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Short Article

Historical Profile of Poverty Alleviation in Indonesia

The government of Indonesia (GOI) has launched several programmes to alleviate poverty. Among others are: (i) the income improvement project for small farmers and fishermen (called P4K) in 1980; (ii) the household income improvement programme (called UPPKS) in 1991/1992; (iii) the development programme for undeveloped rural areas (called IDT) in 1993-1996; (iv) the household welfare development programme (called PKS) in 1997/1998; (v) the food security programme (program ketahanan pangan) in 1997-1999; (vi) the social safety network (called JPS) in 1998, and some other similar programmes.

Almost all programmes were implemented by providing poor societies, including rural societies (mostly farmers) with soft credit or revolving funds to enable them to run their individual or group businesses. Unfortunately, none of these efforts have been sustainable. The small-scale businesses were not well developed and consequently there was no capital accumulation for them to expand. Even the seed money (the start-up capital) was used for daily family consumption leaving the borrowers unable to repay their soft loans. Another supporting system that GOI should develop is a rural soft credit system incorporating a simple procedure. This facility is much better than a revolving fund or other programme which tend to create a moral hazard among rural societies and executing agents.

However, supported by long-lasting high economic growth, the long history of government effort to alleviate poverty significantly reduced the poverty figure from 54.2 million people or 40.1 per cent in 1976 to only 22.5 million or 11.3 per cent in 1996 (BPS 2004). However, a massive economic crisis in Indonesia in 1997-1999, simultaneously with a long drought (El Nino) pushed the number of poor Indonesians to 48 million or 23.4 per cent of the Indonesian population in 1999. The gradual recovery of the economy reduced the incidence of poverty to 37.3 million people in 2003 (BPS, 2003).

There were two good examples of projects that did not provide farmers with soft loans or revolving funds for economic business, but provided them with the construction of infrastructure facilities, such as village roads, farm roads, bridges, and irrigation facilities. The IDT project in 1993-1996 was designed to provide farmers with village roads, bridges, drinking water, and sanitary facilities (bathroom with toilet). However, the coverage area was relatively small.

Currently, there is an ongoing poor farmers project (called Poor Farmers Income Improvement through Innovation Project = PFI3P), funded by soft loans from the Asian Development Bank (ADB). The objective of PFI3P is to increase farmers' innovation in solving their own problems. PFI3P is aiming at empowering farming communities in rural areas, especially those on marginal lands.

Through PFI3P, some innovations related to and supporting agricultural development have been introduced to farmers at the project sites. These innovations are based on identified problems at the specific locations. The project hands responsibility to rural societies to manage their budget for the development of infrastructure and agricultural innovations under the supervision of district administrators and local NGOs. It is expected that eventually rural communities will be capable of implementing development in accordance with their needs, limiting the government's function to facilitator.

The project started in 2003 and will continue until 2008. The project was implemented in five districts, namely, Blora and Temanggung in Central Java, East Lombok in West Nusa Tenggara, Ende in East Nusa Tenggara and Donggala in Central Sulawesi. In each district there will be about 200 villages included in the project to develop infrastructure. The main examples of infrastructure that influence farming systems are, among others: village roads, farm roads, irrigation channels, markets, credit schemes, and information systems. Due to budget limitations, the infrastructure being developed by rural societies is in the form of farm roads, check-dams, irrigation channels, wells, drying floors and information systems. These facilities are aimed at overcoming the problems associated with the transportation of agricultural products, water shortages during the dry season, and flooding during the wet season.

These two projects are thought to be more appropriate to help farmers improve their agribusinesses. Integrated poor farmer empowerment such as PFI3P can be considered as a model of the future of rural development. Improvement in agricultural technology to increase production is meaningless without the development of supporting infrastructure. Nevertheless, its implementation requires adequate control in order to achieve effectively and efficiently the goal of farmer empowerment ■

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(References available upon request)

Flash BREAKING

Healthy Drink: Soy-Based Drinks

The managing director of ACNielsen for Southeast Asia said that as consumers were becoming more concerned about their diets and health, and food and beverage products that support healthy diets, weight loss and on-the-go lifestyles are among the world's fastest growing. Soy-based drinks are just one example of such products. According to ACNielsen's news report, revenue from the sale of soy-based drinks in 19 out of the 20 markets surveyed increased by 31 per cent to $ 317.2 million in 2004. In the Asia-Pacific region, revenue from sales of soy-based drinks grew by 44 per cent. Health and convenience continue to be the key themes for consumers the world over.

The Jakarta Post, 2005. Healthy Foods a Fast Growing Market Segment: Study, (31 March 2005).

About Protein-Energy Malnutrition

First recognized in the 20th century, protein-energy malnutrition (PEM) is by far the most lethal form of malnutrition/hunger and the one referred to as far as world hunger is concerned. PEM is a lack of protein and food that provides energy. Approximately 850 million people worldwide are malnourished. Children are the most visible victims of malnutrition. Malnutrition plays a role in at least half of the 10.9 million child deaths each year. Geographically, more than 70 per cent of PEM children live in Asia, 26 per cent in Africa and 4 per cent in Latin America and the Caribbean.

World Hunger Education Service, 2005. World Hunger Facts 2005, http://www.worldhunger.org/articles/Learn/.

China's Gains from Market Liberalization Must Be Better Distributed

Market liberalization and other reforms associated with China's accession to the World Trade Organization (WTO) are delivering gains worth more than $ 40 billion a year to China's economy, and adding about $ 75 billion a year to real incomes worldwide, says a World Bank study. However, the same report recommends that China makes policy adjustments to balance the uneven distribution of benefits between the country's rural and urban regions.

World Bank, 2005. Accession to WTO Delivers $40 Billion a Year to China's Economy but Gains Unevenly Shared: World Bank Study, Press Release No:2005/337/EAP, http://web.worldbank.org/, (21 February 2005).

Increased Aid, But ODA Target Not Met

Official Development Assistance (ODA) to developing countries increased to $ 78.6 billion in 2004, its highest level ever, the Organization for Economic Cooperation and Development (OECD) reported. This represents a 4.6 per cent rise in real terms from 2003 to 2004. However, most of the participating countries do not meet the United Nations target for ODA of 0.7 per cent of Gross National Income (GNI).

Global Policy Forum, 2005. More Aid Still Short of Goal, http://globalpolicy.igc.org/, (11 April 2005).

Growth, Inequality and Poverty

Recent findings in policy research have shown that the pace of poverty reduction depends both on the rate of average income growth, the initial level of inequality, and changes in the level of inequality (World Bank, 2000; Bourguignon, 2003). In particular, poverty reduction will be fastest in countries where average income growth is highest (Dollar and Kraay, 2002), in countries where initial inequality is lowest and in situations where income growth is combined with falling inequality. Thus there is a pay-off in terms of poverty reduction of growth, but also of lower initial inequality and reductions in inequality during the growth process. In addition, there appear to be linkages between initial (income or asset) inequality and growth where the balance of evidence seems to suggest that high initial inequality is harmful for overall economic growth, and thus for poverty reduction, at least in environments of very high (income or asset) inequality. Similar results also appear to hold true for gender inequality, particularly gender inequality in education ■

Based on Klasen, Stephan, 2005. Economic Growth and Poverty Reduction: Measurement and Policy Issues. Paper prepared for POVNET for the work programme on Pro Poor Growth, University of Göttingen, (5 February 2005).

Costs of Achieving MDGs

Following over two years of work, the United Nations Millennium Project published its final report "Investing in Development" on 17 January 2005. The report is a practical plan to achieve the Millennium Development Goals. Professor Jeffrey Sachs, special advisor to the United Nations Secretary General and head of the Earth Institute at New York's Columbia University, was the lead author. A considerable part of the Sachs Report addresses the costs of achieving the MDGs. These are based on calculations of capital requirements at a country level. The Millennium Project team developed an extensive methodology for needs assessment. As a first step they ascertained the total investment capital needed to attain the MDGs in each country. Following on from this was estimated how much could be raised in the country itself and how much external support in the form of ODA is required. On the basis of these figures the Sachs team then projected how much official development assistance would be needed to finance MDGs on a global level. The conclusion reached was that ODA must increase to $ 135 billion in 2006, implying doubling previous ODA amounts. By 2015 the volume of ODA would have to be trebled to $ 195 billion. This means that ODA must increase from the current 0.25 per cent of Gross National Income (GNI) of donor countries to 0.44 per cent in 2006 and 0.54 per cent in 2015. In light of publicly announced (but so far unrealized) governmental pledges, the Sachs Report calculated a shortfall of $ 48 billion for 2006. Given the present fiscal constraints of donor countries the Sachs Report obviously regards it unrealistic that the required increase of ODA can be financed solely from national budgets. It is for this reason that the report calls on all donor countries to support the British proposal for an International Finance Facility (IFF). Such a fund, financed by the issue of bonds, could be established by 2006 ■

Based on United Nations, 2005. Report of the UN Millennium Project, Investing in Development, http://www.globalpolicy.org.

New Momentum against Poverty

The year 2005 will be marked by new momentum to fight against poverty. The Global Call to Action Against Poverty (GCAP), a growing and historic movement to end world poverty will be held in 2005. This unprecedented campaign offers a unique set of opportunities and an extraordinary chance to make a lasting difference in the fight against poverty during 2005. This is because the three major summits will focus on global poverty, namely, (i) the G8 Summit in July - during which the UK hosts have promised to focus on development and poverty issues; (ii) the UN Heads of State Summit in September - which will review progress on the Millennium Development Goals, and (iii) the World Trade Organization ministerial meeting in December. The main goals of the campaign that will take place ahead of the G8 meeting and UN Millennium Summit are trade justice, debt cancellation, a major increase in the quantity and quality of aid and national efforts to eliminate poverty and achieve the Millennium Development Goals that are sustainable and implemented in a way that is democratic, transparent and accountable to citizens ■

Based on Global Campaign for Education, 2005. Global Call to Action against Poverty, http://www.campaignforeducation.org/action/action_debt.html.

Agricultural Subsidies for Rural Income in China

China is reducing taxes on production agriculture and increasing subsidies to farmers to support rural income. Government statistics show that urban per capita income averages 3.2 times that of rural income. Average per capita farm income is $ 353 per year. The taxes were completely eliminated in 2004 in two important corn and soybean provinces, Jilin and Heilongjiang. Taxes will be eliminated in 25 of the 31 provinces, municipalities and autonomous regions by the end of 2005. The Economic Research Service (ERS) of USDA estimates that the taxes produced $ 5-7 billion in revenue, 2-3 per cent of the taxes collected in China each year. Direct subsidies for grain farmers began in 2004. ERS estimates that $ 1.4 billion was paid based on historical production records with an average of about $ 7.33 per acre or $ 2-5 per ton of output. Spending on subsidies for high quality grain and soybean seeds was reported at $ 193 million for the 2004 crop, $ 7-10 per acre planted with improved seeds. The government is committed to increasing grain output by increasing subsidies to producers. That could lessen soybean imports and maintain China as a corn exporter or limit its future corn import needs ■

Based on The Truth about Trade, 2005. Chinese Subsidies for Agriculture, http://www.truthabouttrade.org/article.asp?id=3362, (17 February 2005).

Flash EVENTS

The Third International Conference on Sustainable Agriculture for Food, Energy and Industry
22 - 27 August, 2005
St. Catharines, Ontario, Canada

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Book Review

Practices of Poverty Measurement and Poverty Profile of Nepal

Devendra Chhetry, ERD Working Paper No.57, Asian Development Bank, September 2004

This book introduces currently available poverty rates and some indicators related to estimating poverty in Nepal. The author also reviews several problems that have made it difficult to measure and compare poverty over time. There are specifically two main problems. Firstly, Nepal has used different approaches to measure poverty, and as a result, the country is unable to compare the poverty rate over time. Secondly, the discrepancies between the National Accounts (NA) and Household Survey (HS) have become wide.

After describing the statistical system of Nepal and several data sources that are related to three dimensions of poverty, namely income, health and education (Chapter 3), this book points to three poverty rates that are based on income consumption household survey data in fiscal years 1976/1977, 1984/1985 and 1995/1996. These poverty rates are not comparable over time because the level of minimum per capita daily nutritional requirement changes, the methods for estimating food and non-food poverty lines vary and the way of defining poor is different. Nevertheless, the three poverty rates are around 40 per cent throughout Nepal and furthermore, clearly indicate that poverty rates are almost two times higher in rural areas than in urban areas (Chapter 4).

This book also compares several macroeconomic indicators and microeconomic indicators available for two time periods, 1984/1985 and 1995/1996 (Chapter 6). Some discrepancies have been found between NA and HS data. For instance, the real per capita consumption estimates available from HS have shown no growth, while those available from NA have shown an annual average growth of 2.6 per cent from 1984/1985 to 1995/1996. Meanwhile, during the same period, the real per capita income estimates of HS haven't shown any growth, while those of NA showed an annual average growth of 2.7 per cent.

Linkages between national economic growth and poverty reduction, one of the most interesting topics for those who study problems of poverty alleviation, are discussed in Chapter 8. It obviously shows that Nepal hasn't succeeded in reducing poverty although it has achieved relatively high economic growth from 1984/1985 to 1996/1996. The author also examines the reason by analyzing micro level socioeconomic indicators with sectoral economic growth. Though the overwhelming majority of households in Nepal rely heavily on agriculture for not only employment but also income generation, the growth of the agricultural sector has been more sluggish than that of non-agricultural sectors. Besides, the Poor have failed to take the opportunities being offered through economic reforms due to mass illiteracy.

Income distribution, showing income inequality goes from bad to worse, and non-income indicators, especially the infant mortality rate and gross enrollment ratio are reviewed in Chapters 5 and 7 respectively.

This book provides several currently available poverty and economic indicators of Nepal with many tables. It is relatively useful and helpful for institutions and analysts whose task is to produce information or conduct research on poverty alleviation measures in Asia and the Pacific.

One weakness is that although Nepal has six major organizations to compile, collect, process and analyze statistical data, namely the Central Bureau of Statistics, Nepal Rastra Bank, the Ministry of Agriculture, the Ministry of Health, the Ministry of Education and Ministry of Finance, the rates and indicators shown in this book are limited, available for only three time periods, not comparable and even the most recent data is for fiscal year 1995/1996, around ten years ago.

Although the problems that obstruct poverty measurement in Nepal are emphasized, this book does not provide clear suggestions or solutions about how the country may integrate and establish methods to measure poverty. It is very necessary that we define what is poverty, who is poor and know the poverty rate in one country to study and tackle problems of poverty alleviation. If reliable and updated approaches of measuring poverty in Nepal are established, not only could we know the current state of poverty in the country, but it will evidently serve for policy planners and development economists to better consider the role of national economic growth in poverty alleviation and promote pro-poor growth by making appropriate policy plans to encourage economic growth ■

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