

Income poverty is only part of the story

Abdurrahman Syebubakar, Jakarta | Opinion | Tue, October 14 2014, 7:13 AM
Opinion News

Indonesia has made good progress in reducing extreme and absolute poverty, but is still marred by a large number of poor people and deep poverty.

By March 2014, there were still more than 28 million people living under the national poverty line. The number of those living just above the poverty line is much higher, estimated at no less than 70 million.

The national poverty line in March 2014 was set at a minimum spending of Rp 302,735 (US\$25) per month for an individual, with variations between rural and urban areas and among regions. The national poverty line is regularly adjusted, at least once a year, taking into account inflationary trends in both food and non-food items.

The poverty picture looks different upon thresholds set by the Asian Development Bank (ADB). The latest study by the ADB on poverty in Asia set the poverty line in Indonesia at \$1.25 based on purchasing power parity. The World Bank's poverty threshold is \$2 a day.

All these numbers seem to differ but have one thing in common. They are all based on monetary measures, revealing income or expenditure poverty. Why does this matter?

The figures only tell part of the story. They do not reflect other forms of poverty and the many overlapping disadvantages experienced by the poor, such as malnutrition, poor sanitation, lack of electricity or limited access to schooling, let alone qualitative aspects such as empowerment and participation.

Poverty, as asserted by Amartya Sen in his famous book, *Development as Freedom* (2000), must be seen "as a deprivation of basic capabilities, rather than merely as low income".

It represents more than a low standard of living; the national poverty line does not capture the other vital and multiple dimensions of necessities required by the poor.

Those below the poverty line can be in deprivation in many ways. And many more living just above the poverty line are vulnerable, being at high risk of becoming monetarily and/or multi-dimensionally poor.

The question is how do we measure multidimensional poverty? Based on Amartya

Sen's Capability Approach, the United Nations Development Program (UNDP) in its 2010 Human Development Report introduced the Multidimensional Poverty Index (MPI) serving to complement the Human Development Index (HDI), a measure focused on health, education and standards of living widely used by policymakers around the globe.

Similarly, the MPI depicts multiple deprivations in a household through 10 indicators in education, health and standard of living. The MPI shows both the incidence and intensity of poverty. It also measures deprivations directly and shows where and how poverty can be reduced (Sabina Alkire and Andy Sumner, 2013).

A person or household is considered multi-dimensionally poor if it is deprived in at least three out of 10 indicators, while a person or household with deprivations in two to three indicators is at risk of becoming multi-dimensionally poor.

According to the 2013 Global Human Development Report (HDR), 20.8 percent (equivalent to 48.4 million) of the population suffer multiple deprivations, while an additional 12.2 percent are vulnerable to multiple deprivations. The intensity of deprivation, which is the average percentage of deprivation experienced by people in multidimensional poverty, is 45.9 percent.

The MPI, which is the share of the population that is multi-dimensionally poor, adjusted by the intensity of deprivation, is 0.095.

Though the national poverty line is based on monetary measures, the Millennium Development Goals (MDGs) contain multi-dimensional indicators and have been used as part of the reference for planning and budgeting processes at the national and sub-national level.

Likewise, the HDI has partly constituted variables for determining the General Allocation Fund (DAU) and Specific General Allocation Fund (DAK) transferred by the central government to sub-national governments.

Furthermore, the multiple poverty reduction and social protection programs implemented by national and sub-national governments cover different sectors and benefit those beyond the national poverty line.

To mention a few, the national social protection programs include rice for the poor (Raskin), conditional cash transfers (PKH), scholarships for poor students (BSM) and health insurance for the poor (JKN).

Law No. 17/2007 on the National Long-Term Development Plan (RPJP) 2005-2025 states that poverty is multidimensional, not just the size of income but also other vulnerabilities and deprivations.

The RPJP emphasizes further that poverty is about a failure in the fulfillment of basic rights and differences in the treatment of a person or group of people to live a life with dignity.

Law No. 13/2011 on the Poor and Underprivileged defines the poor as those who have absolutely no source of livelihood or who have a source of income but are unable to meet the basic needs of decent living.

Social welfare is more broadly defined by Law No. 11/2009 on Social Welfare as the fulfillment of the material, spiritual and social lives of citizens in order to live a viable life and to develop themselves to carry out social functions.

President-elect Joko "Jokowi" Widodo and vice president-elect Jusuf Kalla are determined to pursue their political promise of reducing poverty through a comprehensive policy. They have offered a nine-point program as an attempt to help the poor and vulnerable. Of the nine points, there are three that have come into prominence and are prioritized for implementation to address multidimensional poverty, namely the Kartu Indonesia Sehat (Indonesian Health Card — KIS), Kartu Indonesia Pintar (Smart Indonesian Card [for education] — KIP) and the monthly Rp 1 million (\$82) cash transfer to underprivileged families. All the above create the momentum and imperative for applying internationally comparable measures of multidimensional poverty.

Data generated by the Central Statistics Agency is available for the MPI's 10 indicators of education, health and living standards.

What is needed is the political will of the government to implement the MPI measurements. It is not to replace, but rather complement the monetary-based national poverty line.

The MPI not only measures the incidence and intensity of poverty but also shows how and where people are poor. In turn, it can provide information on how to reduce poverty.

In addition, the MPI can be utilized by governments at all levels to sharpen policy and program formulation so that the many different aspects of poverty are reduced and the multiple needs of the poor and vulnerable are better met.

The writer is senior advisor to the Institute for Democracy Education (IDe), a Jakarta-based think tank.

Wealthy gain the most, poor left behind in 'Yudhoyonomics'

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Not all Indonesians have benefitted from the robust economic expansion during President Susilo Bambang Yudhoyono's decade-long leadership, as the rich and capital owners gained the most, while the poor saw incomes rising only marginally, leading to widening inequality in the economy.

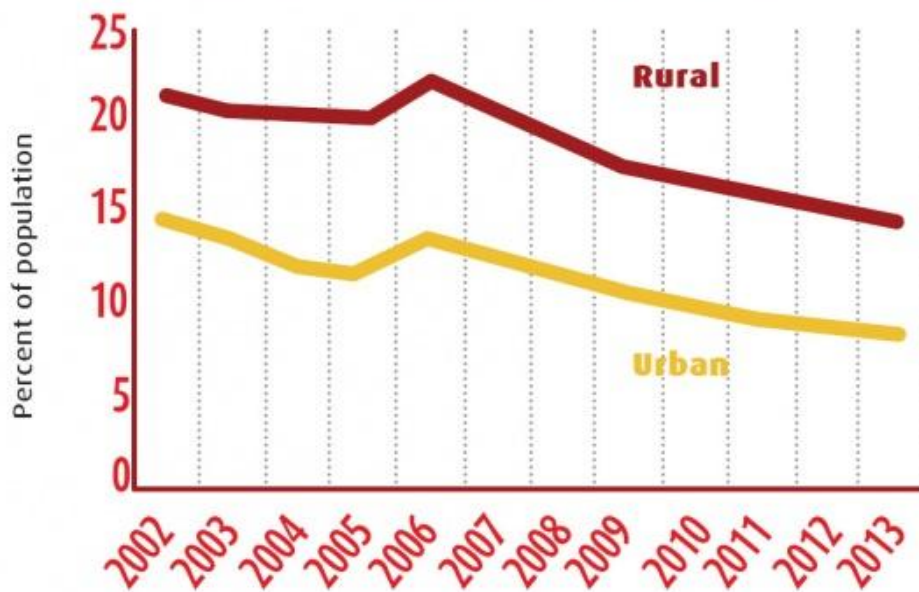
Indonesia's economic growth averaged 5.9 percent from 2005 to 2013. However, the Gini coefficient ratio, a measurement of equality in the economy, rose from 0.35 to 0.41 in the corresponding period. A higher ratio means the wealth distribution in an economy is concentrated among fewer citizens.

"The income growth of the rich has grown faster than that of the poor," Deputy Finance Minister Bambang Brodjonegoro acknowledged. "I believe the new administration will have to prioritize policies to reduce inequality."

The lack of inclusiveness in Indonesia's economic growth means that efforts to reduce poverty have been more difficult in recent years.

In his 2009 presidential campaign, Yudhoyono promised to trim down poverty levels to 8 percent from 14 percent at that time. As of March this year, there were still 28.6 million Indonesians living below the poverty line, or 11.3 percent of the total population.

Urban and rural poverty 2002-13



Source: World Bank

Ikhsan Modjo, an economic advisor to Yudhoyono's Democratic Party, noted that the growing inequality in the economy occurred because policymaking in Indonesia had been "very elitist". Top government officials apparently failed to notice the problems facing low-income citizens, with poverty-reduction programs being irrelevant to poor people's actual needs, he said.

During his visit to Indonesia this month, Nobel laureate in economics Joseph E. Stiglitz specifically highlighted the widening inequality occurring in the economy during Yudhoyono's leadership.

A country with more equal distribution of wealth tends to have more sustainable economic growth in the long run, suggested Stiglitz, author of best-selling book *The Price of Inequality*.

"The government needs to play a critical role, which is an idea called 'the development state'," said the US-born economist. "It is markedly different from the neoliberal model, whose policies by [and] large have been a failure."

Rising inequality in Indonesia is in stark contrast to what the country's neighbors have experienced, according to the World Bank. It pointed to Thailand, Vietnam and the Philippines as examples of countries that have enjoyed periods of strong growth with stable or declining income inequality.

Worryingly, Yudhoyono may also leave behind the legacy of an economy that is becoming less efficient, as economic expansion creates less jobs today than in the

past.

At the moment, every 1 percent of economic growth recorded in Indonesia could generate around 165,000 jobs, estimates from the Institute for Development and Finance (Indef) show.

That is a significant decline compared to two years ago, when the economy could generate 400,000 jobs for the same level of economic expansion, Indef noted, quoting the 2012 State Budget.

Capital-intensive industries prospered ahead of labor-intensive business during the term of Yudhoyono, a leader who has been seen as friendly in relation to foreign investments. Data from the Investment Coordinating Board (BKPM) shows that investment realization in the first quarter of this year only generated 260,000 jobs, lower than 430,000 jobs a year earlier.

Between 2001 and 2011, there were at least 20 million new jobs created in Indonesia, 18 million of which were in urban areas, according to the World Bank.

However, most of the new jobs were in low-productivity and informal sectors where real earnings growth is sluggish.

Access to health, education key to erasing poverty in Southeast Asia, says NEDA's Balisacan

October 15, 2014 5:11pm

Providing the poor with equal access to economic opportunities and basic services, like health in education, is the key to reducing inequality and poverty in the Philippines and other East Asian countries, the National Economic and Development Authority (NEDA) said Wednesday.

The government has raised its spending for health and education including the conditional cash transfer program, popularly called the Pantawid Familyang Pilipino Program (4P's), NEDA Director-General and Economic Planning Secretary Arsenio Balisacan said in an emailed statement.

Balisacan spoke during a World Bank panel recently held in Washington DC, citing government interventions to present more opportunities for the economy in preparation for next year's ASEAN market integration.

The NEDA chief also said infrastructure investment is set to increase to 5 percent of Gross Domestic Product (GDP) by 2016 from 2 percent of GDP in 2012 to address "one of the country's biggest constraints to development and opening up for a bigger market," according to the statement.

"A much easier and faster way of addressing inequality is mobility and enhanced capacity of people to choose any sector or location of employment. This is why education is such a powerful equalizer.

It explains why Filipinos are everywhere. When they can't find opportunities near them, they move elsewhere if they have human capital," Balisacan said.

The World Bank summit, attended by economists and analysts from across the globe, discussed how developing countries in developing East Asia and the Pacific can improve their economies.

The Philippine education sector will be receiving the biggest allocation of P364.9 billion under the proposed 2015 national budget, compared with P309.43 billion this year. – **Raffy Cabristante/VS, GMA News**