# The Complementary Roles of Government and Social Sector in Poverty Alleviation in Indonesia

Mediya Lukman

## I. INTRODUCTION

Poverty and inequality have recently become key issues for all nations around the globe. Not only are developing nations placing a greater emphasis upon how to resolve these issues immediately, but rich nations too, including the United States, now see these issues as social phenomena that they too have to face up to. Page and Simmons (2000) in *What Government Can Do: Dealing with Poverty and Inequality* argued that "Still, as the twenty first century began, inequality and poverty in the United States stood at remarkably high levels, the highest levels in the advanced industrialized world..., millions of poor Americans—including many full-time workers—were unable to obtain decent food, shelter, clothing, or medical care" (p. 2). On the other hand, for developing nations these issues have been just two among many much more complex issues, such as communal and ethnic conflict, political instability, and rampant corruption—problems they frequently face and that hinder attempts to alleviate poverty and inequality.

Indonesia, as a developing nation, embarked upon a new and ambitious concept of agricultural production-based economic development during the so-called "new order" government of the Suharto regime that ruled Indonesia from 1970 to 1998. This economic development plan aimed mainly to eliminate the nation's severe financial deficit, to stimulate export and domestic production, and to reduce the annual inflation rate. Popularly known as the "*Trilogi Pembangunan*",[1)] this economic development plan has gradually and successfully transformed Indonesian life—from a mostly agrarian community to one that depends upon small and medium sized-industry.

From the macroeconomic perspective, despite the economic crisis which hit the country in the late 1990s, the development of the Indonesian economy on the whole has been running on this track over the last four decades. Indonesia enjoyed rapid and substantial economic growth, mainly spurred by the remarkable progress of the manufacturing and industrial sector, particularly in the 1980s. There were moderate levels of both Inward Foreign Direct Investment and Domestic Direct Investment, although they still lag behind other ASEAN nations, particularly Thailand, Malaysia and Singapore. In addition, (except in 1997 and 1998), the annual inflation rate has been relatively stable for several decades, averaging between five to nine percent a year, a rate that has allowed the entire Indonesian population to enjoy a gradual increase in their income.

On the other hand, from the viewpoint of social welfare (Human Development), the gains of the robust economic growth and low inflation rate of the last four decades have also finally began to trickle down a bit to lower-income workers and to marginal populations such as farmers and fishermen as their income per capita has risen dramatically. As a result, the national incidence of poverty has steadily dropped as well. For instance, in the 1970s nearly a half of all Indonesians basically lived in a poverty trap in which they interacted with other people in a scattered area in shanty towns lacking pure and clean water, and with no access to basic health and education facilities. However, in the late

1990s 20 percent of the entire population had been lifted out of poverty. Other social indicators such as fertility and illiteracy rates show a noteworthy trend as well. A nationwide family planning program, established by the government's *Badan Koordinasi Keluarga Berencana Nasional* (National Family Planning Coordinating Board) in the late 1970s, caused the fertility rate to fall significantly. Moreover, the establishment of paved roads and reliable education and health facilities in almost all regions and even in remote areas in the 1970s enabled the Indonesian people, children and older people alike, to improve their overall education and health.

The main aim of this paper is to investigate more thoroughly the role of institutions in poverty alleviation in Indonesia. Most importantly, this paper utilizes a different approach to the poverty dimension; that is, the use of both income and non-income dimensions of poverty. Furthermore, adopting a somewhat broad definition of institutions—as being laws or legal norms, systems, customs and organizations—this research deeply explores to what extent various Indonesian institutions have played an active role in designing, planning and executing the poverty alleviation program, including the pro-poor policy that has been being implemented over the last few decades.

The first target is public, or government, institutions. In this context we are going to review how the financial system, through the allocation of a pro-poor budget set up by central government institutions, enables poor people to boost their income and increase their levels of education and health, in particular since the 'big-bang' decentralization was put into effect throughout the nation in 2000. The next category for analysis is financial institutions. What is their direct and indirect contribution to lifting people out of poverty? To look comprehensively into the role of economic or financial institutions, we will review the direct involvement of two types of financial institutions—insurance and banking institutions. The last category covers social institutions and the extent to which they have affected poverty reduction in Indonesia. As is generally known, Indonesia is very ethnically, linguistically, culturally and religiously diverse; therefore this paper also explores how institutions based upon the Islamic religion (Faith-Based Organizations/ FBOs) have taken an active role in poverty reduction programs.

This paper is organized as follows: Section I provides a short introduction and sets out the aims of the study regarding institutions and poverty; Section II gives basic concepts and definitions of institutions, poverty (both income and non-income dimensions), and a theoretical framework on the nature of linkages between institutions and poverty; Section III focuses on the poverty rate in Indonesia and a brief history of antipoverty programs there; Section IV explores further the role of three types of institutions, namely government institutions (financial/budgeting system), financial institutions and social institutions, in poverty alleviation. The last Section sets out the conclusions of this study.

## II. INSTITUTIONS AND POVERTY; A THEORETICAL REVIEW

### II.1. Institutions

What are institutions? According to North (1990), institutions \in(t)-stə-'tü-shən\ are "the rules of game in society, or more formally, the humanly devised constraints that shape human interaction. In consequence, they structure incentives in human exchange, whether political, social, or economic" (p. 3). Similarly, Jönsson (2007) defined institutions as "relatively stable collections of social practices consisting of easily recognized roles coupled with underlying norms and sets of rules or conventions defining appropriate behavior for, and governing relations among, occupants of these rules" (as cited in Young, 1989, p. 32; Mark and Olsen, 1998, p. 948). However, a somewhat broader definition of institutions is given Mbaku (2007) stated that "economic institutions include laws or legal norms, common practices, and organizations that have an impact on economic activities. Hence, governments, corporations, traditions, and cultural norms are examples of economic institutions" (p. 121). In addition, a more pragmatic definition of institutions was offered by Johan Bastiaensen et al. (2005) who interpreted institutions as "the constellation of social networks and organizations as well as the associated rules of the game that govern interactions between and within structures, as they are actually enforced" (p. 980).

Similarly, Deolalikar et al. (2002) also adopted a bit broader definition of poverty that they defined as "…social network, gender roles, legal system, politico-administrative system, the state more generally—all of which interact with each other. Institutions are either state or non state. State institutions cover many aspects, such as the public provision of basic education and health services, public order and safety, and infrastructures … Non state institutions are social institutions, value, and norm" (p. 2). In relation to social institutions, they proposed the importance of civil society in the promotion of poverty eradication. Subsequently, they presented that civil society constituting formal and informal organizations that operate outside of the state such as NGOs, community association and the like, play a crucial role in community development of developing nations. Thus, institutions can not only be regarded as the formal or informal rules, systems, norms, and constraints in a society, but also as the organizations, corporations, and governments that operate in a society. `

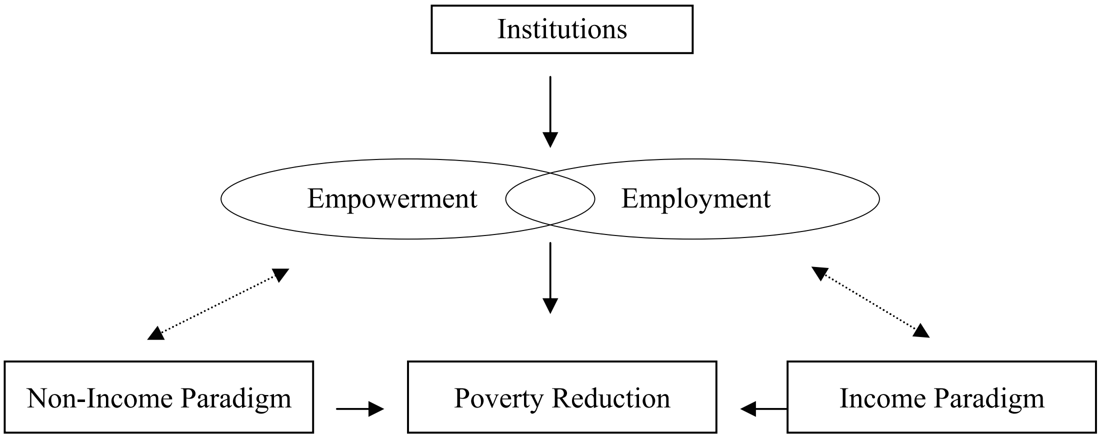
**II.2. Poverty**

In the contemporary literature, poverty can be analyzed in two different dimensions: the income dimension of poverty and non-income dimension of poverty.[2)] The income dimension of poverty has been widely applied by many nations in counting how many are in their population are poor. This dimension constitutes a minimum standard of living, which is commonly expressed by the term 'poverty line' (or 'threshold'). It specifies the minimum living standard to which everyone should be entitled, and it frequently refers to the broad use of expenditure on consumption, or income. In addition, this dimension is typically linked to requirements of basic nutrition to be consumed in daily life. One international threshold, for instance, that of the World Bank has a US$1 and US$2 per day poverty line as a primary metric of well-being. Accordingly, a person is deemed poor if his/her income or expenditure on consumption falls below the US$1 and US$2.

With regard to the income dimension of poverty, there are generally three measures of poverty used widely in empirical and non-empirical analysis of poverty. Firstly, headcount ratio/index, it is defined as proportion of the population living below the poverty line or threshold. Secondly, the poverty gap, defined a measure of the average gap—or distance—households are from the official poverty line. This index is also known as measuring the 'depth of poverty'. Lastly, the index of poverty severity or the squared poverty gap, defined as a measure of the distribution of income among the poor. It not only measures the poverty gap, it also weights the inequality among the poor. Moreover, it is a poverty measure that is very sensitive to the income distribution among the poor. The worse this distribution is, the more severe poverty is.[3)]

Despite the fact that many economists have been utilizing extensively the concept and measurements of the income dimension of poverty as the above-mentioned in measuring and ameliorating human well-being,[4)] some of them also argue against the use of the income dimension as the only metric of well being, saying that many other non monetary (income) factors come into play in determining whether or not a person is deemed to be poor. Other dimensions such as health and nutrition, housing and educational attainment are especially worthy of equal attention (David Sahn, 1999; Klasen, 2008).

Prominent Nobel laureate Amartya Sen also tends to utilize non-income dimensions in broadly defining poverty as 'limited basic capabilities'. Poverty is thus defined in terms of capability-deprivation and substantive freedom—the ability to live longer, to engage more actively in economic transactions, and to participate in political and social activities. Förster et al. (2004) argued that the capability approach identifies a hypothetical space of functioning which may be achieved by an individual. They further criticized the use of income as the sole determinant of poverty: first, "…income is a flow of resources, it is related but not identical to the corresponding stock of monetary and non-monetary




Source; This framework has been adopted and modified from Solava Ibrahim (2006) *The Role of Local Councils in Empowerment and Poverty Reduction in Egypt*, p. 7

**Figure 1.1 Theoretical Framework**

capital which in itself determines capabilities; second, income can represent only the demand side, a whole range of assumptions need to be made on how a given amount of income can be converted into comparable functioning, particularly in international comparison…" (p. 10).

Given that non-income dimensions are inherent in various aspects of poverty, the central question arising from the context of capabilities, functioning and substantive freedom as Amartya Sen proposes, becomes which non-income indicators or formulation should be used. Sahn (1999) argued that the appropriate formulation in determining the non-income dimensions of poverty was the UNDP Human Development Index (HDI),[5)] which has been widely accepted by many scholars. For instance, Stephan Klasen (2008) noted that the current research on poverty is largely dominated by the income dimension of poverty, and certainly it merely concentrates on the first MDG goal—to eradicate extreme poverty and hunger (US$1 threshold). Reducing non-income dimensions of poverty such as *poor health* and *education* however, is also an essential development goal.

**II.3. The Linkage between Institutions and Poverty**

Using the concept of broader definition of institutions, Figure 1.1 presents a theoretical framework for investigating the nature of the linkages between institutions and poverty. The role of institutions in poverty alleviation falls into two closely related policy elements: empowerment and employment. In regards to empowerment, institutions may be involved in increasing human capability and political freedom.[6)] For instance, from the standpoint of a non-income paradigm, local government institutions can encourage women's groups to actively participate in political activities in their villages as a means of empowering the community and enabling the poor to become active in cultural, social and political affairs. On the other hand, in regards to employment, institutions hold a vital role in creating any programs generating income for the poor. Financial institutions (banks), for example, can asset up soft credit schemes to expand marginal people's business activities (income paradigm).

Similar to the findings of Ibrahim mentioned above, from the aspect of political-governmental organizations or systems, Donelley-Roark et al. (2001) demonstrated that in Burkina Faso certain-high-performing local institutions contribute significantly to equitable economic development, which directly lowers the level of poverty and inequality. There, Service-asset Management (SAMs) groups have been proven to concretely aid in the reduction of inequality through the participation of poor households.

Subsequently, Deolalikar et al. (2002) argued that in the context of the decentralization and democracy that has been taking place nowadays in India, institutions have generally lowered the poverty rate in the South Asian region. Also, as social institutions, they found that in Lao PDR and Viet Nam, international NGOs play an important community development role in partnership with the government. More importantly, many NGOs work in rural areas that the government has never reached. Deolalikar et al. cited four important aspects affecting a country's poverty reduction efforts. First, administrative reform: it is necessary for a developing nation to reform the bureaucracy and civil services to promote public-sector efficiency. Second, decentralization: applying concepts of financial and political decentralization, and local community ought to empower socio-economic activity through participation in public decision-making institutions and processes. Third, is wider citizen participation. Fourth, is improving the legal system through maintenance of law and order.

In an empirical study to determine the linkage between institutions and poverty, Ali (2006) claimed that the effect of governance on development outcome indicators was statistically significant. For instance, using government effectiveness and rule of law and some other variables as explanatory variables and as a proxy of institutions in African nations, he showed that government effectiveness and rule of law contribute positively to a decline in the level of poverty. In general, improvement in institutions leads to decreased poverty up to a per capita GDP level of $4329. However, the link between institutions and poverty still depends on the overall development process of a nation.

## III. POVERTY IN INDONESIA AND A BRIEF HISTORY OF ANTIPOVERTY PROGRAMS THERE

### III.1. Poverty in Indonesia

Since 1969 Indonesia has established many remarkable development programs aimed at improving the quality of human life by means of sustained economic growth. At that time, President Suharto had been successful in gradually restoring political stability, and had begun the five-year economic development plan as a part of ambitious national economic development project. In the agricultural and infrastructure sectors for example, the central government has built a great number of dams and roads in the countryside. Introduction of modern plantation methods designed to increase national crop production and farmers' income significantly reduced the nation's dependence on imports, while cultivation of idle land through a huge domestic transmigration program in the 1970–1980s, also contributed greatly to increasing agricultural production. Accordingly, such pro-villager programs, together with an import-substitution and export oriented industrial policy, have substantially affected the sustainability of economic growth.

Three decades of impressive economic performance has caused the number of people living in extreme poverty to gradually decrease. For example, according to the Central Bureau of Statistics (BPS), the overall numbers living in poverty (rural and urban) dropped from 42.3 million people in 1980 to 34.5 million people in 1996 or from 28.6 percent to 11.3 percent of total population—as measured by poverty headcount ratio, which is an important measurement of income poverty.[7] On average, nearly 500 thousand people annually were lifted out of poverty between 1980 and 1996. Unfortunately, this remarkable trend ended in 1997 when the Asian financial crisis hit Indonesia, causing the number of poor people to rise to 49.5 million or 23.8 percent of the total population in 1998 (Table 3.1).

Moreover, over the period 1998–2004 (post-economic crisis) the incidence of poverty in rural areas was much higher than in urban areas. In the late 1990s, the crisis impacted more adversely upon rural dwellers than upon urban dwellers. According to Amin (1993), this occurred because when the crisis hit many factories shut down their production, which directly and seriously affected the jobs and livelihoods of many workers who previously worked in

**Table 3.1 Poverty Line, Number and Percentage of the Poor in Indonesia by Urban-Rural Areas, 1980–2004**

| Year | Poverty Line (Rupiah/capita/month) | | % of the Poor (Headcount Index) | | | Number of the Poor (in million) | | |
|---|---|---|---|---|---|---|---|---|
| | Urban | Rural | Urban | Rural | Urban+Rural | Urban | Rural | Urban+Rural |
| 1980 | 6,831 | 4,449 | 29.0 | 28.4 | 28.6 | 9.5 | 32.8 | 42.3 |
| 1984 | 13,731 | 7,746 | 23.1 | 21.2 | 21.6 | 9.3 | 25.7 | 35.0 |
| 1987 | 17.381 | 10.294 | 20.1 | 16.1 | 17.4 | 9.7 | 20.3 | 30.0 |
| 1990 | 20,614 | 13,925 | 16.8 | 14.3 | 15.1 | 9.4 | 17.8 | 27.2 |
| 1993 | 27,905 | 18,244 | 13.5 | 13.8 | 13.7 | 8.7 | 17.2 | 25.9 |
| 1996 | 42,032 | 27,413 | 9.7 | 12.3 | 11.3 | 9.6 | 24.9 | 34.5 |
| 1998 | 96,959 | 72,780 | 21.9 | 25.7 | 23.8 | 17.6 | 31.9 | 49.5 |
| 1999 | 92,409 | 74,272 | 19.4 | 26.0 | 23.5 | 15.6 | 32.3 | 48.0 |
| 2002 | 130,499 | 96,512 | 14.5 | 21.1 | 18.2 | 13.3 | 25.1 | 38.4 |
| 2004 | 143,455 | 108,725 | 12.6 | 20.1 | 16.6 | 11.5 | 24.6 | 36.1 |

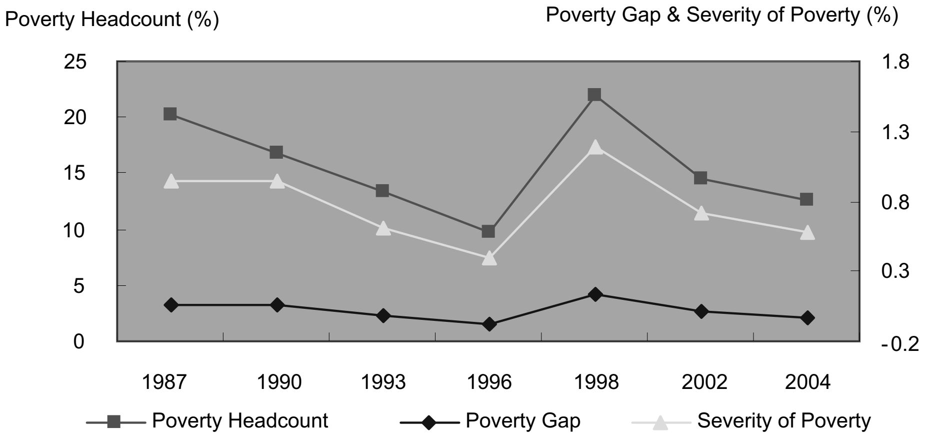
Source; the Central Bureau of Statistics (BPS)

the cities. As a result, some of them went back to their home villages to seek work in the agricultural sector, while others remained engaged in informal economic activity in the cities as traveling traders and the like.

Other crucial indicators frequently applied by many scholars researching and analyzing income poverty are the poverty gap index and the index of poverty severity. In Indonesia during the period 1987–1996, both these indices fell significantly in all areas, while during the on-going crisis in 1998 they rose quite dramatically. However, they declined again gradually after the crisis thanks to the recovery of Indonesia's economy. To clearly show fluctuations in the percentage or ratio of all measures of the income dimension of poverty in Indonesia, Figure 3.1 below shows the trends in poverty headcount, poverty gap and severity of poverty from 1987 to 2004. As can be seen, the poverty headcount, alongside the poverty gap and severity of poverty fell sharply up to 1996, and conversely, they all rose drastically in 1998. Even so, in the early 2000s all poverty measures went smoothly down towards those of 1996—before the economic and financial turmoil.

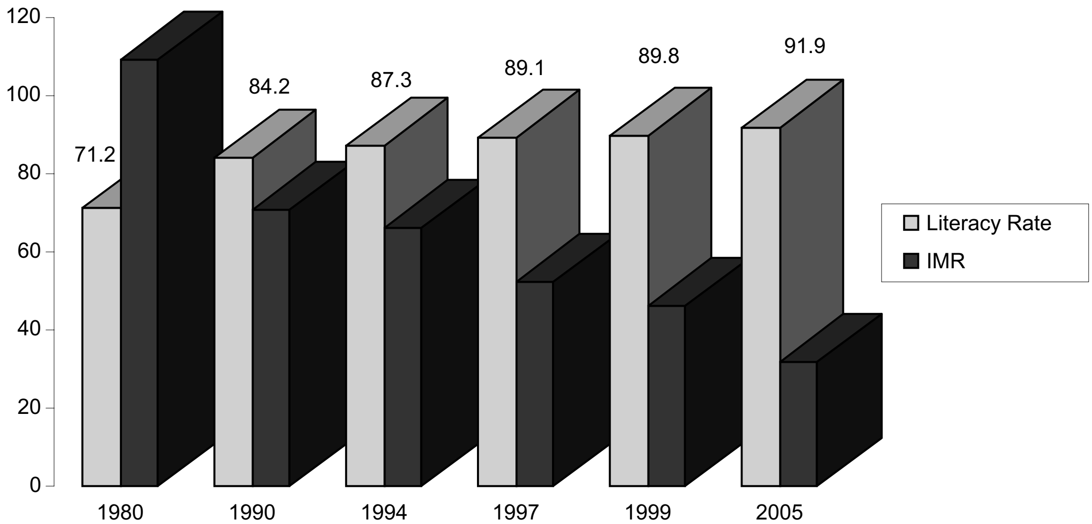
In addition to data on poverty headcount, poverty gap and the severity of poverty as the above-mentioned, it is also important to review how the trend in Human Development Index (HDI)—as a vital aspect of the dimension of non-income poverty in Indonesia has steadily changed for the last decades. Actually, efforts to improve the HDI index have been intensively implemented by the government of Indonesia over the last four decades. For example, the extensive family planning program that has been carried out nationwide since the 1970s has reduced the population growth rate and indirectly improved the general health conditions of the average family as well. In addition, reform of the health system was followed two decades ago by the establishment nationwide of integrated public health facilities that have given poorer communities access to much better health services. Another aspect, education—well known to be essential for a satisfying and rewarding life, also plays a key role in the Indonesian peoples' capability to absorb and apply sophisticated technology and to develop the capacity for self-sustaining growth and development.

As Figure 3.2 shows, there has been a remarkable improvement in Indonesian health levels (represented by the Infant Mortality Rate/IMR) from 1980 to 2005. For instance, 1 in every10 babies (100/1000) born in 1980 died before they reached one year of age. Nevertheless, the mortality rate had declined sharply by 2005 to only 32 babies per 1000




Source; the Central Bureau of Statistics (BPS)

**Figure 3.1 Measures of Poverty, 1987–2004**




Source; the Central Bureau of Statistics (BPS)

**Figure 3.2 Infant Mortality Rate and Literacy Rate of Indonesia over 1980–2005**

live births. This is partly because of improvements in basic health care and the use of advanced medical facilities that have been gradually implemented by the government since the 1980s. Another non-income dimension of poverty, educational attainment (represented by the proportion of the population 10 years of age and over who are literate), shows an unprecedented extension of literacy as well. In 1980, the proportion of the population 10 year of age or over who were able to read and write was only 71 percent, but in 2005 it was almost 92 percent. This measurement indicates that the literacy rate has increased by an average 0.86% every year.

### III.2. A Brief History of Antipoverty Programs in Indonesia

**A. Pre-economic Crisis**

The government of Indonesia initiated antipoverty programs during the 1960s through a strategy to meet the peoples' basic needs, as stipulated in the eight-year national development plan. This plan nevertheless came to standstill as a result of a political crisis in 1965. Shortly after Suharto took control, the central government resumed antipoverty programs that were comprehensively implemented around the nation in the 1970s. However, more serious attention began to be paid to poverty in the beginning of the 1990s. At that time, the government carried out antipoverty programs with a special strategy to reduce the social and economic gap. In addition, to synchronize antipoverty programs at both sectoral and regional level, the government in 1993 released the new 'Enhancement of Antipoverty Program' as the main basis for all institutions implementing antipoverty programs throughout the country. Following the implementation of this regulation, the government immediately began the first antipoverty program—the *Proyek Inpres Desa Tertinggal*/ IDT (Neglected Village Improvement Project).

According to Daly and Fane (2002) antipoverty programs in Indonesia fall into four important categories: 1. Cash Transfer Schemes; 2. Benefits in kind of rationed/subsidized amounts of essential consumer goods provided to people below the poverty line using means-testing; 3. Job Creation Schemes for unskilled workers; and 4. Universally available price subsidies with no rationing for essential goods.

Like Daly and Fane, Perdana and Maxwell (2004) also reviewed the government antipoverty programs, with a particular emphasis upon evaluation and assessment of the social safety net programs after the Asian financial crisis in the late 1990s. They describe some crucial elements of the high effectiveness of poverty-targeted programs in Indonesia: namely the type of targeting, administrative capacity, program design and publicity (public consultation, notification), monitoring and reporting. Moreover, they subsequently noted that there were six main antipoverty programs carried out by the central government over the period 1994–2003: the Village Improvement (IDT), Food Security, Community Empowerment, Employment Creation, Education and Health programs. In spite of various under-coverage and leakage problems, Perdana and Maxwell acknowledged that those programs generally benefited poor households to a certain degree—targeting effectiveness.

**B. Post-economic Crisis**

The severe financial crisis that hit Indonesia in the late 1990s, along with a change away from a centralized to a decentralized regime, as well as some failures in the implementation of previous programs, all forced the central government to redesign its antipoverty programs. In December 2001, the government established a new Poverty Reduction Committee (*Komite Penanggulangan Kemiskinan, KPK*) whose mission is to take concrete measures to accelerate the reduction in the number of the poor throughout the Indonesian archipelago, and to make policy, monitor and report on poverty alleviation to the President—based on Presidential Instruction (*Keppres*) 124/2001.[8)]

In general, antipoverty programs implemented by both local and central governments can be classified into two main categories. First are programs designed to empower rural-urban social institutions/organizations (empowerment programs). This kind of program is mainly directed at strengthening both rural-urban communities and social organizations to take part in development projects. Second are programs for stimulating rural-urban economic activity, intended to provide greater opportunities for people living in urban and rural (coastal) areas to sell their products, and to increase entrepreneurship among low-income rural-urban communities (employment program). Table 3.2 below presents some main antipoverty programs implemented during the period 2000–2008. Moreover, almost all government institutions both at the local and central levels actively carry out antipoverty programs.

**Table 3.2 Antipoverty Programs in Indonesia, 2000–2008**

| Program | Description | Target | Responsible Institution |
|---|---|---|---|
| Rural Development | This program is heavily focused upon the development of rural infrastructure by involving rural communities | Suitable social-economic rural infrastructure | Local Government |
| Sub-district Development | The main program aims to empower non-profit organizations at the sub-district and village levels in rural development process | Non-profit organizations at sub-district and village level | Local Government |
| Poverty Alleviation in Urban Area | Empowerment of urban communities by developing capacity and resources among second-class citizens (urban marginal community) | Second-class citizens (urban marginal community) | Urban Development Bureau |
| Rural Microfinance | Aimed at enhancing rural community participation in creating entrepreneurship creativity. | Rural communities and organizations | Local Government and SMEs Bureau |
| Partnership for Local Economic Development | Designed to develop local economic activity through which farmer and Small-Medium Enterprises (SMEs) are able to place their products in the local commodity markets. | Farmers, fishermen, and Small-Medium Enterprises and other groups | Local Government |
| Economic Empowerment for Coastal Area Community | Designed to ease credit access for small fishermen groups. | Small Fishermen groups | Fisheries Bureau |

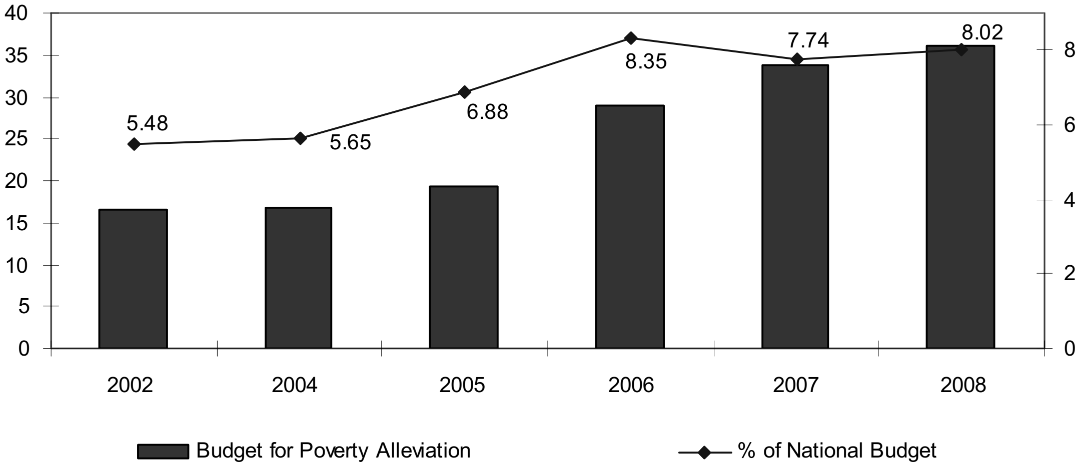
Source: *Profil Program Penanggulangan Kemiskinan* (Profile of Antipoverty Program), 2006

## IV. INSTITUTIONS AND POVERTY ALLEVIATION IN INDONESIA

### IV.1. The Role of Government Institutions in Allocating the Pro-poor Budget

Seeing that financial crisis in the late 1990s had caused both unemployment and the number of households living below poverty line to rise rapidly, the central government immediately tried to formulate a new strategy of poverty alleviation supported by an appropriate and accountable budget for the poor people in 2000, at the same time as it moved towards the implementation of fiscal decentralization. Nearly all government ministries are involved in poverty alleviation programs and each of them generally delegates projects to local governments as the primary executing institutions. Around a tenth of the total budget of each department/ministry (especially the social welfare related ministries) is directly targeted to support the pro-poor policy. According to *Bappenas* (the National Planning and Development Agency), in 2002 the central government budgeted IDR16.5 trillion for programs relating to poverty alleviation in all provinces and districts.[9] Nevertheless, this budget rose steadily by nearly IDR20 trillion in 2005; and by 2008 the central government even allocated IDR36.2 trillion of the total national budget towards poverty alleviation programs (using 2002 as the base year). In other words, over the last six years, there has been a two-fold increase more in the amount of government funds devoted to reducing the number of people trapped in poverty[10] (Figure 4.1).

Furthermore, the process of on-going fiscal decentralization first launched by the parliament and government



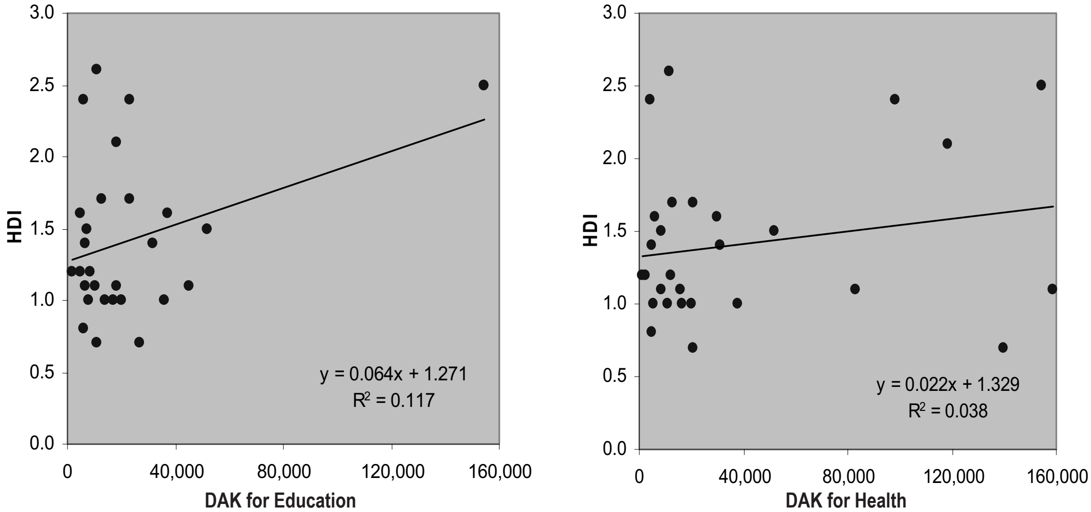

Source; Bappenas (National Planning and Development Agency)

**Figure 4.1 Budget for Poverty Alleviation as Percentage of National Budget (in Trillions of Indonesian Rupiah, 2002: 100)**

in the beginning of 2001 has provided much larger opportunities for the local governments (at provincial and municipality/district levels) to stimulate local economic development and to increase their institutional capacities as well as their capability to administer their resources effectively and efficiently. As a result, local governments have more viable alternatives when managing their income and expenditure in regards to development policy, including any pro-poor development programs. As mandated by Law No. 25/1999 on Regional Finance,[11)] there are actually three intergovernmental transfer schemes that are directly channeled to all local governments, namely *Dana Bagi Hasil* (the Shared Revenue Grant), *Dana Alokasi Umum*/DAU (the General Allocation Grant) and *Dana Alokasi Khusus*/DAK (the Specific Allocation Grant). Of these three schemes, the DAK grant is widely regarded as contributing both indirectly and directly to poverty alleviation in all regions.

The General Allocation Grant (DAU) aims to reduce intergovernmental inequalities/gaps between expenditure necessities and fiscal capacities, consequently contributing to reduction in interregional gaps. It is directly distributed to all local governments on the basis of a formula by which backward or poorer regions receive more in direct resource transfers than do the rich regions. Moreover, socio-economic indicators such as the per capita Gross Regional Domestic Product (GRDP), population density, and the local government's revenue are used to determine to what extent a province is allocated this grant. Given such available socio-economic indicators, it can be said that the formulation of this grant (DAU) ought to be an indirect determinant in contributing to a reduction in the non-income poverty rate (HDI) of a province/district.

In addition to the DAU grant, the DAK grant, which aims to finance basic infrastructure (i.e., education, health and road infrastructures) in poor regions, can also be seen as a pro-poor grant. The reason why this grant is essential in lifting people out of poverty (at least in terms of non-income poverty) is that its distribution and allocation to targeted provinces and districts depends heavily on criteria relating directly to their level of backwardness/poverty and their Human Poverty Index. For instance, Sidik (2003) noted that there are three criteria determining how the DAK grant is supposed to be allocated to a region: first, general criteria, meaning that the DAK grant is primarily targeted to region




Source; Author calculation based on BPS and the Ministry of Finance Data

**Figure 4.2 Correlation between DAK for Education-Health and HDI**

whose fiscal capacity is much lower than the average fiscal capacity of all regions. Second, special criteria, where newer and more remote regions have priority over more advanced regions. Third, technical criteria, which is much more important because it utilizes some aspects of non-income poverty such as the Human Poverty Index, the repair of elementary school buildings and health facilities along with other non-physical measures such as the percentage of babies suffering serious malnutrition in a given province or district.

To see clearly whether there is a positive correlation between the DAK grant, which the government has channeled to the regions over the last six years, and levels of poverty, the following figure presents a scatter plot relating the DAK grant to Human Development Index (HDI) as an important aspect of the non-income dimension of poverty; it utilizes data from the 28 provinces between 2004 and 2006.[12)] Figure 4.2 shows that, holding other (relevant) factors fixed, the DAK grant for education (left side) has contributed positively and significantly to an increase in the HDI. It indicates that a 10.000 rupiah increase in the DAK grant per capita for education leads to a 0.06 percentage point increase in the HDI.[13)] However, if we ignore and exclude one province/point isolated on the upper right-hand corner, this correlation is fairly weak. Meanwhile, a slightly different estimation is presented by the figures on the right: while the trend line of the scatter plot clearly shows a positive trend and a correlation between the DAK grant per capita for health and HDI, this correlation is very weak and not statistically significant at the minimum level (10 percent). Thus, even though there has been a positive correlation between the DAK for education/health and HDI, we seem not to have a conclusive evidence of the linkage between HDI and the DAK grant.

### IV.2. Financial/Economic Institutions and Poverty

### A. The Role of the BRI Bank in Increasing Income and SMEs Business

In Indonesia, the role of banks in providing credit and financing to the poor and to small and medium enterprises (SMEs) has long been a major concern of scholars and bankers. State-owned banks have generally dominated the provision of low-interest credit to the rural community and SMEs. For example, one prominent state-owned bank—

the BRI Bank (People's Bank of Indonesia), which has branch offices in nearly in all of the sub-national regions, is well known as a bank mostly targeting the empowerment of SMEs and lower income people. According to Rudjito (2003), the consistency of the bank in providing microfinance (soft-loans) to the SME sector and the poor over the last few years has increased from 80.14% in 2000 to 84.16% in 2001, and 85.71% in 2002. In contrast, the ratio of loans for the corporate sector by the BRI Bank has gradually declined. Moreover, the so-called *Kredit Usaha Rakyat* (People's Business Credit) program that was launched by the central government in late 2007 also proves that contribution of BRI Bank in channeling microcredit to the SMEs and the poor in terms of the KUR scheme is much larger than that of any other banks[14]. Djoko Retnadi (2008) noted that BRI Bank has channeled more than 45 percent of the total national KUR micro credit. In comparison, another prominent national bank, Mandiri Bank, has only provided 15% of the total KUR microcredit available.

The existence of the BRI Bank in helping lower-income people is not only very respectable, but crucial. There are two types of BRI Bank business which can be categorized as pro-poor business activity: namely the *Badan Kredit Desa* (Village Credit Organization), and the P4K *(Pembinaan Peningkatan Pendapatan Petani dan Nelayan Kecil* or Income Generating Program for Marginal Farmers and Fishermen).

**1. *Badan Kredit Desa/BKD* (Village Credit Organizations)**

BKD has a long history in the Indonesian economy, and it also can be said to be the first microcredit institution as it was established in 1897 during the Dutch colonial period—when it was known as *Lumbung Desa* (Village Granaries). The organization's capital initially came from loans fully provided by the government, the district and local granaries, including repayable shares belonging to villagers, but it was later gradually replaced by the bank's loan portfolios coming from retained earnings (Robinson, 2002). During World War II and the first few years of Indonesian independence, BKD's activity came to a standstill. In the 1950s government decided to transform the BKD into a cooperative system, but that effort was a total failure. However, when President Suharto took power the BKD system was changed dramatically, as he assigned all of the BRI Bank branches to supervise and assist the BKD business such as the screening of potential borrowers, cash management, and administration of borrowing-lending activity and the like.

The major services of BKD are to provide small commercial loans to households or individuals residing in the villages. The loan process is very simple and fast, and the borrowers usually can receive approval and disbursement of a loan on the same day they request it. Interestingly, the most important thing is that BKD does not require collateral as generally applied by almost all commercial banks. As of October 2002, there were at least 4,518 BKD's operating throughout the villages in Java and Madura, directly serving some 700,000 customers (Rudjito, 2003). Given the outstanding role of BRI Bank in removing the difficulties faced by poor people and SMEs in gaining financial access, as seen by this BKD system, it can be said that BRI Bank has made a major contribution to helping low-income people escape from the poverty trap.

**2. *Pembinaan Peningkatan Pendapatan Petani dan Nelayan Kecil/P4K* (Income Generating Program for Marginal Farmers and Fishermen)**

The Income Generating Program for Marginal Farmers and Fishermen (P4K) is a pro-poor program implemented jointly by the government and BRI Bank with aim of increasing the income of marginal fishermen and farmers. First launched in 1996, the program received strong financial support from global multilateral organizations such as IFAD (the International Fund for Agricultural Development), UNDP and ADB. The specific goal of this program is to build microenterprise skills, to channel low-interest loans and to promote savings, as well as to train the farmer and fisher families in development skills, education, health and family welfare. In contrast to the BKD, which directly channels soft loans to a household or an individual, the P4K program provides loans to groups of marginal fishermen, farmers, farm laborers and sharecroppers. Each group typically ranges from 8 to 16 families, although the average group comprises 10.8 households.[15] This program was initially directed to provinces situated in Java, Bali and West Nusa Tenggara islands, but it has steadily been expanded to 12 other provinces.

BRI Bank only provides loan terms ranging from 12 to 18 months maturity, and if necessary the bank gives a six-month period of grace to each group. Each borrower (group) can repay their debt monthly, quarterly or annually depending on the intended use of the loan. The Bank also does not require collateral for its loan, but for the first loan each group just get at most IDR500,000. For the savings products, the BRI Bank usually encourages groups to save their funds and income. The interest rate provided by the Bank is the same as its other commercial savings products, that is, around 20‒22 percent a year. By October 2002, no less than 123 branches of the BRI Bank had delivered the P4K program around the nation to 178,172 groups of marginal farmers and fishermen. All loans in total channeled to such groups accounts for over IDR638 billion. Meanwhile, the percentage of P4K loans in default or close to being in default is just 6.78 percent (Rudjito, 2003).

Knowing the farmers' and fishermen's enthusiasm to participate in the P4K program, there is no doubt that the role of BRI Bank in stimulating economic activity in the coastal and rural areas as well as in generating income for farmers and fishermen is especially worthy of high appreciation. With respect to the impact of the role of BRI Bank in channeling P4K loans to marginal farmers, Harun (2004) found that the P4K program did increase farmers' annual income, by some IDR78 thousand. Other significant factors affecting farmers' income are the productive age of the farmer, whether they have another livelihood (i.e., are small traders etc), the number of family members, and the amount of the loan.

**B. Insurance Companies and the Special Health Service for the Poor**

As mentioned briefly in section three, after the financial crisis hit Indonesia in 1998 the government decided to carry out pro-poor programs to reduce the fatal impact of the fall in peoples' real income. Some programs aimed especially to boost the income of the most lowly-paid workers who had previously lost their job due to the turmoil of the financial crisis (i.e., those on labor intensive projects), and others were targeted mainly to minimize the risk of an increase in the drop out and illiteracy rate as well as any fall in the population's overall level of health. These programs included the *Jaring Pengaman Sosial Bidang Kesehatan/JPS-BK* (the Health Social Safety Net) Project and the Block Grant (financial assistance) Project for elementary and secondary schools.

Despite the fact that the Health Social Safety Net/JPS-BK project proved to be a great success in maintaining the quality of public health services, and preventing a further decline in the severe malnutrition suffered by most babies in poorer families, the government eventually terminated the project in 2003.[16] Replacing it however, the government specially established a new program for safeguarding against deterioration in the health of the poor: the *Asuransi Kesehatan Miskin/Askeskin* program or Health Insurance for the Poor, which was inaugurated by the Ministry of Health in January 2005.[17] The main goals of the program are to improve the quality of, and access to, health services by the poor - by which the health status or level of the Indonesian population in general can be better maintained; and also to enhance the basic health services mainly provided by the community health clinics/centers (*Puskesmas*) around the nation.

When the *Askeskin* program was first launched in 2005, the government allocated a budget of IDR2.1 trillion, subsequently raising it to more than IDR3.5 trillion and IDR4.6 trillion for the 2006 and 2007 fiscal years respectively. Meanwhile, the number of the poor who were targeted to receive health services as part of the Askeskin program also increased substantially, from 60 million people in 2005 to 70 million people in 2007.[18] Moreover, participation by the poor in enjoying the facilities and ease of access of the Askeskin program's services rose dramatically in nearly all of the community health clinics and hospitals. For instance, the total number of visitors who used hospital outpatient facilities was around 1.4 million people in 2005, but rose rapidly to 5.9 million people in 2007, a 321% increase since the program was first implemented in 2005. With respect to inpatient facilities, the hospitals that offer the Askeskin program treated 562,000 visitors in 2005 and 1.9 million visitors in 2007 (the Ministry of Health, 2008). This reflects the considerable enthusiasm of the poor in enjoying the good health services thorough the country.

To disburse the *Askeskin* budget to the hospitals and clinics, the government decided to channel the funds through two financial institutions: namely the People's Bank of Indonesia (BRI Bank) and PT. Askes (the National Health Insurance Company). There are actually two mechanisms of disbursement for the *Askeskin* fund: direct and indirect disbursement. Direct disbursement is where the *Askeskin* funds allocated by the government in the beginning of fiscal year are directly disbursed to each community health center/clinic (*Puskesma*s) through the BRI bank. The BRI however, merely serves as an intermediary between the *Puskesmas* (users of the fund) and government (provider of the fund). *Puskesmas* can utilize the fund for poor patients anytime in compliance with the extent to which they deserve allocation of the *Askeskin* fund in their region. According to the Ministry of Health regulations and guidance, *Puskesmas* may use the funds only for basic health services, operational and management costs, or deliveries (births).

The second type of disbursement of the *Askeskin* fund is indirect, and conducted by PT. Askes (the National Health Insurance Company). The process is indirect because the government funds allocated to PT. Askes at the beginning of the fiscal year cannot be directly channeled to hospitals as the final users of the fund. Before PT. Askes disburses the *Askeskin* funds to each of the hospitals, it has to: a/ validate how many poor will utilize the *Askeskin* facility in each hospital; b/ make the *Askeskin* cards; and c/ more importantly, verify carefully the claims regarding the utilization of the *Askeskin* facility that come from the hospitals. Shortly after PT. Askes conducts such verification it gradually disburses the *Askeskin* funds to the hospitals. Generally, the total funding accepted by each hospital depends heavily on the number of poor patients who make *Askeskin* claims. In short, the clear distinction of the role between the Bank BRI and PT. Askes lies in their authority to manage the *Askeskin* fund; BRI has no legal right to fully administer the fund—this task is actually conducted by *Puskesmas* as PT. Askes has done.

Although the *Askeskin* program has been helpful for the poor in accessing affordable and well-managed health services, especially in remote areas; the central government decided to slightly modify the program's mechanisms in 2008 in order to meet the strong popular aspiration for improvements in its administration and financial transparency. This new program is widely known as *Jamkesmas*―*Jaminan Kesehatan Masyarakat* (Public Health Safeguarding). However, while generally the aim and administrative system of the *Jamkesmas* is the same as the *Askeskin* program, in the *Jamkesmas* system PT. Askes no longer has full control and privileges in managing the funds that the government disburses at the beginning of the fiscal year.

### IV.3.　The Role of Social Institutions and Civil Society in Poverty Alleviation

In addition to the government (political) and financial institutions, social institutions and civil society also play an important role in the alleviation of poverty. Civil society can be categorized into both informal and formal institutions that run outside of the government structure and business or market and that are designed to encourage various interests in society (Deolalikar, 2002). Such organizations/institutions typically consist of various forms: CBOs (Community-Based Organizations), civic or professional organizations, Non-Governmental Organizations, and Faith-Based Organizations (FBOs).

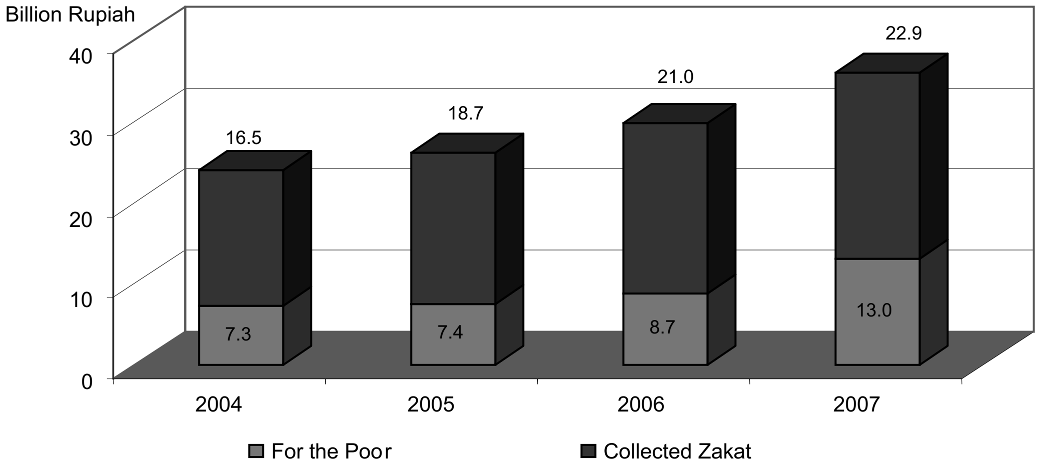
Non-Governmental Organizations (NGOs) and other groups in society have nowadays been recognized as institutions that play an increasingly large role in Indonesia―whether in the social, economic or political spheres. They are also regarded as institutions that can respond very quickly to what the people need, and are actively involved in development activities, especially in areas related directly to the enhancement of human life. In addition to NGOs, Faith-Based Organizations (FBOs) in Indonesia have also made honorable contributions to the process of Indonesian development (i.e., Indonesian education system) (Rohanah, 2001). For example, two prominent Indonesian FBOs —*Muhammadiyah* and *Nahdlatul Ulama*, which were established in the 1930s, take an active part in increasing the education and health levels of the Indonesian populace and FBOs as a whole have certainly become an indirect factor in the achievement of MDG goals. In terms of education, for instance, the Muhammadiyah organization has been providing education from elementary school through to university level in almost all provinces. Although they operate private schools, the education curriculum of the Muhmamadiyah organization is the same as that of state-owned schools. It indicates that even though Muhammadiyah can be acknowledged as a faith-based organization (FBO), their way of operating schools (i.e., curriculum and learning method) at all levels is not based merely on the Muslim faith, but rather upon regulations determined by the government.

Besides these activities, recent years have seen a rapid rise in the involvement of FBOs in helping lower-income people. As the world's largest Muslim country, the good deed of helping other communities (especially the poor) has long been practiced by Indonesian people. For instance, much philanthropic giving in Indonesia is done based on major Islamic precepts. In the Islamic world, there are four main four types of philanthropic giving. The first, *Zakat,* is obligatory alms or charity for all Muslims. An individual or a business entity whose income is above a specified threshold must pay the *zakat*, which is customarily calculated as an annual payment of 2.5 percent of all capital assets, savings, and current income.[19] The second, *Sadaqah*, is almsgiving that a Muslim should do regardless of their income (voluntary giving). The third, *Infaq,* is spending of wealth for a certain purpose. The fourth, *Waqf,* is the donation of buildings and/or land (fixed assets) for charitable purposes such as Islamic schools and hospitals.

Since *zakat* is an obligatory almsgiving for a Muslim whose income has reached a certain level, and is directly disbursed for poverty related purposes, it can be said that its role in lifting the poor out of poverty is much more viable than the other types of giving. In Indonesia, mobilization of the *zakat* is normally carried out by FBOs, but the quasi-government institution BAZ/*Badan Amil Zakat,* (Zakat Collection Board) also gathers the *zakat* alms. One prominent Indonesian social institution or FBO that is deeply respected for its excellent management of the *zakat* collection is *Dompet Dhuafa*/DD Foundation.

Dompet Dhuafa/DD Foundation was established in July 1993 by the *Republika* daily newspaper. It is a non-profit institution whose mission is to boost the dignity of the poor in a civilized society through the ZISWAF fund.[20] The generous idea of establishing a donation organization began when some of the newspaper's journalists frequently interacted with impoverished people in Gunung Kidul in Yogyakarta province. When the donations first started to operate very minimally, the newspaper journalists deducted 2.5 percent of their monthly salary as their *zakat* obligation and as such the funds were directly donated to the poor in Gunung Kidul. However, because the collected fund was not sufficient to cover the poor people's needs, they decided to involve the newspaper's readers, and fortunately, this effort gradually succeeded in attracting much attention from its readers. On the first day for example, the foundation accepted as much as IDR425 thousand in donations from *Republika* readers. Subsequently, by the end of 1993 the collected donations had risen to IDR88 million, in addition to IDR2 million *zakat* paid by the newspaper employees themselves (PIRAC, 2004).

Over the past four years, there has been a rise in the collected *zakat* for the poor. In 2004, the DD Foundation succeeded in collecting *zakat* of around IDR16 billion rupiah from which it channeled IDR7.3 billion, or 45 percent, directly to the poor, and the remainder was channeled to other eligible people as regulated by Islamic rules. The collected *zakat* rose rapidly to almost IDR23 billion in 2007, and disbursement to the poor reached IDR13 billion (Figure 4.3). This example demonstrates that the highly valuable and trust-worthy role of the DD Foundation in managing donations coming from Muslims throughout the Indonesian archipelago, and in channeling funds to the needy community. It was further exemplified by an official visit by delegations from Tanzania and Malaysia in 2002 to learn




Source; Annual Report of the Dompet Dhuafa Foundation

**Figure 4.3　The Amount and Use of Collected Zakat, 2004-2007 (in Billions of Indonesian Rupiah)**

close up how to manage and skillfully channel this Islamic donation to those eligible people as set out by the Islamic religion (Sudewo E., 2008).

## V.　CONCLUSION

Over the last three decades, Indonesia has actually made structural changes to the design of its economic development. Despite the financial crisis that hit the country in the late 1990s, since then political stability, a relatively stable inflation rate, and the promotion of investment and exports have been major contributions to a steady and gradual drop across the Indonesian archipelago in the poverty headcount, poverty gap and the severity of poverty—the main indicators of income poverty. Furthermore, government expenditure that is mostly targeted to the establishment of basic infrastructure such as school buildings, health clinics, and village roads over recent decades has caused the Human Development Index/HDI (well known as the main indicator of non-income poverty) to gradually rise. The illiteracy rate, for instance, which in 1980 was around 30 percent of the population 10 years of age or over, had by 2005 fallen to an expected level of only 8 percent.

This paper takes a fresh look at the important issue of the role of institutions in poverty alleviation in Indonesia. The main focus of this paper was to analyze both the extent of involvement and the role of institutions in supporting anti-poverty programs implemented by the government since the 1990s. Generally, there are two different strategies that government has implemented to reduce the total number of poor over the last two decades: empowerment and employment. Prior to the economic crisis and during its onset, the government carried out antipoverty programs with a strong emphasis creating employment and providing subsidies for the poor people effected by the crisis, for example in its *Inpres Desa Tertinggal* and *Proyek Padat Karya* Programs (Neglected Village Improvement and Labor Intensive Project) as well as the so-called *Raskin*/Subsidized Rice for the Poor Program. In contrast, in the post-economic crisis period, the government has slightly stressed the importance of antipoverty programs aiming to empower marginal communities. For instance, the government expects that the *Proyek Pengembangan Kecamatan* (Ward Development Project) will empower community-based organizations at sub-district and village level involved in the rural development process, and that it will also eventually reduce the capability-deprivation that poor villagers typically suffer. However, there has been no clear change in the nature of the antipoverty programs between the two eras.

Utilizing a broader definition of institutions as proposed by Mbaku (2008) and Deolalikar et al. (2002) among others, this paper not only investigated the role of institutions in poverty reduction (using the income dimension of poverty), but also comprehensively explored how institutions take an active part in lifting the education and health status of impoverished people (based upon the important non-income dimensions of poverty). Accordingly, this research examined three types of institutions that can be regarded as the main actors in any poverty program. The first is government (public) institutions. Referring to the somewhat narrow definition of poverty as a legal system or rule, this paper found that in Indonesia the central government's implementation of a new financial system (the pro-poor budget) together with administrative and financial decentralization has in fact contributed substantially to a reduction in the total number of the poor. From an empirical analysis, it is concretely proved that despite a bit weak evidence, the grant transfer for education to the sub-national level governments correlates positively with an increase in the Human Development Index.

The second type of institution is financial institutions, which are demonstrated by the BRI Bank and the National Insurance Company. The BRI Bank has two widely acknowledged pro-poor services, namely the *Badan Kredit Desa* (Village Credit Organization) and the *Pembinaan Peningkatan Pendapatan Petani dan Nelayan Kecil/P4K* (Income Generating Program for Marginal Farmer and Fishermen). Both financial service programs have been proven to help channel low-interest loans to low-income people and to build microenterprise skills. On the other hand, the National Insurance Company more or less has an indirect role in antipoverty programs through disbursement of the health fund for the poor based on claims coming from the hospitals. The last type of institution is the social institution (based around civil society). In this research, we saw how a faith-based organization (FBO)—*Dompet Dhuafa/DD* Foundation is involved with efforts to alleviate poverty through its pro-poor programs, particularly community economic empowerment and health and education programs. Over the last decade, as a trust-worthy institution collecting Islamic philanthropic giving—the DD Foundation has proven that 2.5% of incomes that all Muslims throughout the nation donate to this institution is actually extremely valuable for the poor.

In short, over the last decade the role of government and social sector, including financial institutions more or less has positively contributed to poverty reduction in Indonesia. The government as a public institution that sets the rules and the legal system of the society is the main instigator of all poverty alleviation programs in Indonesia—before other institutions take part. This involvement can be traced by the large percentage of the nation's budget that has been directly targeted for aid to the poor and which is directed through such intermediary institutions as banks and insurance companies. Moreover, event though social sector or civil society is not a part of government's structure in executing any policy relating antipoverty programs, its role in supporting indirectly antipoverty programs is highly respected as well. Its role has been clearly shown by the promotion of the higher education to the entire Indonesian people through the social community-based school and collection of almsgiving to be channeled to impoverished people.

## Notes

1) The *Trilogi Pembangunan* concept is an economic development strategy stressing three main instruments: national stability, equality, and economic growth.
2) Few scholars use the different term of poverty dimension. For instance, Sanjaya Acharya (2004) categorized poverty into two approaches: the income poverty approach and the human poverty approach. He next argued that "the income poverty measurement technique was developed first and human poverty measurement technique was developed later" (p. 195). Please

note that although there has actually been a difference in term of poverty approach or dimension, basically the tools that are used to estimate the non-income or human dimension of poverty are the same—Human Development Index (HDI) and Human Poverty Index (HPI).

3) Some scholars frequently use this index as FGT index or the Foster, Greer and Thorbecke index.

4) Ravallion and Datt (1996), for instance, examined 20 household surveys for 15 major states in India, finding that absolute poverty as measured in distribution of consumption per capita is closely related to the sectoral composition of economic growth. Rural consumption growth tends to reduce poverty in both rural and urban areas. Similarly, another empirical analysis, by Dollar and Kraay (2002), which also defined poverty in terms of income dimensions—below a certain threshold (poverty line) as used by the World Bank and some others, demonstrated that growth on average substantially benefits the poor.

5) The HDI measures socio-economic development based on measures of life expectancy at birth, educational attainment, literacy and adjustment for real income per capita.

6) According Deepa Narayan (2002), in term of poverty reduction, empowerment may be defined as "the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives" (p. 14). In the so-called *Pemberdayaan Ekonomi Masyarakat Pesisir*—Economic Empowerment for Coastal Area Community Program (see Table 3.2), for example, we can see how government stresses expansion of the capability and knowledge of coastal communities more largely through the dissemination of information to the marginalized and low-educated fishermen groups about all aspects of banking and microfinance system, especially in the fishing business (i.e., loan, interest rate, marketing etc.).

7) This calculation is based on the annual National Socio-Economic Survey *(Survey Ekonomi Sosial Nasional- SUSENAS)*. The method of calculating the poverty line applied by BPS is different from the method used by the World Bank, as BPS defines and applies the poverty line based on the minimum standard for food intake - of 2100 kilocalories intake per person a day, and minimum intake of non-food commodity. The method of computing the value of the daily 2100 kilocalories is determined by a selected commodity basket (food and non-food). For a basket of selected food commodity, BPS uses 52 items of food that Indonesian people frequently consume such as rice, corn, potatoes and the like. On the other hand, for a basket of non-food commodity, BPS selects 51 items of non-food commodity in urban region and 47 items in rural region such as expenditure for housing, clothing, health etc. Thus, the BPS's calculation relates to the financial cost and expenditure level needed to reach the value of 2100 kilocalories intake (food) plus the minimum value of expenditure for non-food commodity. In 2004, for instance, to meet this minimum standard (food and non-food) for one person living in urban region requires at least 143,455 rupiah per month (in Indonesia's Currency). If his/her income or expenditure is more than 143,455 rupiah (equivalent to about $ 13 or ¥ 1300) per month, he/she cannot be deemed poor (see Table 3.1).

8) Further elaborated upon with Presidential Instruction 8/2002 and 34/2002.

9) IDR is the Indonesian rupiah. ¥1 Japanese is equivalent to approximately IDR105.

10) This amount doesn't include the budget allocated by the sub-national governments for poverty alleviation.

11) Further elaborated by Law No. 33/2004.

12) This estimation simply employs the so-called *first-differenced equation* method formulated as follows; $\Delta y_i = \delta_0 + \beta_1 \Delta x_i + \Delta u_i$ or $(y_{i2006}-y_{i2004}) = \delta_0 + \beta_1 (x_{i2006}-x_{i2004}) + (u_{i2006}-u_{i2004})$. Where y is the Human Development Index (HDI), x is either the DAK grant per capita for education or health, and $u$ stands for disturbance error. Please note that the use first-differenced equation is powerful method to mitigate unobserved effect that might correlate to independent variable (x) in the use of two time period (Wooldridge, 2005).

13) Significant at the 10 percent level and Durbin Watson statistic is 2.15

14) The KUR is a microfinance program designed by the government as an integrated part of poverty alleviation programs. It aims to accelerate the real (infrastructure and labor intensive) sector and also empowerment of SMEs; to remove the SME's handicaps to financial access; and to increase the income of the poor as well as increasing job opportunities.

15) The mechanism for screening the prospective borrower is carefully carried out by the Ministry of Agriculture, whose appointed agents identify the poor communities (families) and farming and fishing regions that will take part in this program. Only families whose income is below the price of 320 kilogram of rice (approximately IDR640 thousand) may participate in this program.

16) In research conducted by Ali Mukti Ghufron in Yogyakarta Province, for example, he found that from the perspective of the health providers, the so-called Health and Nutrition Sector Development Program (HNSDP) that aimed to overcome the

worsening impact of the crisis in Indonesia during 1999–2001 proved to be a beneficial tool for the poor community on the whole.

17) The program is also commonly called the *Pelayanan Kesehatan Gratis bagi Masyarakat Miskin* (Free of Health Service Charge for the Poor).

18) This number includes those who can be categorized as the 'nearly poor' as well.

19) The minimum requirement or threshold for someone to pay the zakat is if he/she holds yearly savings equivalent to 85 grams of gold.

20) ZISWAF is an acronym for "Zakat, Infaq, Sadaqah and Waqf".

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［メディア　ルクマン　横浜国立大学大学院国際社会科学研究科博士課程後期］