poverty Program (UPP)	Block grants to eligible subdistricts, focus on community participation with 2 components: small loans & infrastructure improvement	KDP 1998-2008: 30 provinces, 260 districts, 1,983 subdistricts, 34,200 villages UPP: 6,600 urban wards and 7.4 million beneficiaries	• Local bureaucracy bogs down participation • Elite capture in deciding on infrastructure project • Overall lack of financial transparency • Insignificant community involvement in maintaining the finished projects	• More than 50% cheaper than contractor-executed construction • Increased participation • Provided access to poor families

Source: Summarized from various World Bank projects' documents and SMERU's presentations.

Table 3. Details of Ongoing and Upcoming Social Protection Programs

Program	Description	Objectives	Program Coverage
Conditional Cash Transfer (CCT): Community	• Allocated block grant to communities, who decide how block grants can be best used to reach several education and health targets • Conditionality: financial incentives to villages based on performance evaluation of 12 indicators • Village performance will be compared with other villages in the subdistrict at the end of program cycle	• To reduce current poverty • To reduce maternal mortality • To reduce child mortality • To ensure universal coverage of basic education	The pilot project (2007) covered 48 districts/municipalities in seven provinces (DKI Jakarta, West Java, East Java, West Sumatra, North Sulawesi, Gorontalo, and East Nusa Tenggara)
Conditional Cash Transfer (CCT): Household (known as Program Keluarga Harapan/PKH)	• Applies the traditional CCT design with quarterly cash transfers to individual poor households identified through statistical means • Households recipients will receive the cash transfer through the post office as long as they meet the requirements of using specified health and education services • Health facilities & schools will regularly report nonuse of their services • If the HH-CCT recipient fails to comply with the required condition after a few warnings, the cash transfer will be terminated		The pilot (2007) covered approximately 500.000 chronically poor households in seven provinces
National Community Empowerment Program (PNPM)	The 2007 program still 100% duplicates KDP and UPP, but there will be fine-tuning in 2008, e.g., regarding the maximum government contribution to the projects (currently pegged at 80%)	To speed up efforts to eliminate poverty and create job opportunities through consolidated community empowerment programs, which so far have been conducted separately by various ministries and state institutions	Targeted to cover all *kecamatan* in 2009. Total budget is Rp14.3 trillion until 2009.

Source: Summarized from various World Bank projects' documents and SMERU's presentations.

a. Unconditional Cash Transfer (UCT) and Conditional Cash Transfer (CCT)

In October 2005, the Indonesian government launched its most ambitious social protection program to date, which is an unconditional cash transfer (UCT) program known as *Bantuan Langsung Tuna*i (BLT).[6] The BLT is a direct cash assistance (Rp100,000/household/month) which was disbursed through post offices quarterly in a one year period.

A household's eligibility was determined based on PSE05 (Enumeration of Household's Socioeconomic 2005) data collected by BPS-Statistics Indonesia by using a district-specific proxy means-testing method based on 14 indicators of poverty, including, among others, household size, assets, housing characteristics, level of education level of household head, and household consumption pattern. An eligible household received a UCT card which they used to withdraw the payments from local post offices on a given date.

The first tranche was to reach around 15.5 million households or approximately 62 million people. In later tranches, the government expanded the number of eligible households to approximately 19.2 million households, partly in response to the overwhelming number of supplementary eligibility requests. This enormous number of targets made the UCT program the largest of its kind in the world. Even so, this program failed to prevent the increase of poverty. The national poverty rate increased from 15.97% in February 2005 to 17.75% in March 2006.[7]

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[6] The program is sometimes referred to as *Program Subsidi Langsung Tunai* (SLT or direct cash subsidy).

[7] There is still controversy regarding the real cause of the increase in poverty. Some blame the fuel price increase, while some pin the increasing price of rice as the cause.

Due to the emergence of social jealousies and popular perceptions of entitlement to benefits after the fuel subsidy cuts, local governments faced mounting pressure to spread UCT benefits to more households. Drawing on continued savings flows from the subsidy reductions, the government was able to diffuse these social and political pressures directly by expanding the reach of the program. A basic political economy model suggests that the postcrisis Indonesian approach of gradual subsidy reductions coupled with compensation programs reduced the likelihood of the policy reversals that took place in several countries of the Middle East and North Africa, where governments attempted drastic subsidy cuts in one go.

By most accounts, the UCT program prevented the sudden increase in poverty that many had predicted in the period leading up to October 2005. Nearly 27.1% of Indonesian households received UCT funds in late 2005, and the program was relatively well targeted to the poor. Targeting was more pro-poor, however, in urban areas where 28.2% of program benefits reached the poorest decile compared to only 17.5% in rural areas. This differential reflects the relative ease of targeting in urban areas where the distinction between poor and nonpoor is more striking than in rural areas, where the majority of poor Indonesians reside. The program reached 55.6% of households in the poorest decile and 39.4% in the second poorest decile.

The government has subsequently justified the targeting outcomes on the grounds that the program aimed to reach not only poor households but also those vulnerable to poverty. Between February 2005 and March 2006, that is, the period during which the BBM subsidy was cut on two occasions, 56.5% of initially poor households remained poor, 19.4% moved to near-poor,

17.7% to near-nonpoor, and 6.5 escaped poverty altogether, moving to nonpoor. Meanwhile, only 6% of nonpoor households in February 2005 became poor or near-poor a year later. The UCT funds constituted a significant proportion of monthly expenditures for the poorest households covering 24% of average monthly household expenditures in rural areas and 17% in urban areas among households in the poorest decile. Furthermore, survey evidence suggests that for certain households, the funds were sufficient to cover not only consumption goods but also some health and education expenditures.

The UCT program addressed three fundamental concerns: (i) to ensure that poor households do not fall deeper into poverty as a result of income and purchasing power shocks; (ii) to protect near- and nonpoor households from slipping into poverty; and (iii) to promote welfare improvements among poor households, pushing them to higher expenditure gradients. Today, the challenge is to integrate an incentive structure into the transfer program in order to generate and maintain the human capital investments vital for sustained growth and poverty reduction. Careful restructuring of existing targeting and transfer arrangements will be required to secure the potential gains of a more equitable and efficient cash transfer program.

SMERU conducted two impact evaluations of the UCT. The first was a rapid appraisal undertaken in Jakarta several days after the first payment period (Hastuti *et al* 2006a), and the second was conducted in December 2005 in five districts across the country (Hastuti *et al* 2006b). SMERU's evaluation finds that targeting at the subdistrict level was quite accurate while the most significant mistargeting took place at the household level. The main

causes of mistargeting were local capture by relatively well-off households connected to local officials and weak proxy indicators in the household survey. This was the first time that proxy means tests were used to target poor households in a national Social Safety Net—SSN (JPS) program. Although the 14-variable proxy used by official enumerators moved beyond the limitations of previous BKKBN targeting criteria, they ultimately failed to capture sufficient variation between poor and nonpoor households, particularly in areas where there was a concentration of households around the poverty line.

Whilst these evaluations found that UCT was helpful in assisting the poor to mitigate the impact of reduced fuel subsidies, the program suffered problems both in its design and implementation. In terms of design, the main weaknesses revolved around a weak socialization campaign; the lack of clear role for local governments in the program; problematic targeting methodology; and the lack of any transparent complaints mechanism. In terms of implementation, there was evidence that the household census enumerators only visited households that had been identified as poor by local authorities. This has caused the program to suffer both leakage and undercoverage, as shown in an example in Table 4 which describes such a simple benefit incidence analysis.

Table 4. UCT Recipients in Kedondong Village, Demak, 2005

UCT Beneficiary by Quintile			Distribution of UCT (Percent)
Quintile	Percent	N	
Q1	74.5	205	42.0
Q2	45.0	125	25.6
Q3	28.3	78	16.0
Q4	21.3	59	12.1
Q5	7.6	21	4.3
Total	35.3	488	100.0

Village population: 1,383 households
Quintile size: 275-278 households
Source: Hastuti *et al* (2005b)

Table 4 shows the distribution of UCT in Kedondong village, where SMERU collected data on the welfare rank of each household using Community-Based Monitoring System (CBMS). Treating those in the first and second quintiles as poor households, the table shows that only 60% (375 household out of 550 in the first two quintiles) of the poor in the village received the transfer, indicating undercoverage, while 33% (last column of Table 4 of the benefit was leaked to nonpoor households. During implementation, meanwhile, there was some evidence that local authorities required recipients to give them a proportion of the transfer.

In 2007, the UCT program has been replaced with a conditional cash transfer (CCT). There are two types of the CCT delivery mechanisms, one is distributed through the community and the other is directly transferred to beneficiary households through the post office. The community CCT is intended to improve the infrastructure, particularly for those which are needed to support the service delivery of health and education, while the household CCT, which is better known as *Program Keluarga Harapan*—PKH, is intended to ensure that poor beneficiary households have access to basic health and

education services, particularly for mothers and children. Currently, the CCT is being piloted in seven provinces in Indonesia, namely DKI Jakarta, West Java, East Java, West Sumatra, North Sulawesi, Gorontalo, and East Nusa Tenggara. At pilot stage, the PKH covered around 500,000 chronically poor households.

The PKH provides direct cash assistance to poor families when certain conditions are fulfilled, e.g., children are enrolled in and attend school, infants are weighted and vaccinated, and expecting mothers get appropriate prenatal care. However, the success of this program is such a challenge. This requires the guarantee of good coordination between ministries and associated institutions, as well as between central and regional governments. Monitoring is another key of success for this program implementation. In Latin American countries, the CCT program is sometimes directly supervised by the President's office to ensure the strong political support. Furthermore, advance preparations of required facilities and infrastructure need to be made (Alatas, 2007).

b. School Operational Assistance (BOS)

School Operational Assistance (or *Program Bantuan Operasional Sekolah*—BOS) is a program for primary and junior high school levels and is intended to reduce the burden on the community, especially the poor, of the costs of education after the BBM (fuel) price rose. Different from the previous PKPS-BBM that had been provided in the form of scholarships for students from poor family background, known as *Bantuan Khusus Murid*—BKM or Special Assistance for Students program, BOS was provided for schools. In the BKM program, the number of poor students who received BKM was

determined by the central government based on the poverty index. In the 2004-2005 academic year, BKM was provided to approximately 20% of primary school students and 24% of junior high school students, with a scholarship value of Rp60,000 per semester per primary school student and Rp120,000 per semester per junior high student. Each school received a particular quota and undertook the selection of students who were eligible recipients; and the BKM funds were then disbursed directly to the selected student via an appointed post office.

The BOS program adopted a different approach than the BKM program in the sense that the funds were not provided directly to the poor students but were granted for and managed by schools. BOS funds were allocated on the basis of the number of students, with an amount of Rp235,000 per student per annum at the primary school (SD) level and Rp324,500 per student per annum at the junior high school (SMP) level. The APBN allocation to BOS funds for the period of July–December 2005 was Rp5.136 trillion, or an approximate eightfold increase over the BKM budget for primary and junior high schools in the period of January–June 2005 (Suharyo *et al* 2006).

The main objective of BOS is to enable schools to abolish tuition fees. Between July and December 2005, 40 million students were not required to pay tuition. In addition to making schooling more affordable, BOS also aims to ensure that schools have the sufficient resources to retain top teachers, provide sufficient educational materials, and ensure that students do not leave school before graduating from junior secondary level.

SMERU was commissioned by Bappenas to evaluate BOS. The study evaluated three aspects of BOS: its impact on schools, on students in general, and on poor students. In terms of its impact on schools, BOS did allow teachers to improve the quality of their teaching by providing better equipment and teaching materials. Also, funds were used to supplement teacher's income and pay for extracurricular activities. The impact on students, meanwhile, was clear, such as reduced or free tuition, cheaper textbooks, and reduction in other fees related to extracurricular activities provided by the school. Finally, SMERU found that while only a small proportion of schools actually give special treatment to poor students; it has nevertheless increased the motivation of the poor students to continue schooling.

However, there is still some room for improvement. Firstly, there is little evidence that BOS has reduced school attrition rates, especially at the junior secondary level. Secondly, school teachers who are also school treasurers now spend more time administering BOS, rather than teaching. This is also often the case for school principals. In addition, there has been manipulation of funds and reduced community participation in the day-to-day operations of schools (Suharyo *et al* 2006).

c. Community-Driven Development: KDP-UPP and PNPM

The central government has been driving two large community-driven development (CDD) projects: the *Kecamatan* Development Program/KDP (*Program Pengembangan Kecamatan*—PPK) and the Urban Poverty Project/UPP (*Program Pemberantasan Kemiskinan Perkotaan*—P2KP). The two programs have a similar basic design, both giving block grants to each area. They differ in so far as that KDP is implemented in rural subdistricts,

while UPP is implemented in urban areas. KDP began in 1998, a year earlier than UPP, and its coverage has gone from 2,000 villages during the initial implementation to currently 34,000 villages. KDP is one of the world's largest CDD programs in the world, with a budget of $760 million. Both KDP and UPP have two main components: small rotating credit and an infrastructure improvement fund. For both programs, the focus is on community participation, which ranges from town hall meetings to decide which infrastructure projects should be undertaken to actually working together in carrying out the physical work.

The University of Indonesia (2002) conducted an evaluation of KDP and found several problems.[8] Firstly, local bureaucracy often dominates community meetings and impedes real community involvement. This leads to significant local capture in deciding the infrastructure projects and, after the project is completed, an unwillingness of the community to maintain the project. Secondly, the study found that poor families have less access to the rotating credit. Thirdly, those receiving credit are not given technical assistance to ensure that the funds are used effectively. Finally, there is often a lack of financial transparency from those in charge of the block grant.

In contrast to the largely negative tone of the University of Indonesia report on KDP, World Bank (2004) claims that UPP helps to increase democracy at the local level, increases participation, and provides access to credits to poor families.[9] Overall, Bappenas found both KDP and UPP to be much more cost effective from a budgetary point of view in terms of

[8] See World Bank (2006b).

[9] See University of Indonesia (2002).

constructing and managing infrastructures (Bappenas 2005). It found that KDP was 55% cheaper than contractor-executed construction for similar infrastructure projects, while UPP was 66% cheaper.

In 2007, the GoI launched a National Community Empowerment Program (*Program National Pemberdayaan Masyarakat*—PNPM), a scaling up of KDP and UPP, which mainly consists of infrastructure projects. The PNPM is developed following the success of Community-Driven Development (CDD) programs, such as KDP and UPP. Besides producing a high economic internal rate of return—between 38.6% and 67.6%—these programs also managed to reduce development costs as has been mentioned. This program focuses on communities' priorities and needs in order to create a higher sense of ownership.

There are three principles that need to be carefully adhered to in the implementation of PNPM: (i) the community is the actor not the object of the development project (in every process, from planning, implementation, maintenance, and monitoring); (ii) transparency of fund allocation and extensive information dissemination; and (iii) funds are directly channeled to communities in order to reduce the probability of leakages (Alatas, 2007).

PNPM is intended to cover all subdistricts (*kecamatan*) in 2009 and will be evaluated annually. In addition, PNPM is also targeted to create 5 million jobs in 50,000 villages. Meanwhile, the total budget of PNPM until 2009 is around Rp14.3 trillion in 2007. The program still fully duplicates KDP and UPP, but there will be fine-tuning in 2008. Due to the presence of PNPM, KDP will continue to 2009, while UPP will continue until 2015.

V. Lesson Learned and Concluding Remarks

The JPS programs prevented the monetary crisis of 1997–1998 from creating the losses in welfare that would have been expected in a situation of rapid decline in purchasing power and widespread unemployment. With a very limited initial institutional foundation for formal social protection programs, the government utilized existing village-level institutions including BKKBN cadres, health centre administrators, school committees, and local government officials to implement education, health, community empowerment, and rice subsidy programs. Participation in all of the JPS programs, except for the small nutrition component of the health programs and subsidized credit programs, helped to increase household consumption. The OPK was particularly effective in ensuring staple food intake among poor households. Despite considerable undercoverage, the JPS scholarship and block grant program helped to sustain enrollment at precrisis levels and may have even reduced the time allocated to employment by children of school age.

A major feature of the initial JPS programs was the heterogeneity of targeting performance across programs and regions. The major factors contributing to variation in program outcomes include differences in (i) program design; (ii) the scale of budget allocations across regions; and (iii) local institutional capacity. In the early stages of the OPK, more than half of all poor households in Indonesia reported receiving the benefits of this program, while more than a third of nonpoor households also reported receiving benefits.

When targeting mechanisms are being designed, it should be kept in mind that the vulnerable and the chronic poor may respond differently to

different types of welfare-enhancing interventions. The actual sources of vulnerability ultimately matter most when designing effective interventions. On one hand, vulnerability due to low mean consumption prospects, which tends to predominate in rural areas, might best be addressed through cash transfer programs. On the other hand, vulnerability due to consumption fluctuations, which is a relatively more common finding among the urban population, might best be addressed through interventions aimed at **consumption smoothing.** In the final analysis, improvements in targeting will require not only finer methodological innovations but also strong political will and public institutional support.

The PKPS-BBM programs were built on the lessons of previous programs. Given the large and flexible budget funded primarily by flows of savings due to BBM subsidy reductions, the PKPS-BBM programs achieved a degree of national coverage that was not possible for the JPS programs. This achievement established credibility among stakeholders at all levels of government. In terms of management and implementation, program outcomes depend on whether: the distribution of funds is timely, the program is well coordinated horizontally and vertically, and the program is sufficiently and properly socialized.

The most valuable lessons from Indonesia's JPS programs include the following: First, informal coping mechanisms complement formal social interventions but are independently insufficient to mitigate the worst effects of a major shock or crisis. Thus, real spending on formal JPS programs must rise unambiguously during periods of crisis or induced shocks. Second, long-term poverty alleviation and development strategies are not suitable as JPS

programs during a crisis. Even programs such as a CCT might not be sufficient to act as a safety net to prevent poor and near-poor households from falling more deeply into poverty. The institutional structure developed through a CCT program, however, would support rapid appraisals and social interventions during crises. In particular, microcredit programs are not suitable as social protection programs. Not only are new microenterprises unlikely to be successful during a crisis, but also the hurried expansion of credit can undermine the slow, patient, and painstaking groundwork that successful microcredit programs require. Third, there is evidence that the current targeting system has a weak methodology, which is often the case with top-down programs like UCT, rather than programs that involve the community in one way or another, as CDD do. Therefore, it may be worth exploring ways to increase community participation rather than having a top-down targeting system. Fourth, the second lesson is in terms of coordination, both between central and local governments and between line ministries in the central government. The rules and regulations of a program must be well-designed and the duties of each ministry should be made explicit to avoid confusion. Fifth, given that Indonesia now adheres to a decentralized government system, the central government should refrain from implementing large-scale programs like the UCT, but rather play a more supporting role and let the local governments decide the best programs for their residents.

In conclusion, it is important to note that significant progress has been made on poverty reduction in Indonesia since the 1998 crisis. The government is increasingly willing to make program improvements based on rigorous and independent impact evaluation studies, more budget is allocated

for poverty reduction programs, and poverty reduction strategy papers are now “produced” by involving civil society. However, the state of poverty in Indonesia is still far from being resolved, as widespread vulnerability to poverty remains and there is uneven progress towards several Millennium Development Goals, particularly in maternal health. Poverty remains a crucial issue in Indonesia and our efforts must improve both in quality and quantity, to ensure that Indonesians are free from chronic poverty. Among others, poverty reduction programs should be more focused on human development and capacity building and provide greater multiplier effects in the future. In a broader concept, efforts to reduce poverty should be inline with the concern of promoting human security that has been placed as international concern.

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