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Assessment of Indonesia's poverty alleviation strategy: a chronic poverty approach

Pipin Prasetyono

Introduction

The issue of poverty is considered as a side effect of the development process in which the government and market system have failed to distribute benefits of the development equitably among people, thus, sometimes, poverty coexists with inequality (Focus on the Global South 2003, pp. 5-10). As a response, countries and supranational institutions such as the United Nations, the World Bank and the IMF were united to establish a global agenda to eradicate poverty in the form of Millennium Development Goals (MDGs) and Poverty Reduction Strategy Papers (PRSP) in the early of 2000's. After several years of implementation of these goals and strategies, the World Bank (2015) reports that poverty level globally has significantly decreased to reach 9.5 percent in 2015, compared to 37.1 percent in 1990 (p. 3). At the national level, Indonesia which has committed to achieve the MDG as well as implemented poverty reduction strategies based on PRSP shows significant improvement in which its poverty rate has decreased by half from 24.2 percent in 1998 to 11.2 percent in 2015 (World Bank 2016b). Against this background, this paper will discuss poverty alleviation from the perspective of chronic poverty theory, and by examining Indonesia's experience in poverty alleviation, this paper argues that the poverty alleviation strategy implemented by the government of Indonesia is effective.

Literature review

Poverty could be defined as a condition of 'deprivation in well-being' (World Bank 2000, p. 15). The concept of well-being has broadened the dimensions of poverty from basic needs to capability to play a role in the society, therefore measurement of poverty has also evolved from income and consumption to become specific type of capability, such as nutritional poverty and educational poverty (Haughton & Khandker 2009, p. 2). Accordingly, the global poverty alleviation strategy shifted from being state-centered by providing basic social services to the poor in the early 1990's to being people-focused by promoting opportunity, facilitating empowerment and enhancing security in the 2000's (World Bank 2000, pp. 31-33). Moreover, further attention has been given to the poorest as they could transfer their poverty to their children and create intergenerational transmission of poverty that potentially causes never ending poverty alleviation process (Moore 2001, pp. 4-6). Attention to identify the poorest among the poor, or those who are

chronically poor, in formulating an anti-poverty strategy leads to the emergence of chronic poverty theory.

The chronic poverty theory was established based on two main assumptions which are (1) the poor are not a homogeneous group and their poverty status depend on how long they have been in deprivation condition, and (2) different poverty status requires different treatments (Hulme & Shepherd 2003, pp. 403). Therefore, this approach focuses on identifying and clustering the poor into two major groups which are chronic poor and transient poor (Shepherd 2007, p. 49). The reasoning of this clustering, according to Jalan and Ravallion (2000), is to identify those who have already been below the poverty line for a long time and could potentially transfer their poverty to the next generation and those who are vulnerable by living at or slightly below and above the poverty line, that potentially could fall deeply into poverty when income shocks occur, thus appropriate policies could be taken (pp. 82-83). For the transient poor, policies should be directed to reduce vulnerability, enhance their income and protect them from income shocks (ibid, p. 83), while for the chronic poor, since they suffered accumulative lack of basic capabilities so it is difficult for them to escape from chronic poverty by their own efforts (Hulme & Shepherd 2003, p. 407), thus providing them with support or access to basic needs is appropriate (Hulme et al. 2001 pp. 6-7).

Analysis

Strategies to overcome the chronic poverty as suggested by Hulme and Shepherd (2003) by providing basic needs or income to support the poor's basic needs through an income redistribution mechanism (p. 404) could be examined through basic needs theory as one of development approaches. Based on an assumption that economic growth is inadequate to solve poverty because there is no guarantee that benefits resulted from growth is distributed evenly, basic needs theory emphasizes the role of the state in providing public basic needs for the poor (Streeten & Burki 1978, pp. 411-413; Streeten et al. 1981, pp. 8-12). Until the 1990's, the basic needs approach was still used in poverty alleviation strategy, since, for example, the World Bank (1990) recommended provision of targeted basic social services for the poorest combined with social safety nets and policy to boost economic growth as strategies for alleviating poverty (p. 138). By limiting the beneficiaries only to those who are categorized as chronically poor, this approach leads to an opportunity for the government to create a well targeted strategy and focus on mobilizing resources for targeted group. Therefore, Streeten et al. (1981) stress the

importance of specifying and counting the number of the deprived before by calculating the cost and delivering the program (p. 27). As evidence, by analyzing developing countries' data on social assistance, Prasad (2008) concludes that poverty could be effectively reduced in the short term by targeted social assistance from the government (p. 27).

Furthermore, highly reliance on government in providing basic needs for the poorest could raise the issue of income redistribution sustainability and neglects the opportunity to enhance their income and empowerment purposes. Firstly, the income redistributed by the government mainly comes from tax revenue paid by taxpayers, thus the quantity and quality of basic needs is highly depend on the amount of taxes that could be collected. Therefore, continuously providing basic needs as antipoverty strategy could heavily burden taxpayers and leads to highly excessive tax rate to support social program that could disrupt the economy (Chu et al. 2000, p. 10). Secondly, by continuously providing basic needs for the poorest, the government creates a dependency of the poor to the government so they tend to become the passive recipients and are not empowered. Handley et al. (2009) argue that even though poverty reduction should be directed to address the poor's needs as their rights, the values of empowerment, participation and accountability could not be neglected (p. 9).

On the other hand, the idea to provide social safety nets for the transient poor (Hulme & Shepherd 2003, p. 404) could be examined from the perspective of participatory development approach. The emergence of the capability approach that emphasizes the importance of measuring quality of people's life based on what they are able to achieve has shifted the development approaches to be more people-centred and participative rather than limited to basic needs (Clark 2005, pp. 1-3). This approach could effectively addresses poverty since resources are given to the poor so they have an opportunity to enhance their income and productivity and subsequently reduce the impact of income shocks. According to the World Bank (2000), opportunity and resources given to the poor could help them to independently empower themselves, establish a strong position in the society and finally increase their security from income shocks (p. 7). In support, the UNDP (2011) argues that a participatory approach in poverty alleviation mainly stresses the importance of empowering the poor by enhancing their abilities to shape their own communities, states and nations (p. 2).

Providing resources and opportunity for those temporarily poor to enhance their income through a participatory approach could raise an effect in slow process to alleviate poverty. The poor need time to engage into the designed program and to transform given opportunity and resources to become an increase in their income. According to the OECD (2012), poverty should be addressed by empowering the poor to secure their rights by their own action, and even though this approach usually takes time, it supports to a sustainable engagement (p.1). Mansuri and Rao (2011) argue that the most time consuming stage in implementing a participatory program, especially which targeted to community, is to build the citizen's capacity to engage, because it involves in changing citizen's interaction behaviour and introducing them to a new strategy (p. 83). Thus, this time consuming approach could be claimed as ineffective to alleviate poverty since development, according to Streeten and Burki (1978), must be focused on alleviating poverty within a short period of time (p.1).

The government of Indonesia has placed poverty alleviation as a priority of its development agenda. As a part of global citizens, commitment to support MDGs has been formulated through integration the MDGs to all stages of its development plan, which includes long term, medium term and annual plan (National Development Planning Agency of Indonesia 2010, p. 12). Indonesia also formulated PRSP in 2004 as the nation's guidelines in poverty reduction strategy by combining four initiatives which are opportunity creation, community empowerment, capacity building and social protection (UNEP 2015, p. 7). The poverty reduction target has also been prioritized in the national development goals, for example in the Medium Term Development Plan 2009-2014, the Republic of Indonesia (2010) targeted the poverty rate to decline from 14.15 percent in 2009 to reach 8-10 percent in 2014 (p. 46). The jargon of 'pro-poor' budget which was aligned with pro-growth, pro-job and pro-environment has been inspiring Indonesia's national budget for years in mobilizing resources for public expenditure and poverty reduction programs (Republic of Indonesia 2015, p. 2). Moreover, Indonesia has also established collaboration with development partners such as the World Bank and the United Nations bodies in addressing limited resources to finance poverty reduction programs.

The poverty alleviation strategy which has been implemented by Indonesia since 2006 could be characterized as a combination of the basic needs and participatory approach to capture the clustered poverty level. The poverty programs were clustered into three

clusters based on the beneficiaries' segmentation which are very poor, poor and near poor (Suryahadi et al. 2010, p. 11). The first cluster was designed as family-based integrated social assistance for the very poor and mainly intended to fulfil the poor's basic needs in which the government provides rice, cash transfer, scholarship and health cover (Manning & Sumarto 2011, pp. 20-21). Furthermore, the second and third clusters are intended to bring the poor and near poor into development process through empowering them by providing community development block grants for the poor in the second cluster, and microcredit for the near poor who run small and micro enterprises in the third cluster (Perdana 2014, p. 4).

Notwithstanding that Indonesia has successfully decreased the poverty rate, its strategy in poverty reduction left the income inequality remained high. While the economy has grown steadily by an average of 5.7 percent, and the poverty rate decreased from 17.8 to 11.3 percent during the period of 2006 to 2014 (World Bank 2016a), the Gini ratio which portrays income inequality has increased from 0.363 to 0.413 (Statistic Indonesia 2016). This condition might be a result of Indonesia's income redistribution strategy in providing basic needs for the very poor rather than any means to enhance their income. When the other clusters are empowered by government's program and have opportunity to increase their income, the very poor remain unchanged since they do not have the ability and resources to boost income. Therefore, the income gap between the highest income and the very poor become higher and leads to an increase in inequality. According to White and Anderson (2001), income redistribution mechanism create significant effect to poverty and barely affect income inequality, therefore the poor could possibly gain optimal advantage of economic growth if redistributive strategy was implemented (pp. 269-271; p. 285). Growing inequality was also accompanied by slowing poverty reduction in Indonesia. As reported by Aji (2015), the poverty rate decreased by 1.2 percent per year during 2006 to 2010 then slower by 0.5 percent during 2011-2014 (p. 3).

From Indonesia's experience in adapting chronic poverty theory in its poverty alleviation strategy, clustering poverty and distinguished approaches for different clusters have managed to decrease poverty rate. Yet, the increasing income inequality resulted from this approach should become a consideration for a country which will adapt to this approach. Even though income redistribution mechanism in providing basic needs for the poor is effective, this effort is not enough to push inequality down. Basic needs provision should be accompanied by any means to enable the chronic poor to enhance their income.

In addition, evidence that Indonesia's poverty rate decreased slowly indicates that the empowerment approach is boosting the poor and near poor's income, however, very slowly.

Conclusion

In conclusion, chronic poverty theory provides a framework in poverty alleviation by focusing attention on the chronic poor to prevent intergenerational transmission of poverty, and the transient poor to enhance their income and reduce them from vulnerability caused by income shocks. Framing Indonesia's poverty strategy from this theory, it could be seen that approaches which have been implemented by Indonesia could effectively decline the poverty rate. Yet, there is evidence that income inequality remains high and poverty reduction is at a slow pace. These facts illustrate that the chronic poverty theory through a combination of basic needs provision and a participatory approach to enhance the poor's income was able to help in Indonesia in alleviating poverty, however, the theory leaves a gap in ability to combat inequality and pushing down the poverty rapidly.

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