

THE PRO-POOR PLANNING AND BUDGETING PROJECT

Working Paper No. 2

**Towards a National
Poverty Reduction Action Plan**

HICKLING

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This Working Paper has been produced by the Pro-Poor Planning and Budgeting Project (ADB TA 4762 INO). The Directorate for Poverty Reduction at the National Development Planning Agency (BAPPENAS) was the executing agency for the project from September 2006 to June 2008. The project provided technical assistance to build capacity for pro-poor planning and budgeting in eleven districts and also produced Working Papers to contribute to discussions on national program and policy issues related to poverty reduction. Additional information on the work of the Pro-Poor Planning and Budgeting technical assistance (TA) is available on the website: <http://p3b.bappenas.go.id>

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Nick Mulder, the Pro-Poor Budgeting Specialist with the Pro-Poor Planning and Budgeting Project (P3B), was the lead author for this Working Paper.

The complete list of Working Papers produced by the Pro-Poor Planning and Budgeting Project is as follows:

1. Pengentasan Kemiskinan melalui Pembangunan Usaha Mikro, Kecil dan Menengah (Poverty Reduction through Developing Micro, Small and Medium Enterprises)
2. Towards a National Poverty Reduction Action Plan
3. Review and Evaluation of Pro-Poor Programs in Indonesia – A Summary Overview
4. Improving Local Government Planning for Enhanced Poverty Reduction
5. Program Keluarga Harapan – PKH: Two Case Studies on Implementing the Indonesian Conditional Cash Transfer Program
6. Perencanaan dan Penganggaran yang Berpihak pada Masyarakat Miskin: Studi Kasus dari Tiga Provinsi (Pro-Poor Planning and Budgeting: Case Studies from Three Provinces)
7. Kajian Kesejahteraan Keluarga dan Pemberdayaan Gender di Provinsi Nusa Tenggara Timur, Jawa Tengah dan Sumatera Selatan (Planning and Budgeting for Improved Family Welfare)

The project also produced the following publications in cooperation with BAPPENAS:

- Pro-Poor Planning and Budgeting Newsletters (Volumes 1 – 3)
 - Buku Panduan – Perencanaan dan Penganggaran yang Berpihak pada Masyarakat Miskin (Handbook on Pro-Poor Planning and Budgeting) (2008)
 - Kumpulan Bahan Latihan Pemantauan dan Evaluasi Program-Program Pengetasan Kemiskinan (Resource Book of Training Materials for Monitoring and Evaluation of Poverty Reduction Programs) (2008)
 - MDGs Scorecards for District Governments (11 were produced in collaboration with the district governments of Manggarai, Sumba Barat, Sumba Timur and Kupang in East Nusa Tenggara, Semarang, Wonosobo, Banjarnegara, and Purbalingga in Central Java, and Palembang, Ogan Komering Ilir and Ogan Ilir in South Sumatra).
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Abbreviations and Acronyms

ADB	Asian Development Bank
APBD	Anggaran Pendapatan dan Belanja Daerah [Regional Budget]
APBN	Anggaran Pendapatan dan Belanja Nasional [National Budget]
BAPPEDA	Badan Perencanaan Pembangunan Daerah [Regional Development Planning Agency]
BAPPENAS	Badan Perencanaan Pembangunan Nasional [National Development Planning Agency]
BLT	Bantuan Langsung Tunai [Direct Cash Aid]
BOS	Bantuan Operasional Sekolah [School Operational Assistance]
BPS	Badan Pusat Statistik [Central Bureau of Statistics]
CCT	Conditional Cash Transfer
CD	Capacity Development
CERD	Community Empowerment for Rural Development
DAK	Dana Alokasi Khusus [Special Allocation Fund]
DAU	Dana Alokasi Umum [General Allocation Fund]
DEKON/TP	Dekonsentrasi / Tugas Pembantuan [De-concentration/ Assistance Tasks]
Dinas	Operational unit of the autonomous regional government
DPRD	Dewan Perwakilan Rakyat Daerah [Regional Parliament]
GOI	the Government of Indonesia
HDI	Human Development Index
HRD	Human Resource Development
ILGR	Initiative for Local Government Reform (World Bank)
Indopov	World Bank Poverty Research Section in Jakarta
JAMKESMAS	Jaminan Kesehatan Masyarakat [Health Insurance]
Kabupaten	Regency/District
KDP	Kecamatan (district) Development Program
LP3ES	Jakarta Based Research Institute
KPEL	Partnership for Local Economic Development
KPK	Komite Penanggulangan Kemiskinan [National Poverty Reduction Committee]
KPKD	Kantor Pengelola Kekayaan Daerah [Regional Poverty Reduction Committee]
LGSP	Local Government Support Project (USAID)
LPEM	Lembaga Penyelidikan Ekonomi dan Masyarakat [Institute for Economic and Social Research, Faculty of Economics, University of Indonesia (UI)]
MDGs	Millennium Development Goals
Menko Kesra	Menteri Koordinator Kesejahteraan Rakyat [Coordinating Ministry for People's Welfare]
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MSMEs	Micro, Small and Medium Enterprises
MSS	Minimum Service Standard
Musrenbang	Musyawaharah perencanaan pembangunan [Development planning consultations]

NGO	Non Governmental Organization
PERMEN	Peraturan Menteri [Ministerial Regulations]
PBB	Performance-based Budgeting
P2D	Rural Infrastructure Development Program
PERDA	Peraturan Daerah [Regional Regulations]
PKH	Program Keluarga Harapan [Family of Hope Program]
PNPM	Program Nasional Pemberdayaan Masyarakat [National Community Empowerment Program]
PP	Peraturan Pemerintah Government Regulation
PRS	Poverty Reduction Strategy
P2KP	Urban Poverty Alleviation Project
RAPBD	Rancangan Anggaran Pendapatan dan Belanja Daerah [Draft Regional Budget]
RASKIN	Beras Miskin [Rice for the Poor Program]
RKP	Rencana Kerja Pemerintah [Government's work plan]
RPJM	Rencana Pembangunan Jangka Menengah [Medium Term Development Plan]
RPJMD	Rencana Pembangunan Jangka Menengah Daerah [Regional Medium Term Development Plan]
SCBD	Sustainable Capacity Building to Support Decentralization (ADB)
SEKDA	Regional Secretary
SPKD	Strategi Penanggulangan Kemiskinan Daerah [Local Government Poverty Reduction Strategy]
SMEs	Small and Medium Enterprises
SMERU	Jakarta Based Research Institute
Susenas	Survei Sosial Ekonomi Nasional [National Household Consumption Survey]
TA	Technical Assistance
WB	World Bank
UCT	Unconditional Cash Transfer
UNDP	United Nations Development Program

Background Note

In 2006 the Deputy for Poverty Reduction, Manpower and SMEs in BAPPENAS proposed that a National Poverty Reduction Action Plan be prepared in order to strengthen poverty reduction programming in Indonesia. Based on consultations with ADB, it was agreed that technical assistance would be provided through ADB TA 4762 INO on Pro-Poor Planning and Budgeting to assist BAPPENAS to produce this plan. As a result, the TA Team reviewed current and proposed national policies and programs related to poverty reduction, identified priority policy reforms and priority programs to accelerate progress in reducing poverty in Indonesia and recommended an approach to formulate a National Poverty Reduction Action Plan.

This Working Paper has been prepared by the TA Team to outline a conceptual framework and components of a National Poverty Reduction Action Plan to improve programming over the next three to five years to achieve the national objectives for poverty reduction. The intent in preparing the Working Paper was to stimulate discussions among counterparts at BAPPENAS on the existing conditions of the poor in Indonesia, existing policies related to poverty reduction, and to suggest improved programs and budget priorities for the future. It was hoped that the Working Paper would be used by BAPPENAS as a reference to prepare a new National Poverty Reduction Action Plan. This paper was presented in various meetings and policy forums in BAPPENAS in late 2007 and early 2008, and was revised based on the comments received. Subsequently, BAPPENAS opted not to prepare a National Poverty Reduction Action Plan now, but will instead utilize the Working Paper as background for the formulation for the next Medium Term Development Plan (2010-2014) and as an input into the Roadmap for the Achievement of the MDGs.

In preparing this Working Paper the TA Team reviewed and summarized the main conclusions and recommendations from about 50 documents that deal with poverty reduction in Indonesia. These included¹

- a) The Medium Term Development Plan (RPJM) and its summary of the PRS;
- b) The 2006 and 2007 Annual Budget Plans (RKP);
- c) Studies by Indonesian universities and research institutes; and
- d) Poverty and evaluation reports from development institutions.

From this set of source documents, very short summaries were prepared listing about 125 poverty reduction activities, recommendations for changes, and/or new pro-poor initiatives, big and small. There was considerable duplication and often too many micro suggestions in the list of items. Hence in late 2006, the TA Team prepared a consolidated list of about 75 current or possible future poverty reduction initiatives. The Team then worked with BAPPENAS to review these initiatives through a matrix rating system to arrive at a shorter list of priorities using the following criteria:

- a) direct and indirect pro-poor impact;
- b) ease of implementation;
- c) current degree of effort by the GoI; and
- d) achievable by the end of 2009.

¹ See Source Documents and References

Using this approach a small team of BAPPENAS officers agreed by April 2007 on a shorter list of about 50 priorities of which about 40 were “What to do” suggestions and about 10 were “How to do” suggestions such as better targeting and improved local participation.. It was agreed to reduce the priorities further since there were – with fifty of them – still too many. They cannot all be done and all can definitely not be adequately funded over a three year period.

In April 2007 the President announced that as a result of Cabinet deliberations and the Government’s 2008 work plan (RKP), the priorities for his government until 2009 will be: pro-growth; pro-jobs; and pro-poor. In addition, in August 2007 in his Accountability and Budget Speech to the National Parliament the President stressed that:

- a) the Government will continue to allocate more funding for infrastructure, education and health, sectors he stressed that are key for poverty reduction and the achievement of the Millennium Development Goals (MDGs);
- b) existing health, education and micro-credit programs for the poor will be strengthened and improved; and that
- c) new poverty reduction programs such as the conditional cash transfer Family of Hope Program (PKH) and the Community Empowerment Program (PNPM) will be implemented as soon as possible and coordinated with related programs and projects.

Accordingly, the TA Team suggested in August 2007 that the best way to proceed with a more focused National Poverty Reduction Action Plan would be to use the President’s three goals and to incorporate as a minimum the sectors and pro-poor program changes he stressed in his accountability speech. It was suggested to identify the key pro-poor policy and program priorities (no more than 20) and group them under the President’s three goals and a fourth on suggested regional priorities.

BAPPENAS concurred with this advice in September 2007 and asked the TA Team as a next step to recommend basic policies, key issues that should be included in a National Action Plan and a tentative structure. This Working Paper is the result.

This Working Paper incorporates several results of other activities by the Team and others.. First, the main conclusions of the TA Team’s review of eight macro policy issues deemed to be most important for poverty reduction:

- 1) minimum wages;
- 2) financial and banking institutions;
- 3) regulatory changes;
- 4) micro enterprises and micro-credits;
- 5) trade liberalization;
- 6) infrastructure;
- 7) rural electricity; and
- 8) regional funding – General Allocation Fund (DAU) and Special Allocation Fund (DAK).

The main conclusions are that pro-poor economic growth and associated macro-policy changes should be included in a National Poverty Reduction Action Plan with much more emphasis on labor intensive firms, micro, small and medium enterprises, and on the agriculture sector.

Second, the Team incorporated the results of Working Paper 1 on “Poverty Reduction through Developing Micro, Small and Medium Enterprises. Micro, small and medium enterprises (MSME) hold a strategic position in the Indonesian economy; constituting 98% of all business units in the country (see Working Paper no. 1.). In 2006 their output reached almost 58% of the total Gross Domestic Product (GDP) and absorbed 82% of the total workforce - more than 73 million people and most of them in the informal sector. The presence and prosperity of MSME are very important for a still mainly rural and agrarian country such as Indonesia where the economic structure is slowly transitioning to a more industrialized and urban one.

Third, the TA Team worked with eleven districts in Eastern Indonesia, Central Java and in South Sumatra to improve pro-poor planning and budgeting. Among the main issues identified with the districts were the need to (a) focus on meeting the local MDGs, (b) improve programming and funding for rural and agricultural development, for basic infrastructure, and for health and education services and (c) change DAK and De-concentration (DEKON) funding to support the local priorities more effectively. These conclusions have been incorporated in the draft action plan.

Fourth, this Working Paper also incorporates the results of a report and a seminar on the “Reviews and Evaluations of Pro-Poor Programs in Indonesia: A Summary Overview”. It highlights how existing poverty reduction programs can be improved.

Finally, this Paper relies very extensively on existing source material. The Central Bureau of Statistics (BPS), Government of Indonesia’s 2008 work plan (RKP 2008), SMERU Research Institute, University of Indonesia (UI), ADB and World Bank reports in particular. Of note are the World Bank reports on ‘Making the New Indonesia Work for the Poor’ (November 2006) and ‘Spending for Development: Making the Most of Indonesia’s New Opportunities’ (February 2007) plus a major set of policy papers from UI-LPEM, Gadjah Mada University (UGM) and Bogor Agricultural University (IPB) on ‘The Impact of Macro-economic policies on Poverty Reduction in Indonesia’, (2004).

This Working Paper has drawn liberally from these reports but placed them and the results of other papers within a framework that:

- (a) is based on the goals and priorities of the President of Indonesia that are realistic and easy to understand and to communicate; and
- (b) builds on current pro-poor programs many of which need significant changes and increased funding to make them more effective.

The Working Paper includes compared to the previous National Poverty Reduction Strategy a relatively limited number of the essential measures to reduce poverty for two reasons: (1) a large number of poverty reduction initiatives are not doable and affordable over three plus years; and (2) having too many priorities basically means there are none; scarce resources, both human and financial, are scattered and results are less effective.

1. Introduction

The National Poverty Reduction Strategy was finalized in late 2004 and incorporated in the Medium Term Development Plan (RPJM) for 2005-2009. It has been one of the cornerstones for budgets plans and for improved pro-poor programming over the past three years. Progress has been made in tackling poverty, nationally and regionally. New pro-poor programs are being implemented such as the Family of Hope Program (PKH) and National Community Empowerment Program (PNPM); funding for health, education and rural infrastructure has been increased.

Yet despite progress in poverty reduction programs and funding, poverty has to-date not been reduced sufficiently. It is very unlikely that the Poverty Reduction Strategy (PRS) and Medium Term Development Plan target to reduce poverty to 8.3 % by 2009 will be achieved.

It is recommended that a new more focused action plan should be finalized and implemented now to increase pro-poor growth and job creation for the poor.

In addition more ministries in the central government should focus on making their programs more pro-poor. Finally, it is recommended that national and regional pro-poor plans and budgets be formulated to be mutually supportive. A better top down and bottom up approach is considered to be essential.

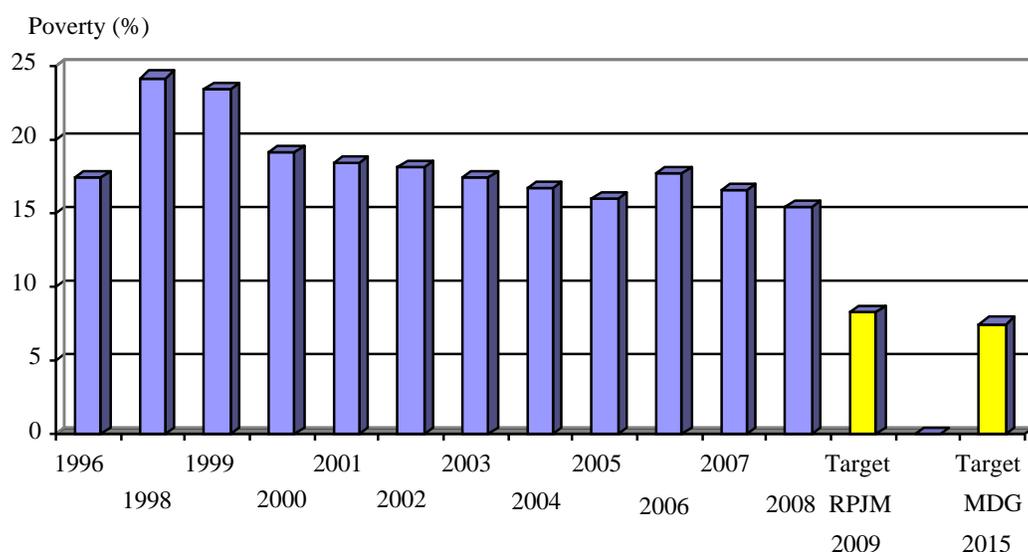
This conceptual draft of a National Poverty Reduction Action Plan (NPRAP) is organized as follows: First, two chapters (2 and 3) present the dimensions of poverty, policy implications and recent progress in reducing the incidence of poverty. Second, chapter (4) outlines the main elements of the NPRAP followed by chapter (5) that summarizes the implications of the national plan for the regions and suggests options for the regions. Finally, there is a chapter (6) covering implementation aspects including governments working together, data improvements, information and communication, funding and resourcing, and monitoring and evaluation.

2. Dimensions of Poverty and Policy Implications

Levels of Poverty

Recent estimates of the incidence of poverty in Indonesia (using the Central Bureau of Statistics-BPS reveal that poverty levels declined from 23.4% in 1999 to 16.0% in 2005 as the nation recovered from the shocks of national economic and political crises, conflicts in several regions, and natural disasters in Aceh, Yogyakarta and other regions. The national incidence of poverty was estimated at 17.8% in 2006 an increase that reflected largely the impact of the fuel and rice price increases. For 2007 it fell to 16.6% and to 15.4 % in 2008.

Figure 1. The Incidence of Poverty in Indonesia from 1996 to 2008 as Measured by the Central Bureau of Statistics and Targets for Poverty Reduction for 2009 and 2015



Year	1996	1998	1999	2000	2001	2002	2003
Poverty (%)	17.47	24.23	23.43	19.14	18.41	18.20	17.42

Year	2004	2005	2006	2007	2008	Target RPJM 2009	Target MDG 2015
Poverty (%)	16.66	15.97	17.75	16.58	15.42	8.3	7.5

Source: Central Bureau of Statistics (BPS). 2008.

The net effect is that since 2001, the poverty level has remained stubbornly stuck at a relatively high level of about 16 to 17%, roughly the same level it was at 10 years before the economic crisis. Indonesia will not achieve its poverty reduction target of 8.3% by 2009.

In 2006, 7.0% of Indonesians lived on less than \$1 per day (the international poverty line). Using this yardstick Indonesia has already met the MDG poverty target which is to reduce poverty below 10% by 2015. But this suggests that the MDG standard is low in relation to the BPS one. In 2007, the BPS poverty line was IDR 166,697 (equivalent of approximately USD 18) per capita per month.

The Near Poor

About half (49% in 2006) of Indonesians live on less than \$2 per day. Indonesia has one of the highest rates of near-poor in South East Asia. A large number of households move in and out of poverty over time. Poverty reduction plans have to focus not only on the longer term poor such as the severely disabled, illiterate, homeless and landless but on most of the near poor as well, many of whom are working poor. Plus the percentages of income spent by the poor on food is high (70%) and rising costs of basic needs has aggravated their problems.

Income inequality also continues to be relatively high and not improving. The national Gini coefficient was 35% in 2004 and is rising. Income inequality is much higher in many regions and the highest in large urban areas such as Jakarta.

Regional Disparities

There are significant disparities in regional poverty levels with some districts in Papua and East Nusa Tenggara (NTT) well over 40% and others such as in Bali below 10%; Jakarta's poverty rate is 3%; that of NTT 28%. Extensive regional and rural development programs will continue to be needed as well as more targeted and redistributed central government grants to the poorer areas. There are also wide disparities in the progress in meeting MDGs such as primary school enrolment, access to clean water and maternal health.

Rural-Urban

Most of the poor (about 65%) still live in rural areas. However, with rapid urbanization the share of poor rural households is decreasing so that by 2020 it is forecast that it will be 50%. In rural areas an estimated 70% of the poor depend directly or indirectly on agriculture. Agricultural households are 2.6 times more likely to be poor than non-agricultural households. Hence, rural and agricultural development must continue to be a priority if poverty is to be reduced significantly. And any poverty strategy has to differentiate between the problems and needs of the poor in rural versus urban areas; one size does not fit all.

Gender

Female headed households have a higher level of poverty than male headed households especially in rural areas. Females have a lower average wage than males and more difficulty in accessing services and capital to start a micro-enterprise in both the formal and informal sector. Poor and near poor female headed households in Indonesia have higher maternal mortality, greater risk of experiencing health shocks, less access to pre-natal care, lower levels of school attendance and a higher incidence of child labor. Two-

thirds of the about 12.8 million illiterate Indonesians are women². Indonesia's MDG performance is lower for females than for males especially in health. The action plan should ensure that these gender gaps are addressed.

Unemployment

Unemployment tends to be more of an urban problem; usually for those who are relatively better educated and better off who work in the formal sector. Most of the real poor simply cannot, given the lack of good welfare support programs, afford to be totally unemployed. Unemployment in Indonesia is currently 9.5% with youth unemployment about twice that rate and some regions with a rate as high as 30%. Underemployment is widespread with large numbers of working poor.

Employment growth has not matched labor force growth; there have over the past few years more new labor market entrants than new jobs. Even with the current growth rate of about 6.0 to 6.5% per year the poverty rate in 2009 is forecasted to be at 12% (not 8.2 %) and unemployment at about 9.0% (not 5.1% as per the RPJM). Growth must focus more on job creation as well as become more pro-poor.

Informal Sector – Micro, Small and Medium Enterprises

Most of the poor tend to work in the informal sector and for micro-firms. For the poor it is easier to find employment here, than in larger firms and the formal sector.

The micro-enterprises are generally engaged in labor intensive work with few assets and they are either home-based, located on market stalls or mobile vendors. Their sourcing, supplies and marketing are local. Management techniques are rudimentary and mostly unwritten, and the businesses are often not legally registered and do not adhere to regulations.³

Micro-enterprise programs are effective in poverty reduction because they are simple to operate; use locally available skills; are labor intensive and create significant employment; improve the income of the working poor, especially poor women; they can serve as basis for community participation and empowerment of clients.⁴

Micro-firms and Small and Medium Enterprises (MSME) are the main driving forces that generate employment. Those firms are estimated to comprise nearly 90 % of the business activities in developing economies. Hence a poverty reduction plan should focus on effectively assisting this sector.

Social Deprivation and Service Access

The poor in Indonesia not only suffer from income poverty but also from non-income poverty; from extensive social deprivation as the table below indicates such as lack of good health and education services, undernourishment and malnutrition, and limited if any access to safe water and decent sanitation

² World Bank. 2006. Making the New Indonesia Work for the Poor.

³ Berenbach, S and Churchill, C. Regulation and Supervision of Microfinance Institutions: Experience from Latin America. 1997.

⁴ UNDP, 1997.

Figure 2. Social Deprivation and Service Access.

<i>Of every 100 Indonesians...</i>	<i>But of every 100 poor Indonesians...</i>
<ul style="list-style-type: none"> • 57 live in rural areas • 44 do not have access to safe water • 49 do not have access to decent sanitation • 28 have household size more than five • 43 have less than primary education • 11 are illiterate • 44 work in agriculture • 60 work in the informal sector • 16 work as unpaid family worker • 42 live in villages without secondary high school • 36 live in villages without access to telephone • Of those aged below five, 25 are malnourished and 32 were delivered by an unskilled midwife 	<ul style="list-style-type: none"> • 69 live in rural areas • 52 do not have access to safe water • 73 do not have access to decent sanitation • 48 have household size more than five • 55 have less than primary education • 16 are illiterate • 64 work in agriculture • 75 work in the informal sector • 22 work as unpaid family worker • 50 live in villages without secondary high school • 49 live in villages without access to telephone • Of those aged below five, 28 are malnourished and 47 were delivered by an unskilled midwife

Source: National Household Consumption Survey (Susenas), 2004. (from World Bank Report -2006)

Millennium Development Goals

Indonesia is on track to meet several of the Millennium Development Goals (MDGs) by 2015 such as primary school enrolment and reducing child mortality. It is, however, off track in several other MDGs such as child malnutrition, maternal mortality and access to clean water and sanitation. And regional rates of progress vary widely. Poverty plans should prioritize funding to address the problems where progress is insufficient.

Reduction in the incidence of poverty and achievement of all MDGs requires a comprehensive effort, not only at the national level but also at the local level. Most districts have not been able to create a good data base to measure and track poverty levels and MDGs and focus their resources accordingly. They also have limited capacity to prepare and fund good poverty plans and programs.

3. Recent Progress

Recent Poverty Reduction Efforts

The Government has already undertaken a number of initiatives to reduce poverty. Economic growth has accelerated over the past few years and the Government has introduced measures to improve both the fiscal and business climate. That has led to reduced debt and interest payments and increased income and job opportunities for many people.

The Government finalized the formulation of the National Poverty Reduction Strategy (PRS) in early 2005. The PRS was drafted based on extensive national and regional consultations and inputs from civil society organizations, national and local government agencies, the private sector and the international community. The PRS adopted a rights-based approach with a significant focus on essential social services and facilities, gender equality issues and close links with the MDGs.

The national PRS was incorporated into the national Medium Term Development Plan 2005-2009 (RPJM). The RPJM has been utilized as a reference in formulating the 2006, 2007 and 2008 Annual Budgets which made poverty reduction a top priority.

The share of the national budget dedicated to the needs of the less well off in Indonesia has risen significantly from 2005 to 2008. For example, for health the budget has increased from Rp. 6 trillion in 2005 to Rp. 17 trillion in 2008 and for education from Rp 29 trillion to Rp 61 trillion over the same time period. A large share of these increases has been allocated to support programs that will directly benefit the poor.

Significant increases have also been made through the Bank of Indonesia and other banks in providing SMEs and micro-enterprises with access to credit.

The Government also reduced its major fuel subsidies and used a large part of the savings to fund pro-poor measures for health, education and rural infrastructure and cash transfers for poor households. Starting in 2007 these unconditional cash transfers are being replaced by quarterly conditional cash transfers, which will include several health and education conditions.

In August 2006 the Government announced a commitment of US \$ 1.7 billion (Rp.15.3 trillion) over 5 years for a national program for poverty reduction, the new Community Empowerment Program (PNPM).

The Government has also taken steps to engage the regions in the process of linking the national Medium Term Development Plan and Budget Plans with those of the regions to help ensure that local government priorities reflect national priorities including poverty reduction and associated gender equity measures. The government is also assisting the regions with their PRS planning and budgeting, and revising the annual regional budgets and grants to make them more pro-poor.

The GOI spent over Rp.120 trillion on subsidies in 2007, most of it for fuel, rice, and electricity⁵. That amount will likely be much higher by the end of the fiscal year and next year if oil prices stay at a level near \$ 100 per barrel. Evaluations have shown that many of the benefits of those subsidies do not accrue to the poor and that the costs of these subsidies will remain high. Changes can be made to make the subsidies more effective, increase the benefits to the poor, reduce the costs further (especially for fuel and electricity) and as was done in 2005 use the freed up resources to fund higher priority pro-poor programs.

Pro-Poor Plans

Efforts also have to be accelerated to strengthen the links between central and regional pro-poor development plans. All regions, not just a few, need effective poverty reduction plans and budgets. They often lack the capacity to develop good pro-poor plans and budgets. Plus links between national Special Allocation Fund (DAK) and De-concentration (DEKON) funding and regional poverty reduction priorities are weak. Most of the poorer regions have insufficient funds to tackle poverty reduction effectively and GoI transfers to the poorer districts should help them more than those funds do presently such as the DAK.

⁵ After this Working Paper was finalized, the Government took steps to reduce subsidies of fuels by Rp 38 trillion and launch a cash transfer program to the poor of Rp. 14.1 trillion. The Government has furthermore decided to put a cap on fuel subsidies in 2009

4. The National Poverty Reduction Action Plan – Goals and Priorities

4.1 Goals, Targets and Criteria

4.1.1 Goals

Consideration has been given to preparing a National Poverty Reduction Action Plan to deal with all the above issues with action concentrated in four strategic, essential and equally important areas:

- Pro-Poor Growth
- Pro- Poor Jobs
- Pro-Poor Services and
- Regional Pro-Poor Plans

The goals are not just pro-growth or pro-jobs, but pro-poor growth and pro-poor jobs. Pro-growth may help the poor but not nearly enough. Pro-growth measures may for example help those sectors that do not employ many of the poor such as hi-tech industries, capital intensive industries, oil and gas or financial institutions. The poor often do not have the skills to qualify for those job opportunities or the jobs are not where most of the poor live. The current efforts of the GOI are definitely pro-growth but they are not sufficiently pro-poor, especially for rural areas.

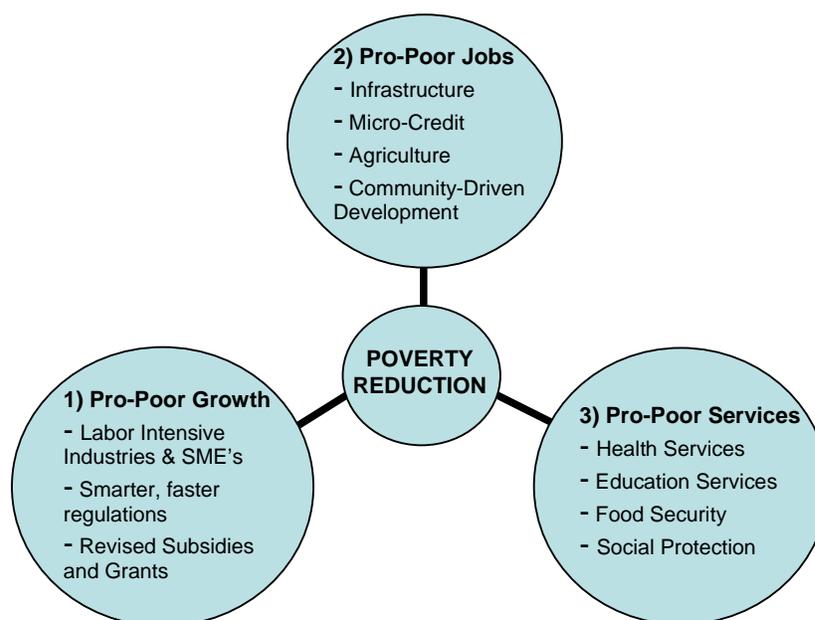
Economic growth will have more impact on poverty alleviation if it is designed to be more pro-poor, notably in supporting development measures of importance to the poor such as rural infrastructure investment, agriculture, incentives for labor intensive industries, and increased support for micro and small enterprises.

Pro-poor economic growth has two correlates: (i) labor-friendly economic growth and (ii) rural-based economic growth. Labor-friendly and labor intensive economic growth will most likely have high pro-poor impact. Labor intensive industry may be the priority choice in the form of small and micro enterprises in both the formal and informal sector.

The economy should of course not reject capital-intensive industries; they are still good for economic growth that can indirectly benefit the poor as well. However, in a labor-surplus country like Indonesia, especially at the lower-end of the labor market, labor intensive industries, including agriculture, are still the best option to pursue when poverty alleviation is the key objective.

Consistent with that set of goals an action plan to accelerate reduction of poverty would consist of a small number of priority elements as illustrated below.

Figure 3. National Goals and Priorities to reduce Poverty



4.1.2 Targets

The action plan and its links with strengthened pro-poor regional plans and budgets would have the following targets:

- reduce the poverty rate on average by 1.5% per year so that it reaches 9% by 2012 from the current rate of 16.6% , a 45% reduction over five years;
- ensure that all the MDG targets are met by 2015 and those that are currently off track such as maternal health, child nutrition, female employment and clean water access get back on track by 2010.

These are challenging but realistic targets if the plan is well funded and implemented and national and regional governments work more effectively together. To ensure the achievement of those targets a number of conditions and criteria would have to be met.

4.1.3 Criteria

The criteria for formulating and implementing the priority elements of an action plan would be six fold:

- build on current pro-poor efforts and programs, not formulate new ones;
- make the current pro-poor programs more effective and efficient such as those for Small and Medium Enterprises (SME), Health Insurance (JAMKESMAS), School Operational Assistance (BOS) and Rice for the Poor (RASKIN);
- consolidate, co-ordinate and focus related or similar programs – to strengthen synergies and increase their impacts especially for SMEs, Community Development and for agriculture;
- link all of the priorities more directly and explicitly to the generation of substantial pro-poor growth and jobs and to the achievement of the MDGs;

- ensure an adequate level of funding for those essential pro-poor measures in the action plan, nationally and locally, so that the goals are realistically achieved as quickly as possible; and
- find the necessary financial resources for the plan, not by significant overall additional budget expenditures or by increasing the deficit, but mainly by targeting funds more effectively through:
 - o reallocating freed up funds from lower priority or generally less effective pro-poor programs such as fuel, electricity and rice subsidies: and by
 - o changes in the allocation process to the poorer regions such as reformulating DAU, DAK and DEKON funding.

4.2 Priorities for Pro-Poor Growth

Poverty cannot be reduced unless there is an ongoing effort to increase overall growth and investment. There should be a concerted effort made to continue and accelerate the Government's steps to promote quality growth and employment creation in both urban and rural areas through measures that will lead to:

- a) a more favorable investment climate for all of the business sectors;
- b) the start and early completion of major infrastructure initiatives;
- c) tax, customs and regulatory changes for all industrial sectors;
- d) promoting trade and exports for all sectors; and
- e) improved support for medium enterprises.

4.2.1 Special and Increased Assistance for Labor Intensive Industries

It is the labor intensive industries that should be the focus of a pro-poor growth strategy. They employ most of the poor or near poor. Labor intensive sectors include agriculture, clothing, footwear, food processing, retail and construction that can employ many of the less skilled unemployed. The recent rapid increase in exports has not lead to similar rates of growth in employment because most of the export growth has not been in labor intensive industries but capital intensive ones such as oil and gas and minerals

The Government is assisting most industrial sectors and the need is to have relatively more concentrated and coordinated attention focused on the labor intensive ones. Increased support is recommended in the following areas:

- a) Increased assistance for labor intensive industries for trade promotion, technology adoption, quality improvements, management training, and marketing.
- b) Improved and coordinated support programs for SMEs including for agriculture by revising and regrouping many of the existing programs and then providing: improved and more focused programs/assistance for SME and micro-enterprises; technology education and training for SMEs and agribusiness; and supporting community based co-operatives to provide micro-scale business assistance

4.2.2 Smarter and Faster Regulations

On average it takes eight months for a formal sector firm to get operational. Under decentralization there has been a considerable increase in the number and complexity of the regulations. This has a major impact on the start up and growth of firms of all sizes.

It is important that government promote fewer, smarter and faster regulations and licenses especially for the labor intensive and medium, small and micro enterprises. This would make it easier for the poor to engage in production and sustainable income generating activities.

Fewer, smarter, faster regulations and licenses → more formal sector growth created → more labor recruited from poor households

Current efforts to deal with this problem have not produced significant improvements yet. The Government should assign a higher priority to and additional resources for

- Reducing the regulatory burden for labor intensive industries and SMEs; and
- Speeding up the formulation of regulations and the issuance (and costs) of licenses.

Local and the national governments should take steps over and above what the Ministries of Finance, Industry and Home Affairs are now doing to ensure that regulations do not inhibit inter-regional and international trade and mobility or inhibit the flow of essential services or products through prohibitive fees and licenses.

One additional way to promote smarter, fewer and faster approvals of licenses is through the creation of more one-stop licensing services for obtaining government permits in major centers.

Most of these regulatory changes and practices are not costly or difficult to implement.

4.2.3 Revised Subsidies and Grants

Subsidies such as the fuel subsidies and grants to the regions such as the DAU take up a large share of the national budget. Due to much higher oil prices, the total estimates for fuel and electricity subsidies for 2008 and 2009 are being revised upwards.

Changes in most subsidies should be made to achieve three goals: (i) to reflect economic and market realities and remove disincentives and distortions; (ii) to make them more pro-poor, that is, to focus help on those that really need it; and (iii) to free up funds to finance the key initiatives outlined in this Plan, including those by the districts.

Among the subsidy and grant changes that could be pursued are the following:

- a) Further fuel subsidy changes to reduce the benefits to the better off, with more of the savings going to offset programs for the poor and poorer regions, as was done in 2005.
- b) Changes in the electricity subsidy to make it more pro-poor and free up additional funds for rural electrification where about 35% of the population still have no access to electricity;

- c) Changing the DAU to make it more beneficial for poorer non-resource rich regions and eliminating the direct link with a large and often inefficient government payroll;
- d) Changing the DAK funding to make the grants more pro-poor by focusing on poorer regions based on their priorities for key pro-poor sectors, and on both the quantity and quality needs in education and health, not just physical infrastructure; and
- e) Changing the DEKON funds by shifting to the regional governments the obligation to fund essential services out of their own revenues from all sources as required under the decentralization law and transferring the savings to an enhanced and more pro-poor DAK.

4.3 Priorities for Pro-Poor Jobs

There should be more focus on pro-poor economic growth and job creation. Increasing employment for the poor is naturally a major priority. These job opportunities should focus on sectors and locations where most of the poor can access them. Overall increases in economic growth would likely generate most of the jobs in the major urban areas, which would help the urban poor and the increasingly large number of migrants from rural to urban areas; a help, but far from sufficient to reduce poverty especially in rural areas.

While there has been recent progress in improving the investment climate, in tax incentives and in major infrastructure plans, these measures should be accelerated especially for those industrial sectors and regions that can employ and increase income for the poor and near poor; that is, micro, small and medium enterprises, labor-intensive industries and the agriculture sector. Subsidies and grants should continue to be revised and made more pro-poor.

The pro-poor jobs priorities of an action plan would focus on measures that will generate jobs for most of the poor in the medium term especially those in rural areas, in agriculture and in the informal sector through four main enhanced and strengthened current efforts with additional funding in: infrastructure, micro-credit; agriculture and community development.

Current plans should be finalized on new labor laws and on several legislative and regulatory changes to support increased business investment and competitiveness. More needs be done for job creation for the poor such as the strengthening of and increased funding for poverty targeted programs for essential infrastructure, micro-credit and agricultural and rural development programs.

4.3.1 Infrastructure

Investment in transportation infrastructure, such as roads for rural areas, would boost productivity and welfare through improved market accessibility which in turn will reduce production costs. For the agricultural sectors, supply and market access is important as input costs tend to be high and final products often have a limited freshness period. Transportation infrastructure is also important for consumers as it allows efficient delivery of products, and hence increasing types, costs and availability of consumption goods. Many rural villages, 20% of them, are not accessible year round even with four

wheel drive vehicles and about 50% do not have rudimentary paved roads and are often inaccessible in the rainy season.

Recent estimates indicate that more than 70 million people in Indonesia have no access to electricity, 80% of whom live in rural areas. Electricity is important not only for basic life styles but also for education, small enterprises, health, and for community interaction. Poor households often spend more on candles and kerosene lamps than their wealthier neighbors who can afford electric lighting for less money once they have found a way to pay the hook up costs, which could be made free for the poor.

The government aims to increase electricity access up to 90% by the year 2020 which implies that 1.3 million new connections will be provided per year. But even at this rate it is still too slow and many rural households, indeed entire small villages, will be without electricity for years to come. Changes in the current electricity subsidies can free up much needed funds to accelerate the rural electrification program.

Currently among the poor, 40% of the households live in overcrowded and inadequate shelter, 85% with no piped water, and about 55% without their own sanitation facility. Nationally and in many districts, Indonesia is not on track to meet the MDGs for access to clean water and sanitation services and to improve the lives of people in slum areas for basic services (piped water and sanitation).

While the current budget has already made infrastructure a national priority, it is recommended that additional resources be allocated for two main pro-poor infrastructure priorities focused on rural and the poorest districts:

- a) Rural infrastructure program with responsive elements to meet the most urgent local needs in a flexible but planned manner, bottom-up and top down for:
 - i. new, upgraded and maintained rural roads (build on what has been started but much more);
 - ii. additional funds for water and sanitation systems;
 - iii. accelerated rural electrification;
 - iv. more assistance for better management, maintenance and supervision; and
 - v. links with the regional MDGs, the new community empowerment program (PNPM) and an improved pro-poor DAK.
- b) Additional funds for housing development for the poor in both urban and rural areas through more funding and assistance for house rehabilitation and construction for poor families with better water and sanitation facilities and standards.

4.3.2 Micro-Credit

The importance of the micro and small enterprises in poverty alleviation cannot be over-emphasized; about 98% of all economic establishments are MSMEs and currently absorb about 90% of all employment in Indonesia. Labor market data show that about 70% of employment engages in the informal sector. It is therefore important to stress that micro and small enterprises are homes to the informal workers who in turn comprise the poor in

Indonesia. For some time to come they are the growth engines for jobs and income for most of the poor and near poor, especially women and lower skilled poor.

The primary problem encountered by Indonesian micro and small enterprises is limited access to small amounts of capital and the need for collateral or good will to back it up, especially for women. Others include: location, access to raw material, transportation, informal permits, etc.

Unfortunately, due to their loose informal characteristics, these enterprises have limited access to the formal banking sector with its rules and financial tests. They are simply not bankable. Hence, the informal micro financial institutions are the usual source or the few banks that have a more flexible approach.

These institutions have three key elements:

- a) providing specialized financial services that are relevant to the micro and small enterprises;
- b) providing access to low income groups; and
- c) applying flexible procedures and mechanisms hospitable to the poor.

Current programs to encourage micro-credit institutions by the GOI can be strengthened and accelerated. They can build on significant recent government attempts to increase the access to and amount of micro-credit both through banks such as the Bank Rakyat Indonesia and the Bank Mandiri or through non-bank financial institutions such as credit unions and local savings and loans units.

Recent evaluations have shown that while progress is being made and micro-credit is more widely available, there are still problems with too many rules, need of collateral, limited access in rural areas and the long term commitment and sustainability of non-bank institutions involved in micro-credit in the smaller centers and rural areas.

Hence, the Government could improve on and provide more sustained funding for micro-credit for SMEs and micro firms especially in rural and remote areas by:

- a) supporting more of the efforts of the BRI and local financial institutions for longer term financial services to micro and small firms; and by
- b) building on P4K style outreach activities and simple financial literacy and management programs for low income families, female headed households and first-time borrowers.

4.3.3 Agriculture

Most of the poor live in rural areas and depend to a very large extent on agriculture. Those employed in this sector are 20% more likely to be poor than those in the informal service sector. The last agricultural census shows that 50 % of farmers cultivate less than half a hectare of land. Most do not have title to their land; only 25 % of the 80 million land parcels have been registered over the past 40 years. Many of the poor rural farmers are either landless or do not have title to their land. They cannot use it as collateral for micro-loans or have incentives to invest in better farming techniques.

This sector is very important for reducing poverty through a three fold strategy: (a) agricultural productivity, (b) agricultural diversification, and (c) further processing and marketing of agricultural products.

Other elements of a national action plan would be supportive of these goals: efforts to increase agricultural productivity and income through supportive tax, trade and fiscal measures; support for SMEs; and improvements in rural infrastructure including irrigation.

In addition, there are three priorities, nationally and regionally that should receive more attention in a national action plan:

- a) An expanded land titling program considerably larger than current efforts that are only funded for up to 1.5 million hectare over 2-3 years. Such an accelerated and enhanced joint national and regional program should consist of three components: land titling and registration, land redistribution, and land conflict resolution mechanism. The land titling program should also ensure that women are properly informed about their rights to obtain land titles as well as to be joint title holders with their husbands
- b) Additional funding for increasing agricultural processing, and associated rural infrastructure and more assistance for crop diversification and processing
- c) Better use of training, technology, certification, inspection, licensing and marketing for farmers and their enterprises.

4.3.4 Community Development

The overall government objective is to change attitudes towards the poor and think of the poor as assets and contributors. One way of doing this is to empower the poor by giving them more power and means to make choices, express their needs, have access to the necessary resources, and to decide and shape their own future.

Indonesia has a number of programs that address that potential, commonly referred to as community empowerment and development, where local groups including the poor decide in a participatory manner the development needs and priorities of their local community and the measures and funds required to meet those needs. The needs could be economic or social, physical or qualitative for such sectors as health, education, and basic infrastructure.

At the national level there are currently 35 of such community empowerment or development programs through 19 Ministries or agencies. Yet many small areas or villages are not covered or the programs are there for only 2-3 years and/or are not adequately funded.

The Government has launched the National Community Empowerment Program (PNPM) totaling Rp. 15 trillion from 2007 to 2013, reaching 3,800 Kecamatan (sub-districts) and 36,000 villages in 2008. In 2009 the program will reach all Kecamatan in the country; 5,263 sub-districts.

PNPM is built on earlier Kecamatan Development (KDP/PPK) and Urban Poverty (P2KP) programs but will be strengthened with more funding and technical assistance

and by ensuring sustainability and links with local budget planning processes. PNPM will: (a) promote and assist community groups and local governments in local participation and capacity building; and (b) improve transparency, information sharing, communication, and community involvement in all pro-poor programs. And through that process it can enhance pro-poor programs, support local infrastructure needs, generate new jobs and reduce poverty.

It can also be the program framework and process that will enable all other pro-poor programs at the local level such as the conditional cash transfer program PKH (Family of Hope Program) and Rice for the Poor (RASKIN) to be factored into it; to allow the local community to understand and comment on those programs and to work to make their delivery more effective. Over time all other community development programs will either become part of the PNPM or will be closely coordinated with it.

4.4 Priorities for Pro-Poor Services

The Government of Indonesia has over the past few years significantly increased the funding for a number of human resource and social protection programs for the poor.

Many existing programs are not sufficiently benefiting the poor, such as School Operational Assistance (BOS), rice programs, health insurance, and community health programs. Evaluations of pro-poor programs have shown that most of them can be made more effective by changes in program design, targeting, local participation, socialization and more transparent and accountable implementation.

A national action plan should focus on the following pro-poor service improvements.

4.4.1 Improved Health Services for the Poor

Indonesia has increased funding for and made improvements in a number of health areas: community health services, health insurance for the poor and more free drugs for the poor. Progress is being made in meeting some MDG health targets such as drops in infant mortality.

But in other areas the country is not on track to meet the MDGs. It still has one of the worst rankings among SE Asia countries in maternal health; 30% of women have no access to skilled professionals for delivery. An estimated 25% of children under 5 are malnourished.

Evaluations show that health insurance and community health services are much less effective in meeting the needs of the poor than they could or ought to be. There are major variations in health services and standards among the regions of Indonesia; health plans have to meet local needs and priorities. The overall level of funding for essential health services is not increasing enough, nationally and regionally, to meet the needs of the general population but especially for those at the lower level of the income scale. The poor have difficulty in obtaining good basic and timely health services and extra payments are often required.

Accordingly the Government should decide that in conjunction with related initiatives with the districts, a three part set of improved health initiatives will be implemented over and above current level of effort and funding:

- a) Increase the support, funding, equipment, free drugs and incentives for Community Health Centers (Puskesmas) and for Third Class Hospital Health services and their outreach networks for the poor linked with a more pro-poor DAK
- b) Additional community based health services in rural and remote areas with more training of and incentives for staff and for small private health care providers in rural areas;
- c) Improvement in the health insurance program through Health Insurance (JAMKESMAS) and associated faster and more effective health services for the poor.

In addition, the related ministries should formally commit to gender mainstreaming and draft sex-disaggregated indicators for better monitoring of gender equity in the health and education MDGs.

4.4.2 Improved Quality Education Services for the Poor

In this sector the country is making progress step by step. Education expenditures have been increased significantly, nationally and in most regions. The GoI has allocated about 17 % of its developmental expenditures to education, net of teacher salaries. Enrollment levels in schools for the first nine years are nationally on track to meet the MDG targets. More qualified teachers are being trained. More schools are being upgraded or built.

Yet, challenges remain. Enrollment levels for up to nine years of compulsory education are not being met in many of the poorer districts. Drop out rates especially for beyond nine years for poor students are high; only 55 % of poor students complete secondary school. The quality of teachers and of education in many schools is not up to basic standards. The Government should, again in conjunction with the districts, improve basic programs for:

- a) Nine Year Compulsory Education and associated programs such as additional teacher training, an improved and more pro-poor BOS with free education (direct and indirect) for all poor students, reduced costs for materials, and improved local access in rural areas.
- b) Improved quality of junior and senior school education programs and junior school enrollment and transition programs with emphasis on poor students and lowering the drop-out rate;
- c) Link the above with a revised pro-poor DAK that will allocate funds to local governments for education based on local needs and plans

4.4.3 Food Security

The most basic human need is food: cheap rice, readily available and of reasonable quality. The Government has since 1999 met some of these goals through its rice for the poor program (RASKIN) that annually aims to provide about one million tons of rice to the poor (10 kg per month) at a low price (average of about Rp 1200 per kg). Evaluations

have shown that this program has not always been successful in meeting those targets and conditions.

In addition the government has decided while rice production is being increased, it will also, when needed, import more rice to ensure an adequate supply as well as lower rice price increases.

The Government should build on those programs but again improve or accelerate them through:

- a) an improved, more transparent and more efficient RASKIN delivery systems that ensures each poor family (not the non-poor) receives 10 kg per month at the regulated price with a much higher penetration rate than has been achieved to-date; and
- b) Further revise rice tariffs, import plans and other measures to ensure better supply and low rice prices.

4.4.4 The Social Safety Net

An effective social safety net is an essential component of any comprehensive poverty strategy. Well-designed, it balances protection and opportunity – it helps the poor and vulnerable cope with current poverty; usually through transfers and subsidies; and it promotes movement out of poverty by encouraging human capital formation and enhancing economic opportunities among the poor.

In Indonesia, the target population of any such safety net policy is (i) the chronically poor, i.e. those who are firmly anchored in poverty and are unlikely to benefit much from growth; for them, the emphasis is on protection, on coping; and (ii) the vulnerable “near poor” that churn around the poverty line as a result of short-term, often seasonal, income shocks; for them, the emphasis is on safety net and risk pooling mechanisms that can serve as a springboard out of poverty.

In Indonesia, formal safety net mechanisms so far have consisted of *ad hoc* programs designed to respond to crisis situations – rice, health care and fuel subsidies; and cash assistance to mitigate the immediate effects of reductions in fuel subsidies. The rice and health care subsidies have taken on some permanence. In mid-2007, a household level conditional cash transfer program (the Family of Hope, or PKH) was introduced on a pilot basis, combining poverty relief with human capital development. A conditional community development program is also being piloted, which should strengthen socio-economic infrastructure and enhance opportunities for community members

While the elements of a social safety net are there, this can hardly be characterized as a comprehensive social safety net strategy. Current instruments – cash transfers (if maintained), scholarships and health assistance, conditional transfers to households, community development – can form a good basis for a safety net, but at present these programs are uncoordinated and suffer from uncertain targeting and budget constraints; and there may still be significant gaps in coverage. Developing a legitimate social safety net will require moving away from the current, often *ad hoc* approach to social protection

towards consolidating programs in a way that promotes predictable poverty relief (*protection*) and sustainable reductions in poverty (*promotion*).

Informal safety nets play an important role as a coping mechanism for the poor in Indonesia and may be compensating for inadequacies in the formal system. Informal safety nets consist of kinship and community networks and selling assets in hard times. While essential in the current environment, these are nonetheless strategies that over time deplete family and community resources – they are no renewal mechanisms – and are likely gradually to increase vulnerability and deepen poverty.

The approach to **cash assistance** may need revisiting. In many countries, it is a key part of the social safety net. It should probably be part of the arsenal in any Indonesian safety net strategy. The conditional cash transfer scheme does provide cash assistance, but its focus only is on a sub-set of the very poor. A large number of equally poor households receive no cash assistance. A legitimate cash benefit scheme might well consist of a direct, permanent, BLT-type (Direct Cash aid) targeted transfer. Setting it up would require: (i) clarifying the objective – who will be included; how should it be calibrated; what share of consumption should the benefit cover (taking into account existing budget constraints); (ii) determining eligibility criteria that will apply to the pre-defined categories of potential beneficiaries; (iii) setting up a permanent administration for eligibility testing, benefit award and delivery; program monitoring and evaluation; and case management for referral to other programs when appropriate; (iv) maintaining a unified national data base for social safety net programs; and (v) arrangements for coordination and information exchange with other programs. It would also require a harmonization of benefits under different programs.

Public works schemes could constitute another useful element of the safety net. They have been used in Indonesia (and elsewhere) as a means of transferring resources to poor households, while at the same time building up socio-economic infrastructure, usually in poorer areas. For the chronically poor, who are primarily in need of cash, non-wage costs and foregone earnings make public works schemes less cost effective than cash when the main concern is to restore purchasing power. At the same time, well-designed public works schemes can also serve as an important springboard out of poverty- socio-economic infrastructure investments can have a measurable positive impact on human development and economic opportunity in a community. And this can be reinforced by: (i) expanding the menu of projects to respond to community needs; (ii) targeting vulnerability in addition to poverty; (iii) strengthening means to enhance the flow of services from established infrastructure; and (iv) exploring how the voices of marginalized groups can be brought forth more strongly in the selection of priorities.

Other interventions may be more directly focused on creating opportunities, but fall outside the confines of a safety net strategy. These may involve micro-finance instruments (micro-savings and micro-insurance) and community risk pooling arrangements that promote asset creation among the poor. More advanced interventions involve financial literacy, business skills and business incubator schemes; as well as formal social insurance.

Ultimately, of course, the main ingredients of a social safety net are a sound macro-economic policy, stable financial markets, enforcement of property rights, respect for basic labor rights, and policies that enhance the sensitivity of poverty to growth.

5. Regional Pro-Poor Plans and Priorities

5.1 Essential Role of Regional Governments

The national government obviously should take a leading role in implementing most of the action items under Pro-Poor Growth and Pro-Poor Jobs such as the improvements for the investment climate, changes in subsidies and grants, assistance for SMEs, and labor intensive industries, micro-credit, and land titling and redistribution. It also has the lead role in developing, financing and implementing major national pro-poor programs such as the Community Empowerment (PNPM), Family of Hope (Program Keluarga Harapan / PKH), Rice for the Poor (RASKIN) and Health Insurance (JAMKESMAS).

However, under the decentralization law the regions have primary responsibility for a range of local services such as health, education and local infrastructure. Most of their local budgets are allocated to these functions. Hence, the action items by the central government in this plan for these services will need a supporting, or at times even a leading role from the local governments.

Besides supporting and at times implementing national poverty reduction initiatives in each region, the budgets and programs of local governments should also explicitly address local poverty reduction priorities including their specific MDG problems and local economic and agricultural development priorities.

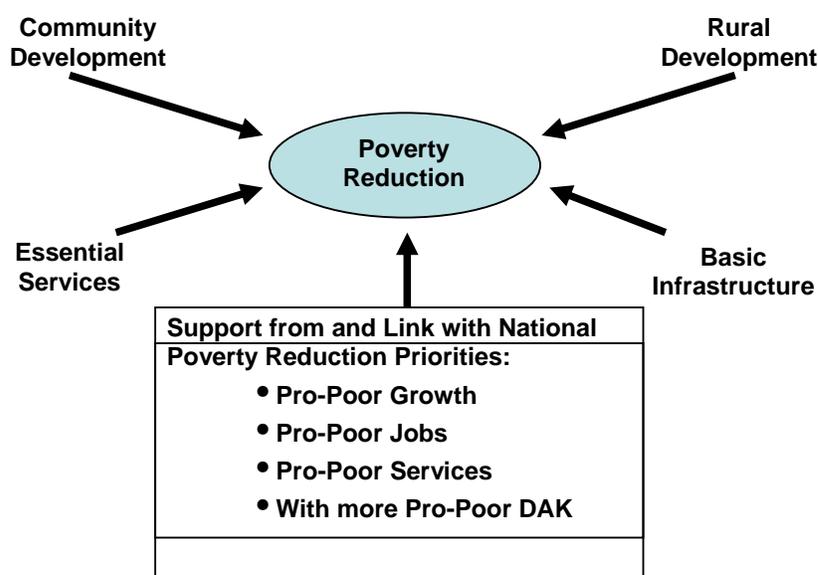
The regions, big and small, should and many currently are developing and implementing their own poverty reduction plans based on their own assessment of the poverty problems that need attention and the best ways of resolving them. These could be for accelerated economic growth, improved essential services and/or for major infrastructure needs. It is not up to the central government to decide what their often unique local poverty reduction priorities should be.

Many districts have already prepared pro-poor plans. The theme or focus of their plans are the need to target efforts (a) on meeting the local MDGs, (b) a desire for improved programming and funding for rural and agricultural development, for basic infrastructure, and for health and education services and (c) for changes in DAK and DEKON funding to support the local priorities more effectively.

5.2 Regional Pro-Poor Priorities

As a guide for future regional plans and as a means of trying to ensure that national and regional governments work hand in hand towards the same goals, the regions may want to ensure that their plans at least address four main priority areas as illustrated in the chart below: community development, rural development, infrastructure, and essential pro-poor services

Figure 4. Regional Poverty Reduction Priorities



5.2.1 Community Development

In conjunction with similar efforts from the national government, local governments should:

- a) Continue to implement their own community-based development efforts at the village level (and support the PNPM model) with focus on economic, social and environmental activities and meeting local MDGs;
- b) Improve targeting and strengthening of the existing community development programs being implemented in the region to ensure more consistency and effectiveness;
- c) Increase participation by the poor, including poor women, in local development and in pro-poor planning and budgeting

5.2.2 Rural Development

Regional governments could:

- a) Prepare rural development plans with local inputs with a focus on agriculture and other resource development including crop or product diversification and land titling;
- b) Ensure good plans for infrastructure needs and social programs for the entire area; and
- c) Implement supportive local SME programs, better and faster regulations and licensing, and improved micro credit programs.

Each of these rural (or for that matter urban) plans should in turn be linked with and provide input into the programs of the national government as they cascade down to the districts and are implemented with the assistance of local governments and community

groups. One example is the support for rural plans from the regional development programs being formulated and supported by the central government.

5.2.3 Infrastructure

The central government should consider increasing its support for infrastructure essential to reduce poverty. In addition and complementary to those efforts, the regional governments should identify their own infrastructure needs and either seek support from the central government to finance them from the action plan initiatives and the pro-poor DAK or use their own sources of money.

The districts can play a lead role in rural areas for:

- a) Rural roads
- b) Water and sanitation systems;
- c) Housing for the poor
- d) Irrigation and drainage; and
- e) Better management, maintenance and supervision of local facilities.

5.2.4 Essential Services

The central government should consider to continue to increase the priority of and funding for essential health and education services and related infrastructure needs. However, the regional governments can also make major additional efforts under their control besides paying for normal operating costs, salaries and supplies.

For health, regional governments can focus on their major needs and areas where MDGs are not being met and among other initiatives ensure:

- a) Improve the quality in, access to and trained staff for local health services through enhanced and free services for the poor by Puskesmas and Class III hospitals, and the extension of their outreach programs into small and remote villages;
- b) Better services to reduce or prevent local diseases and to meet MDG health priorities such as malaria, TB, maternal health and infant mortality;
- c) Improved immunization programs and availability of essential medicine;
- d) Focus much more on rural access, rural staffing, and rural diseases.

In education, regional governments can, in co-operation with and with support from the national government, take a lead role in the following pro-poor measures:

- a) Increasing and improving 1-9 year education (including reducing the high drop out rate in the transition from junior to senior schools), free education for the poor and more local scholarships for poor students;
- b) Reduced costs for materials and books for the poor and improved local school access for remote villages;
- c) Ways and means to encourage education professionals to serve and stay in rural and remote areas.

All the above four regional pro-poor priorities should be led by local governments and its community and private sector partners. They can be funded out of their own budgets by

more effective use not only of their own revenues but also by better and more effective use of the DAU, DAK and DEKON funds from the central government.

Indeed the district governments have considerable scope to make their programs more pro-poor by focusing more of their expenditures on the above key areas. To do that there is a need for a sound pro-poor plan with clear priorities and following that the formulation of more pro-poor budgets.

6. Implementation Aspects

6.1 Governments Working Together

The achievement of the objectives of a National Poverty Reduction Action Plan would require the active collaboration of both the central and regional governments. It would depend upon continuous co-operation and partnerships among all levels of government, formally and informally.

There is a need for better bottom-up and top-down links and synergies on pro-poor plans and programs; from the community and district level based on their poverty problems and priorities and then linked and integrated with national pro-poor programs that are aimed not only at addressing national poverty problems but also flexible enough to meet the bottom-up plans.

One way to achieve these goals is to improve the annual local, regional and national consultations on development priorities and budgets - the *Musrenbang* (development planning consultation forum). Efforts should be increased by regional governments to open up the process to more external groups (including the poor and women), to make it more transparent and informative, provide more relevant and timely information and documentation, and to ensure that bottom up suggestions are more frequently taken into account in finalizing plans and budgets. Working Paper no. 3, Improving Local Government Planning for Enhanced Poverty Reduction, contains a more detailed discussion of the *Musrenbang* process.

In addition, the ministries and agencies of the central government could make ongoing improvements not only in making their programs more pro-poor and effective but also in consulting with and seeking the assistance from regional governments in the formulation and implementation of their pro-poor programs.

The central government could also improve collaboration with the regional governments in two areas: capacity building and data improvements.

6.1.1 Capacity Building

Under various laws and decrees the regions have received regulations and rules on the process and institutions needed to prepare regional poverty reduction strategies and guidelines for the development of local pro-poor plans and budgets. It is recognized that many districts may not have sufficient capacity to undertake effective pro-poor planning and budgeting and to implement them.

At this time, most regions do not need more rules but tools on how to undertake pro-poor planning and budgeting - not more regulations but more education.

Accordingly the central government would:

- a) provide more training and other skills development for regional government staff to undertake pro-poor planning and budgeting, community development, and enhanced program targeting and implementation;

- b) increase the awareness and understanding of regional governments of the nature and use of poverty data and on how to identify the dimensions and the root causes of poverty (see next section as well); and
- c) more effective information on, assistance for, and work with local governments in the formulation and delivery of pro-poor programs such as BOS, health programs, RASKIN, the new PKH and in the formulation of DAK grants (less top down and more bottom up).

6.1.2 Data Improvements

The Central Bureau of Statistics (BPS) has over the past few years made considerable progress in collecting, assessing and disseminating poverty data, nationally and regionally. This has enabled better poverty measurement, poverty mapping, poverty targeting of programs, poverty MDG tracking, and the evaluation of programs. The central government will need to assist the regional governments to develop much better local poverty data, to undertake poverty mapping, to track local poverty levels and MDGs, and to develop better indicators for pro-poor programming and monitoring and evaluation (M&E). Sex-disaggregated data is particularly important.

6.2 Information and Communication

Many communities across the country are often not very knowledgeable about two things: (a) awareness of healthy living and life styles and (b) the assistance and programs available from governments to meet their needs and improve their situation. They are not sufficiently aware of how they can help themselves and of how governments can help them. That is also one major reason that many programs are often not sufficiently accessed by the poor.

The government would over the next year develop and fund extensive programs to inform and educate all the poor throughout the country on:

- a) Health promotion with basic facts on nutrition, maternal health, raising toddlers, use of clean water, sanitation, smoking, etc
- b) All local and national health services and support programs for the poor;
- c) Facts on education needs and benefits;
- d) Local and national education services and programs for the poor; and the
- e) Information on existing support programs (e.g., RASKIN and JAMKESMAS) and the new community development and conditional cash transfers (PNPM and PKH) being implemented in all communities over the next three years.

Information can be provided through the normal media outlets (radio, TV and print media) but also in simple ways (including in local dialects) through simple brochures, information in community and government social services offices and through local community meetings.

6.3 Funding and Resourcing

In order to be effective, the action plan will have to be adequately funded. As the attached table indicates the government already allocates significant sums towards poverty related programs, subsidies and grants. Some of the programs and allocations as

explained on the previous sections are effective, some are not. Some of the programs should have their allocations increased, some decreased but for many it is more a case of effective use of existing allocations.

Table 1. Allocations for Major Pro-Poor and Related programs

Estimates In Trillion Rupiah

Name of Program	2007	2008
Fuel Subsidy (BBM) (likely higher)	56.3	46.7
Electricity Subsidy (likely higher)	32.5	27.8
RASKIN	6.8	7.8
BOS	9.8	10.8
JAMKESMAS	3.6	4.8
Road & Bridge Infrastructure	8.9	18.6
SME Program	1.4	1.0
PKH	1.0	1.1
PNPM	3.9	7.0
Program for Remote Areas [P2DTK]	7.4	6.4
Agricultural Development	7.9	8.9
Land Titling (in hectares)	1,300,000	1,520,000
DAU	164.8	176.6
DAK	17.1	21.2
DEKON	35.0	

In summary terms the main funding decisions to be considered are the following:

- 1) Action plan priorities that would receive more funding over the next few years (plus strengthening):
 - a. Infrastructure (all elements but linked with local plans)
 - b. Agricultural development (all elements and linked with local plans)
 - c. Community Health Services and JAMKESMAS
 - d. PKH and PNPM (to meet commitments and effective implementation)
 - e. DAK (more pro-poor and shifts from DEKON to DAK funding)
- 2) Action plan priorities that would be either not very costly and/or will stay at about current funding levels but made more pro-poor and effective:
 - a. Assistance for labor intensive industries and SMEs;
 - b. Smarter and Faster Regulations
 - c. Micro-credit
 - d. RASKIN
 - e. BOS
- 3) Subsidies that would be reduced and the freed up funds made available to finance other priorities:
 - a. Fuel Subsidies
 - b. Electricity Subsidies
- 4) Changes in transfer payments to the regional governments:
 - a. DAU – relatively more per capita to the poorer regions
 - b. DAK – more pro-poor by sector and relatively more per capita to the poorer regions plus focus on quality of services not just infrastructure

- c. DEKON – either shift to DAK or made more consistent with local needs and reflected in local budgets.

6.4 Monitoring and Evaluation (M&E)

A sound understanding of the strengths and weaknesses of previous or on-going poverty reduction programs is essential. Successful monitoring systems and evaluations are based on clear, feasible and measurable outputs, outcomes and impacts.

Monitoring and evaluating are not the same. However, both require the same elements and tools, such as clear program goals, benchmarks, targets and indicators, and a sound, consistent and timely data base. Evaluations can identify, based on a good monitoring system, when, why and how plans steered off track, and recommend changes. And then of course ensure that the required changes are made in a timely and effective manner.

The Government should continue to enhance the M&E role and activities within the central government and will work with the local governments to undertake similar steps. The main priorities will be to stress within all ministries and agencies:

- the importance of developing or reformulating sound pro-poor programs with realistic measurable medium-term goals and outcomes (including links with the MDGs);
- the need and methods of selecting achievable program targets, indicators and of developing and maintaining a good data base;
- the preparation and implementation of a regular effective and transparent tracking or monitoring system;
- the formulation and implementation of an evaluation framework and plan; and
- the involvement and use of program clients, Civil Society Organizations (CSOs), and independent entities in both monitoring and evaluation: that is, to make M&E open, transparent and accountable.

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