



INCLUSIVE ECONOMIC DEVELOPMENT FOR INDONESIA

**Minister of National Development Planning/
Head of National Development Planning Agency**

**Presented at Paralel Event of Annual IMF-WB Meetings on
'Inclusive Economic Growth: Reducing Poverty and Inequality'
Bali, 10 October 2018**



I. Background: Growth, Poverty and Inequality

II. Inclusive Growth

III. Strategies and Policies

I. SOME BACKGROUNDS: GROWTH, POVERTY AND INEQUALITY

Indonesia Maintains High and Stable Economic Growth



Indonesia is a huge potential market in Asia

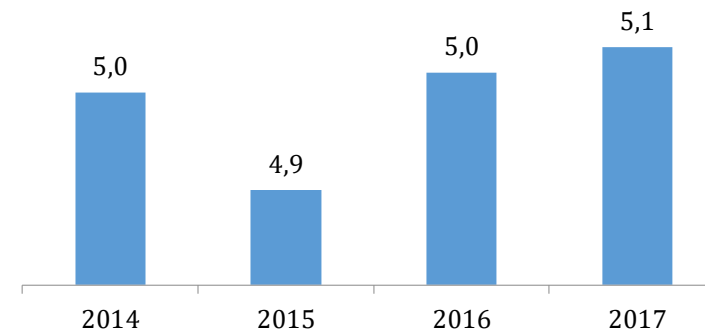
- 5th** Largest emerging market with the best middle class potential
- 4th** Most Populous country in the world
- 15th** Largest economy in the world
- ± 5%** Private consumption grows steadily

Source: BPS, Team Analysis



High & stable economic growth

Economic Growth of Indonesia



Source: BPS

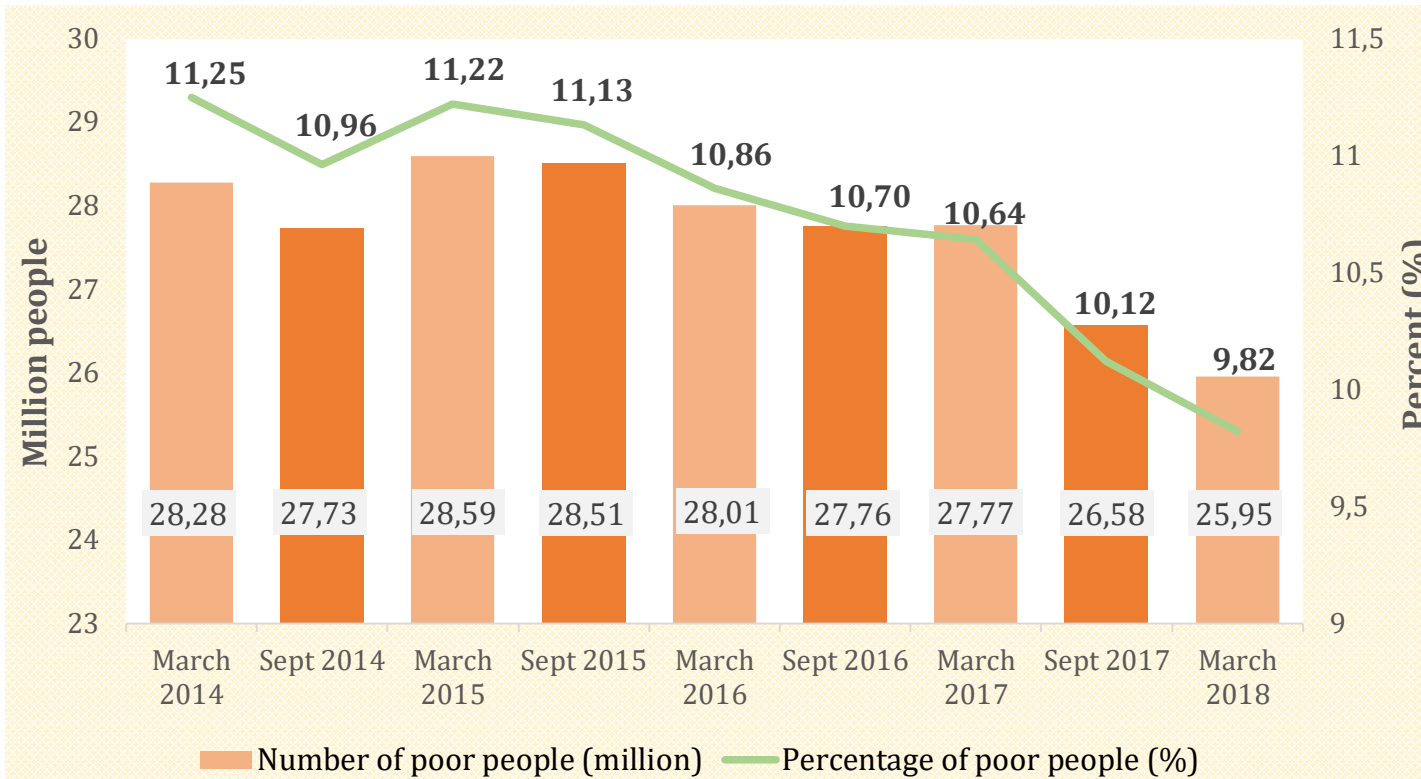


Progressive infrastructure development

- 4th** Indonesia is projected to be the **largest economy** in the world by **2050**

Source: World in 2050, PWC

The Poverty rate has reached single digit in 2018



Source : Indonesia's Central Statistics Agency (BPS)

**72 million people
are vulnerable**
(1-1.5 National Poverty Line)

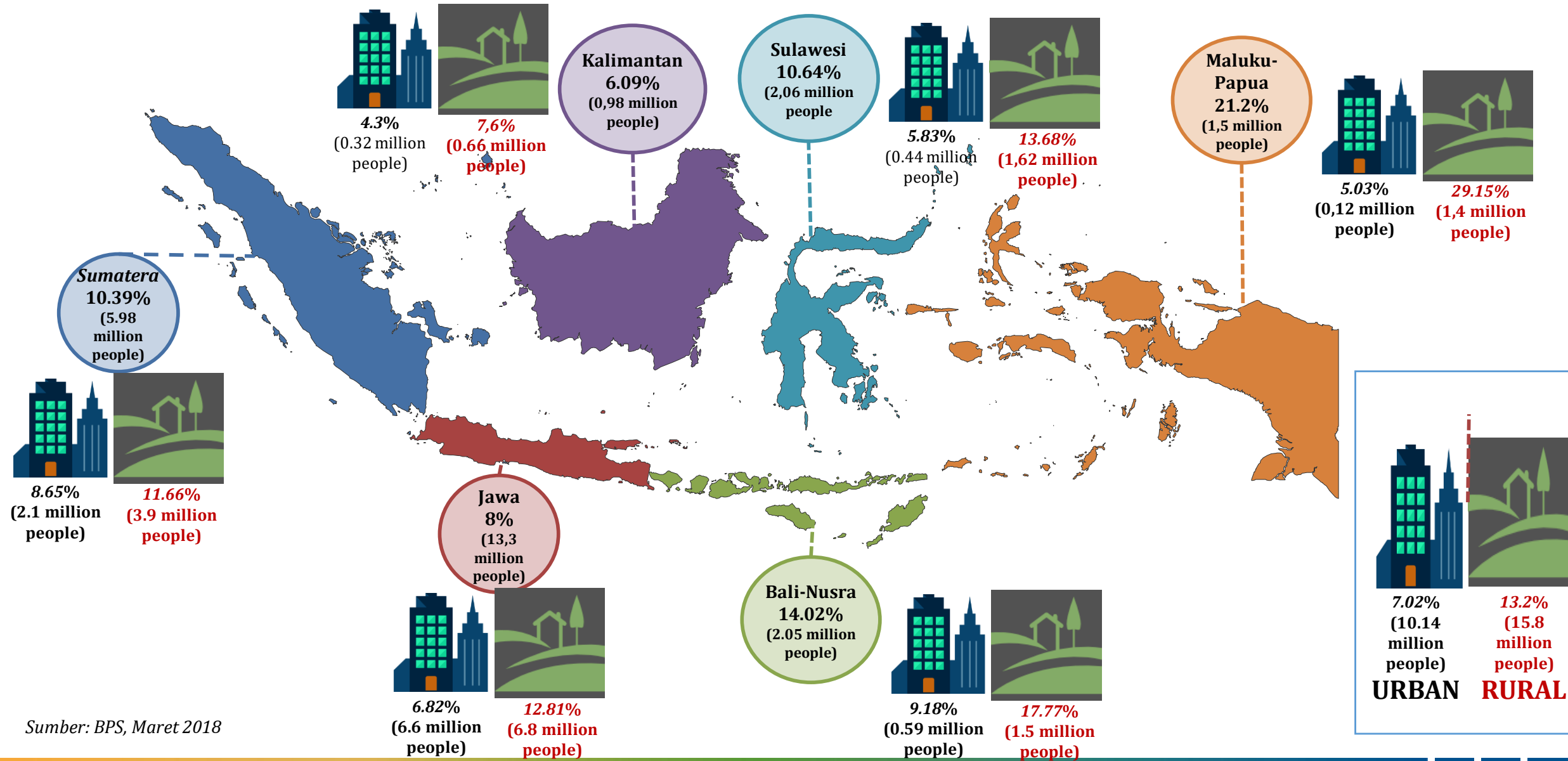
**25.95 million people
under poverty line**



* National poverty line 2018 = Rp.401.220
per capita per month (≈ USD2.5 PPP)

- Although the rate of poverty rate has been declining, the absolute number of the vulnerable is significant. They are prone to back again to be poor in a chance of any risk such as sick, loss job, food price inflation, natural disaster, and economic crisis.

Poverty is higher in rural areas and Eastern Indonesia

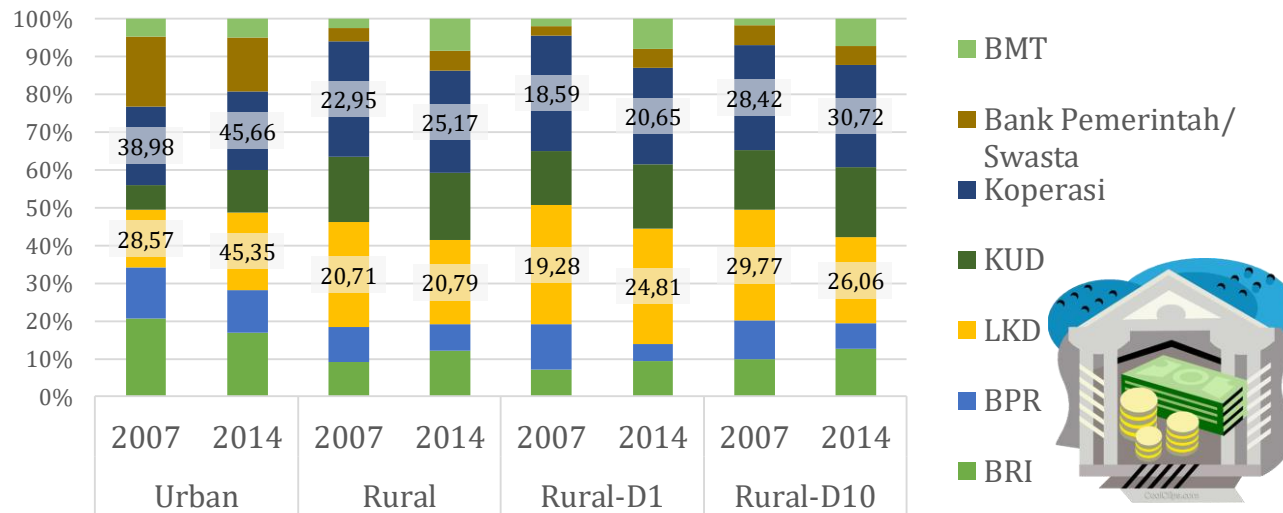


Sumber: BPS, Maret 2018

Several causes of the slow decline in poverty and inequality

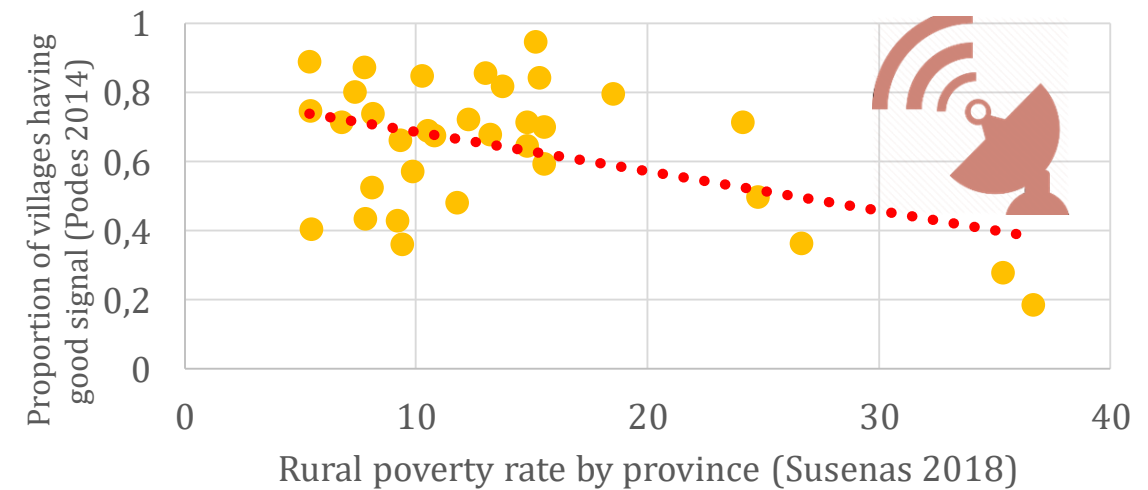
% People in the village who can access financial services

The 10% majority of the lowest welfare level only reaches informal financial services



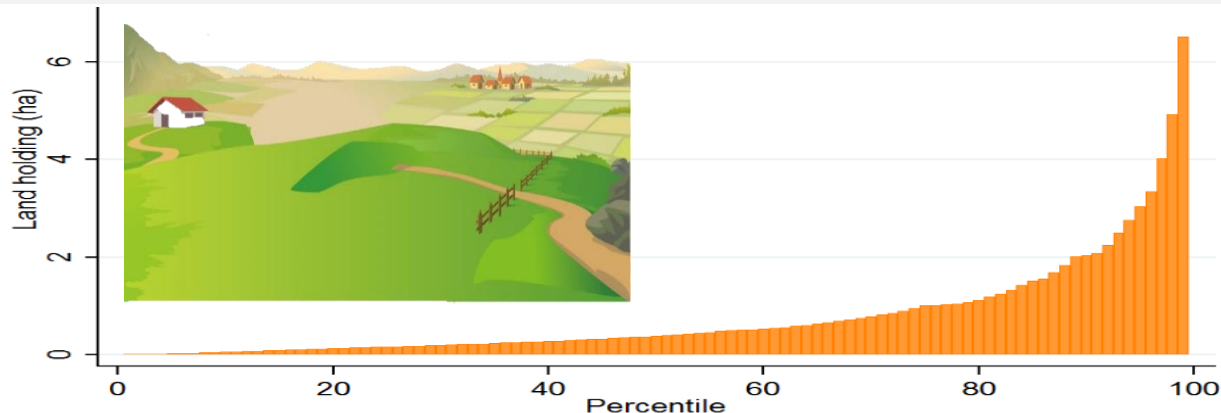
Need to Improve telecommunications networks

13 of 34 provinces have bad telecommunications signals in rural areas (below average)



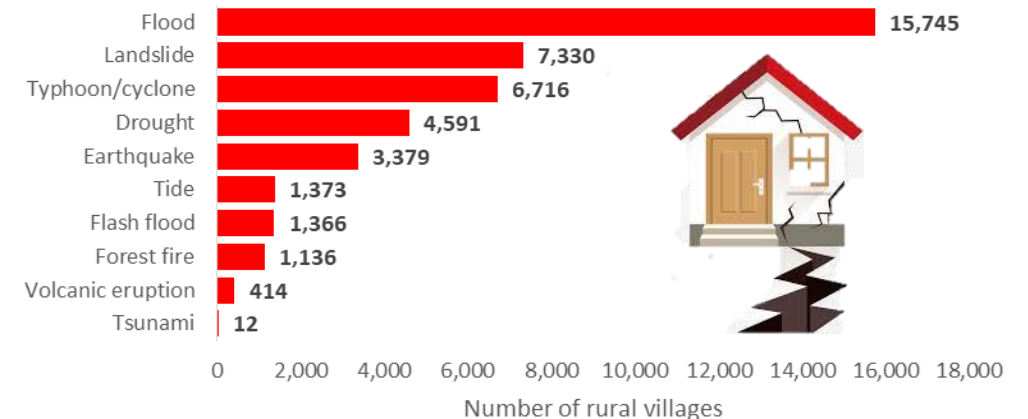
Distribution of land holding

The majority of land is controlled by residents with the highest level of welfare of 20%

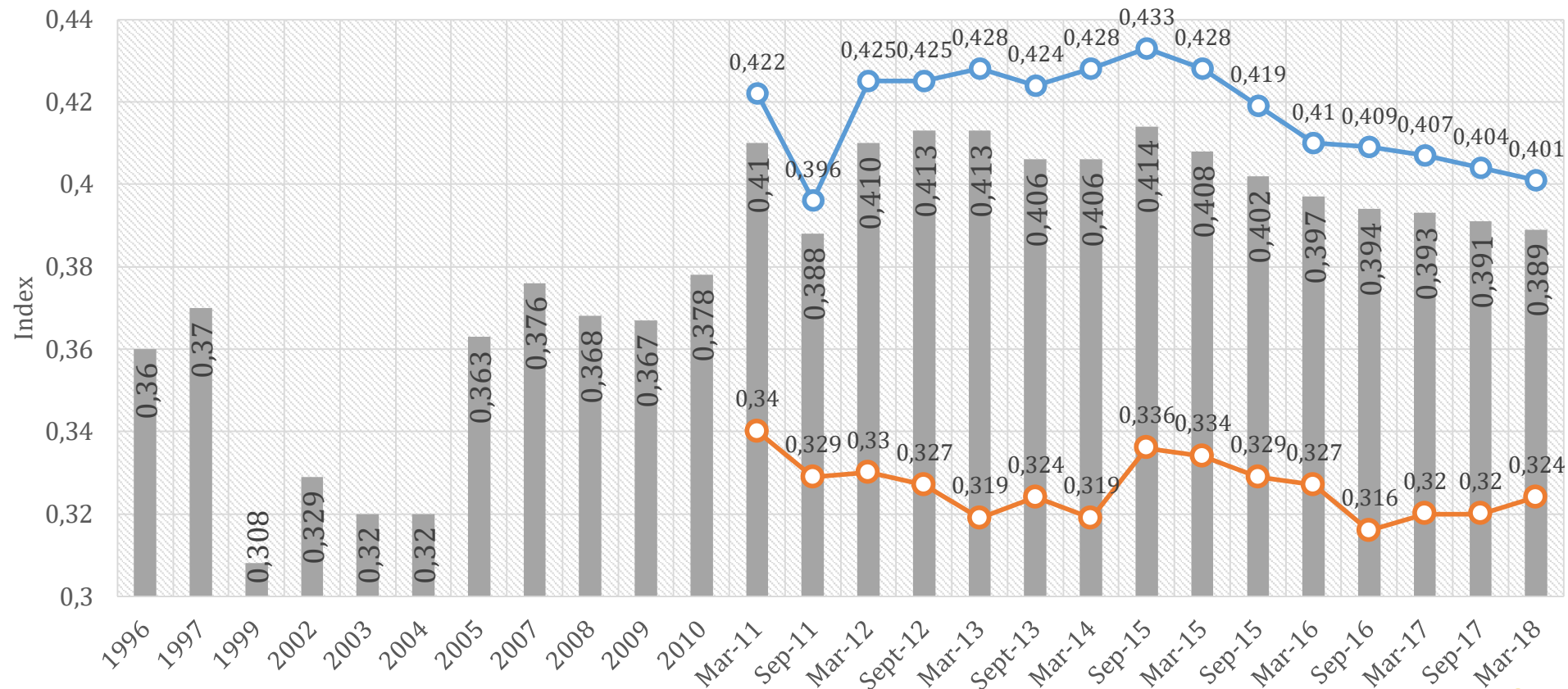


Number of rural villages by type of natural disaster, 2014

96% of households in rural areas have experienced more than one type of natural disaster



Gini Ratio of National, Urban, and Rural



1

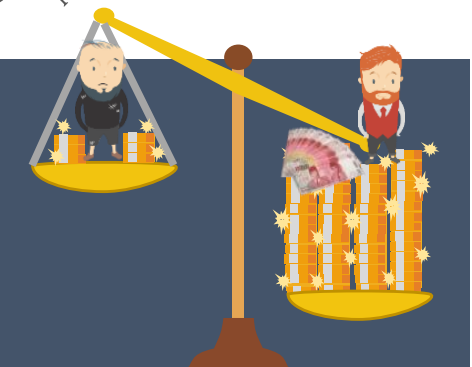
The Gini ratio has slowly decreased.

2

The decline in the national was caused mainly by the decline in the urban area.

3

Gini ratio in the rural area has increased by 0.004 Gini Points in 2018.



Main Driving Factors of Inequality in Indonesia

Employment Inequality

(the less skilled are trapped in jobs with low productivity and wages)

Lack of social safety nets when shocks occur
(illness, job loss, price increases, natural disasters)

1



2



3



4



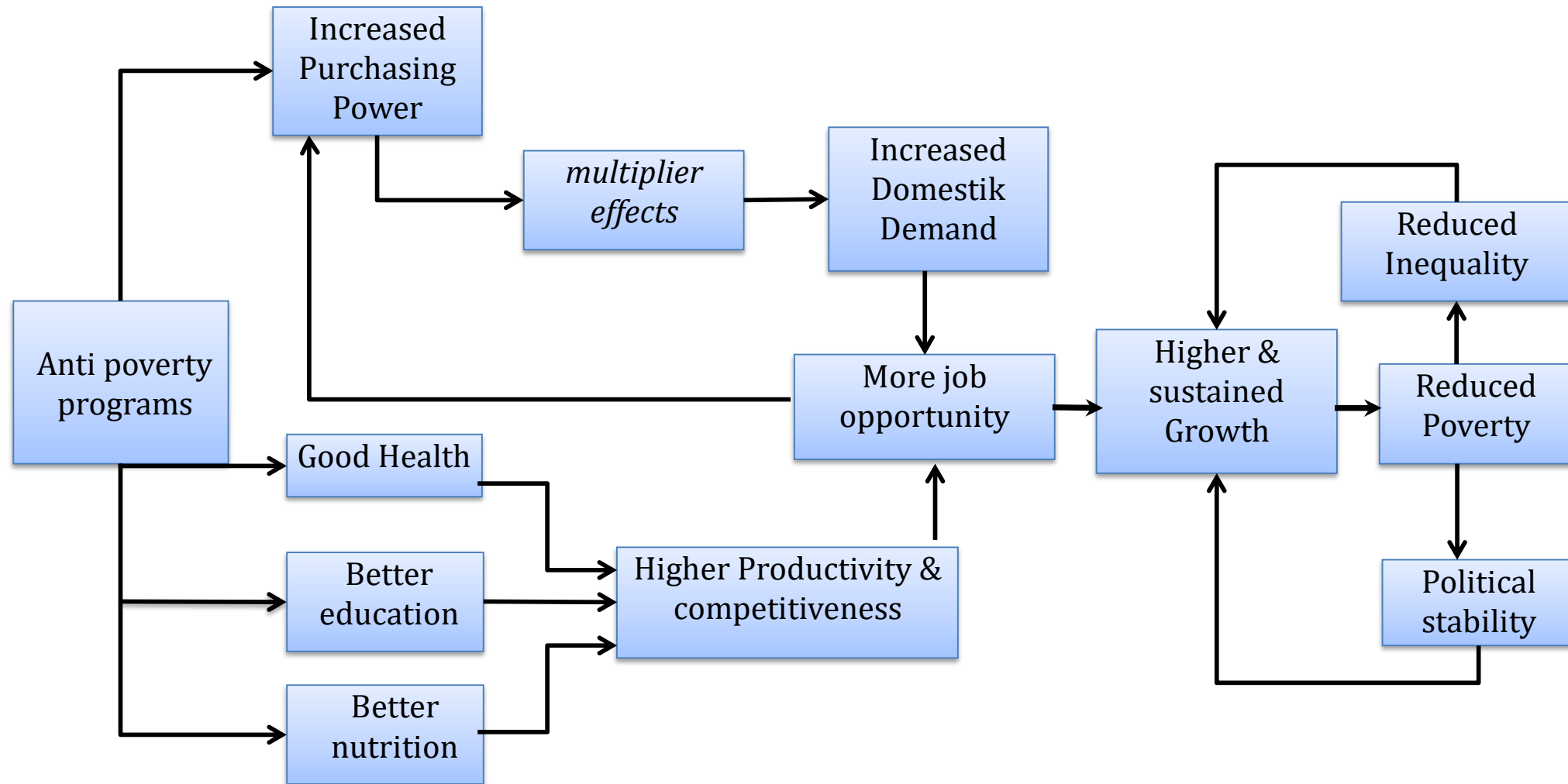
Inequality of access to basic services
(e.g. education, health, house, clean water, sanitation, and electricity)

Inequality of Income and Assets
(high concentration of wealth in a small group of people)



II. INCLUSIVE GROWTH

Poverty Reduction, Equity, and Inclusive Growth



Source: Rook, 2014

*Economic development that provides equitable
access and opportunities to all segment of
society, improves welfare and reduces
disparities between groups and regions.*

PILLAR I :
Economic
Growth

Sub-Pillar:

1. Economic Growth
2. Employment Opportunity
3. Infrastructure in Economy

PILLAR II :
Income Equality
and Poverty
Reduction

Sub-Pillar:

1. Inequality
2. Poverty

PILLAR III:
Improving
Access and
Opportunity

Sub-Pillar:

1. Human Capability
2. Basic Infrastructure
3. Financial Inclusion

TOTAL INDICATOR

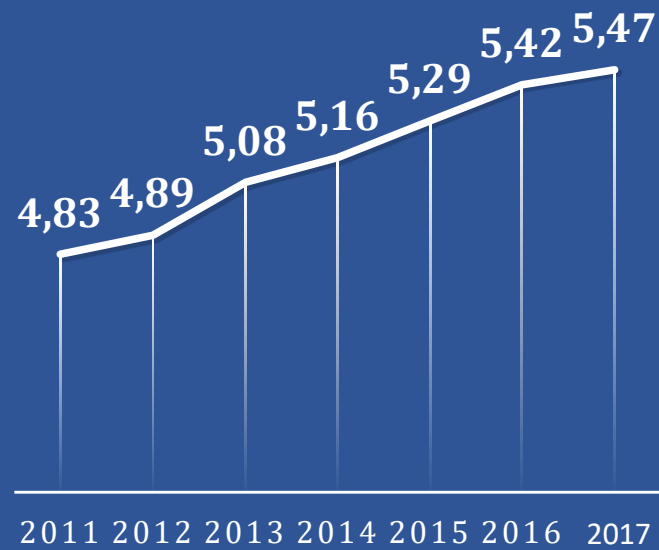
21

DATA

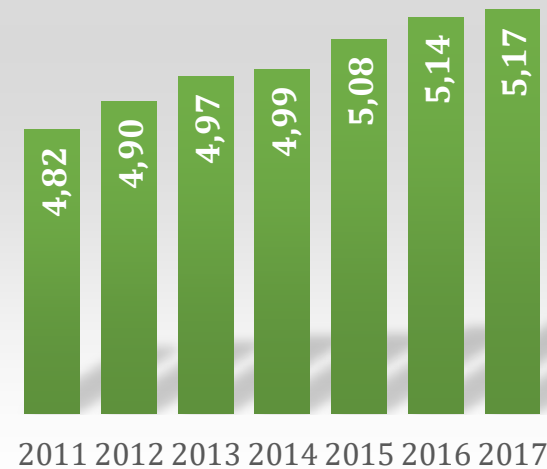
Each Province in
Indonesia from
2015-2017
(34 PROVINCES)

Inclusive Economic Development Index at National Level in 2011-2017

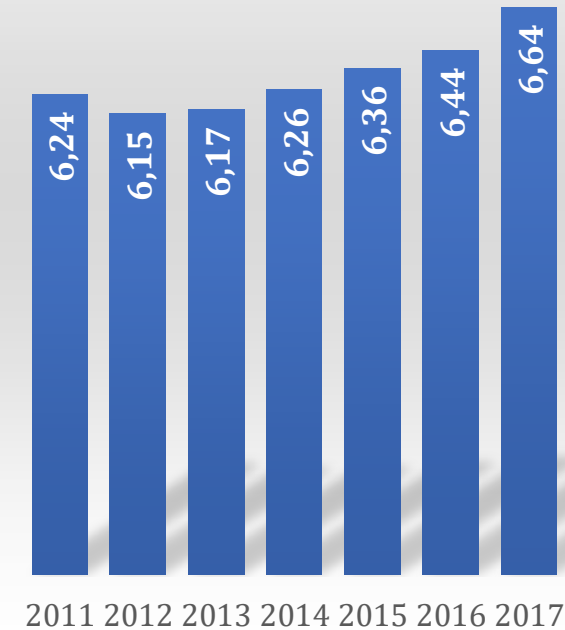
INCLUSIVE ECONOMIC DEVELOPMENT INDEX



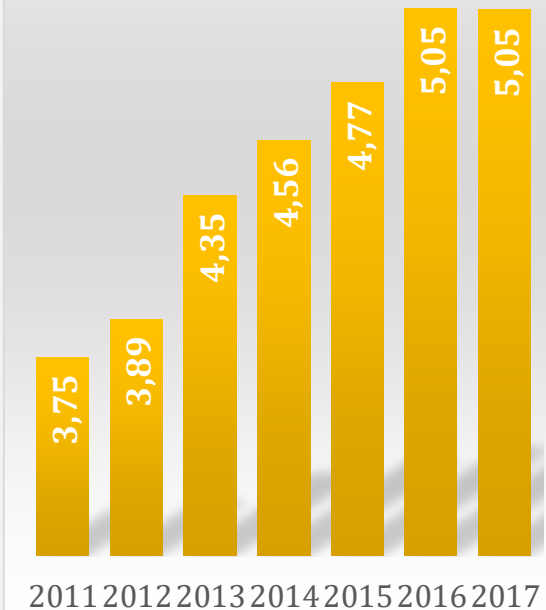
Pillar 1: Economic Growth



Pillar 2: Income Equality and Poverty Reduction



Pillar 3: Improving Access and Opportunity



- Note: In general, a score of 1–3 is mentioned as unsatisfactory progress, a score of 4–7 as satisfactory progress, and a score of 8–10 as excellent progress.

Bali is the 4th most inclusive province in Indonesia (2017)



High
economic
growth



Low
poverty
rate



High human
capabilities and
access to
opportunities



High gender
equality and low
economic
inequality



Low
manufacture
sector share

What makes Bali unique?

- Tourism as an engine of growth
- Cultural attraction is the backbone of tourism
- Balinese culture is mainstreamed in all aspect of life
- High concern on affirmative policies for the poor

What makes Bali vulnerable

Internal shocks:

- Disasters surrounds island and in the island (ex: Mt. Agung eruption)
- Security issues (Bali Bombing)

External shocks:

- Global economic crisis
- Travel warning as a result of disaster and security situation → Number and spending of tourists decline →

Economy is weakening

What should be done?

- Based on this vulnerability assessment, Bali should have growth strategy that mitigate risk of tourism sector
- Revitalize agriculture sector to back up the tourism sector
- Agricultural products must be encouraged to be further processed so that medium and small industries grow and advance

III. STRATEGIES & POLICIES

Strategies For Reducing Poverty, Vulnerability & Inequality In National Medium-term Development Plan (RPJMN) 2015-2019

3 MAIN STRATEGIES

WELFARE IMPROVEMENT

1

Comprehensive Social Protection System

Social Security: Health and employment Insurance

Social Assistance:

Smart Indonesia Card (KIP), Health Indonesia Card (KIS), Family Welfare Card (KKS) for food voucher and Conditional Cash Transfer, and Assistance for Children, Elderly, Disability, and indigenous people



2

Basic Services Development

Improved Access and Quality of Basic Services for the 40% lowest income households: civil registration, education, health, housing, water, sanitation, and electricity



3

Sustainable Livelihoods

- Productive Economic Community Empowerment
- Access to credits and micro insurance
- Vocational trainings
- Facilitation and partnership



8.5-9.5 %

Gov't Annual
Plan Target
2019

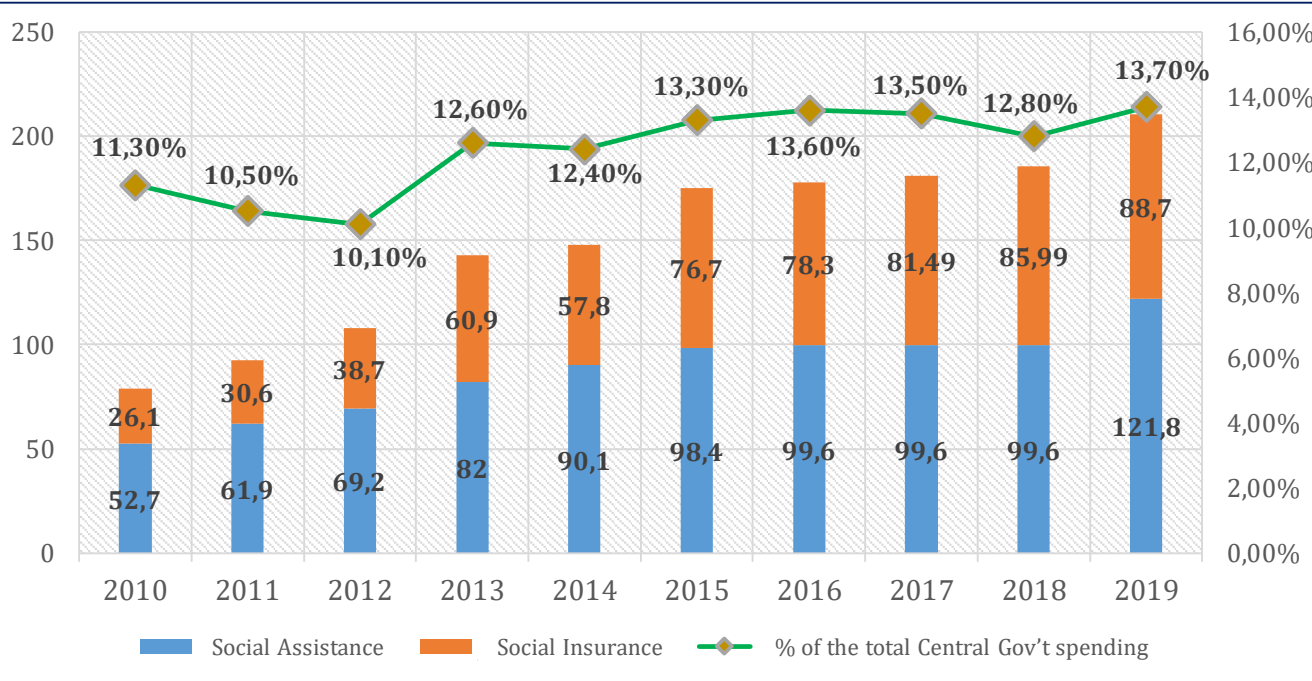


0.380 – 0.385

Gov't Annual
Plan Target
2019

Social Protection Budget, 2010-2018

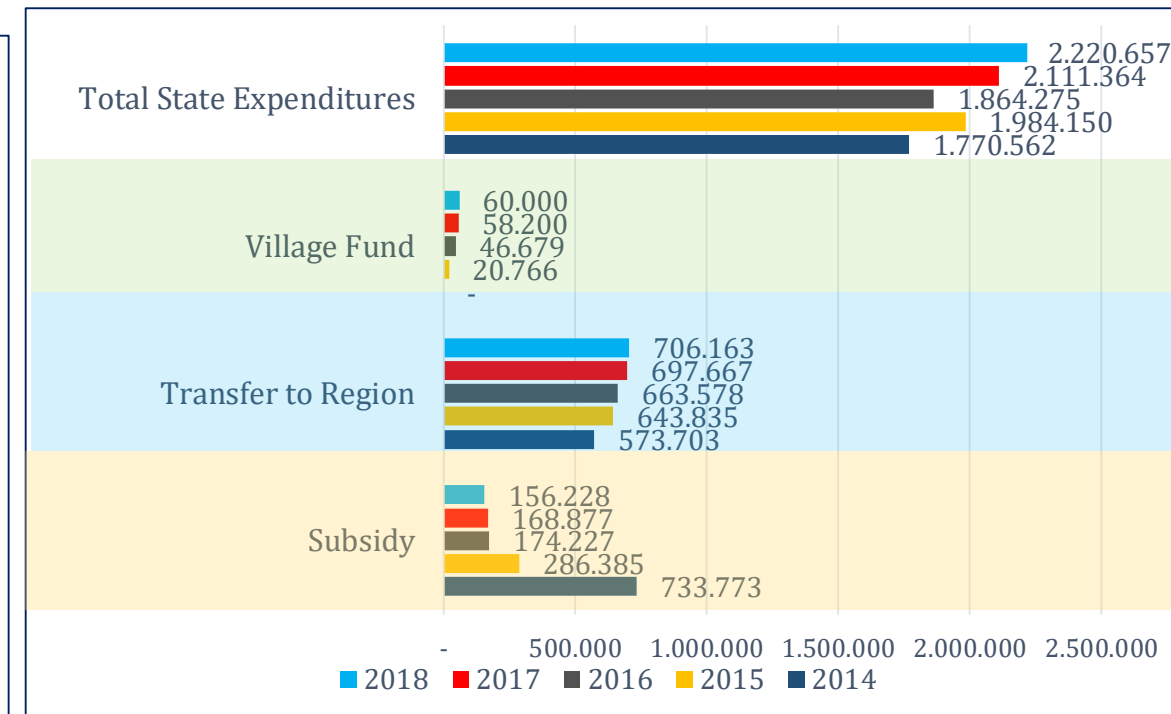
Budget Allocation Based on Intervention and share from Central Government Spending (in Rp Trillion)



Source: Bappenas

- Significant subsidy reduction (from 3.4% to 0,8% PDB) between 2015 and 2018 has been allocated for SP:
 - Premium of National Health Insurance for the poor.
 - Social Assistance Programs has been scaled up.
- In 2018, significant budget goes to infrastructure and economic investment.

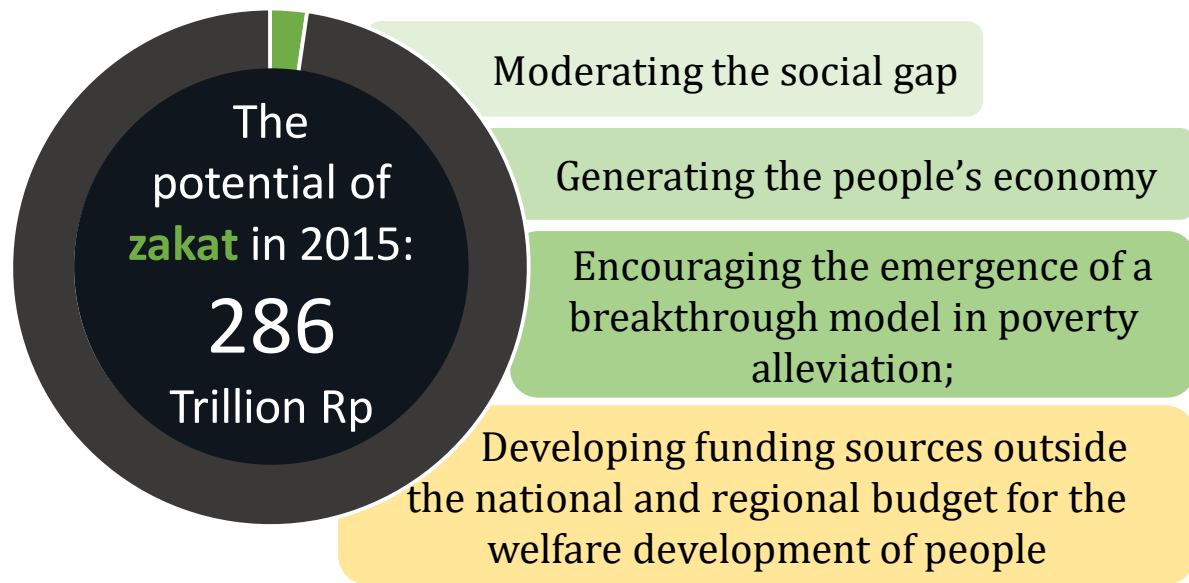
Distribution of State Expenditures (Billion Rupiah)



Source: Financial Note, various years

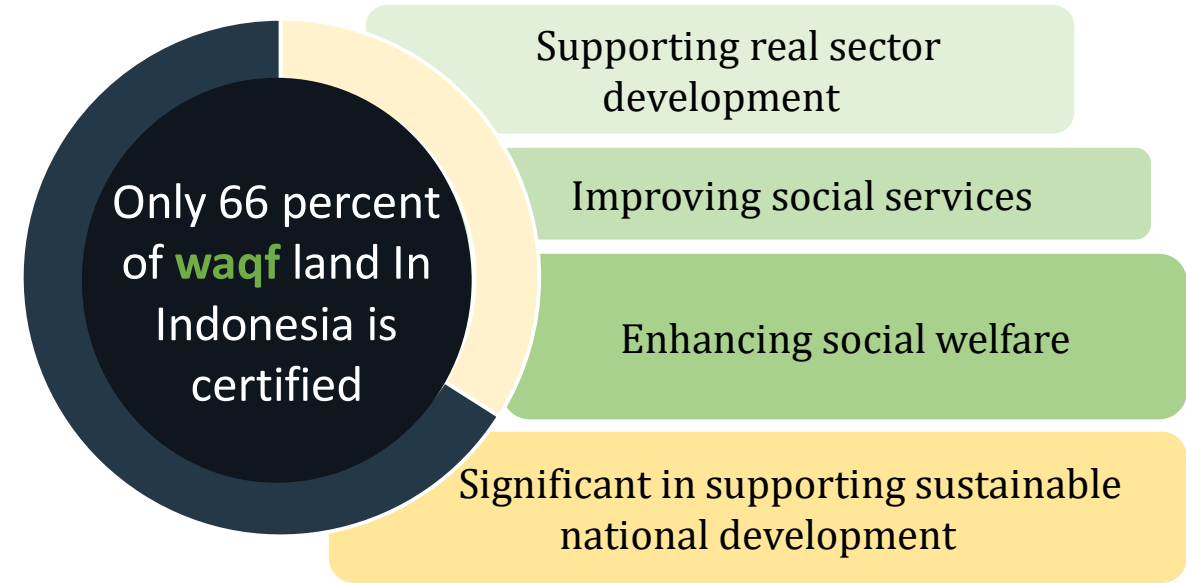
- Fuel subsidy allocation decreased significantly in 2015.
- The subsidy allocation was transferred for the village fund and regional transfers to reduce inequality.
- Subsidy Reform has continued to ensure:
 - Right targeting
 - Fiscal sustainability
 - Energy diversification

ZAKAT



Source: Indonesia Zakat Outlook (2018)

WAQF



Source: Indonesian Waqf Board

ZAKAT

Micro Hydro Power Plant (PLTMH) in Jambi

Zakat has supported the construction of Micro Hydro Power Plant (PLTMH) to provide electricity for a total of 806 households from 4 villages, benefiting approximately 8,000 people.



EMPOWERED VILLAGE PROGRAM

Empowered Villages based on Zakat Infaq Sadaqah have been established and located in 1056 *Desa Berdaya*. The number beneficiaries in 2017 reached almost 2 million people.

WAQF

ISLAMIC HOSPITAL OF MALANG

Productive waqf land for VIP rooms. This was a pilot project on productive waqf from grants provided by the Ministry of Religious Affairs. In less than 7 years, the VIP building has reached BEP (break event point).



TOWER 165

Tower 165 in Jakarta is a commercial building built over mortmain properties under waqf.

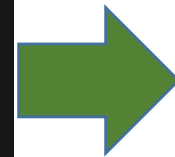
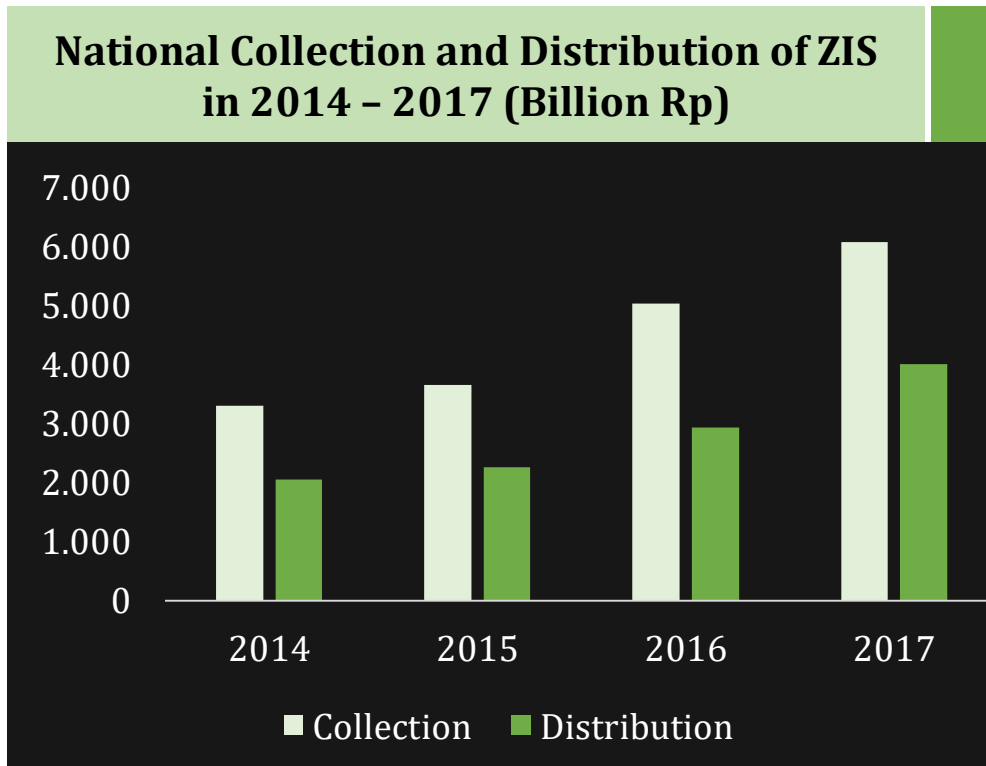


AGRICULTURE

1550 Jabon trees was planted on a waqf land of 2.5 ha in Bogor, Indonesia. The value of the harvest that flows its benefits reaches 750 million rupiah per 6 years.

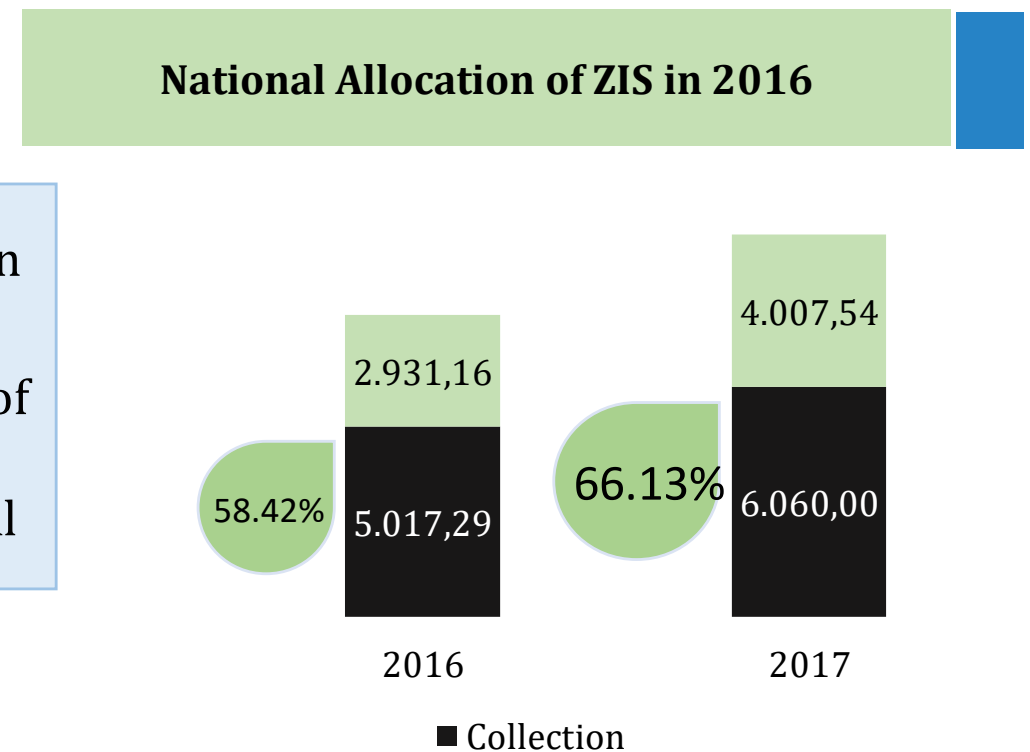
The Development of Zakat In Indonesia

The zakat distribution needs to be continuously improved...



Less than
2.3
percent of
its
potential

The absorption rate is increasing, and it is considered as “quite effective” in terms of the absorption of zakat funds used.



Source: Indonesia Zakat Outlook

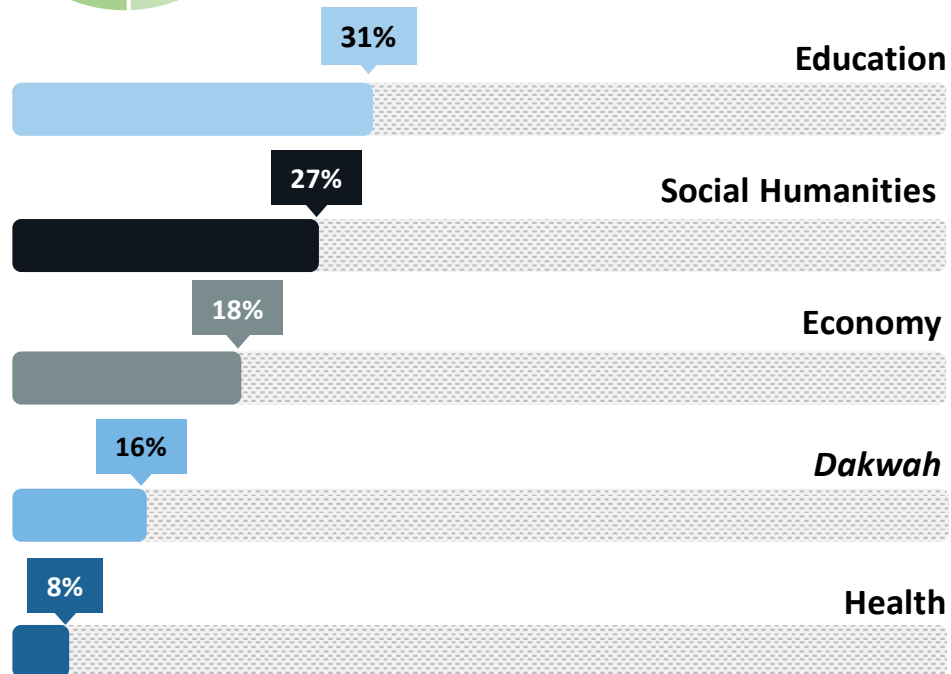
Source: Indonesia Zakat Outlook (2018)

The Development of Zakat and Waqf In Indonesia

National Allocation of ZIS based on Distribution Sector in 2016



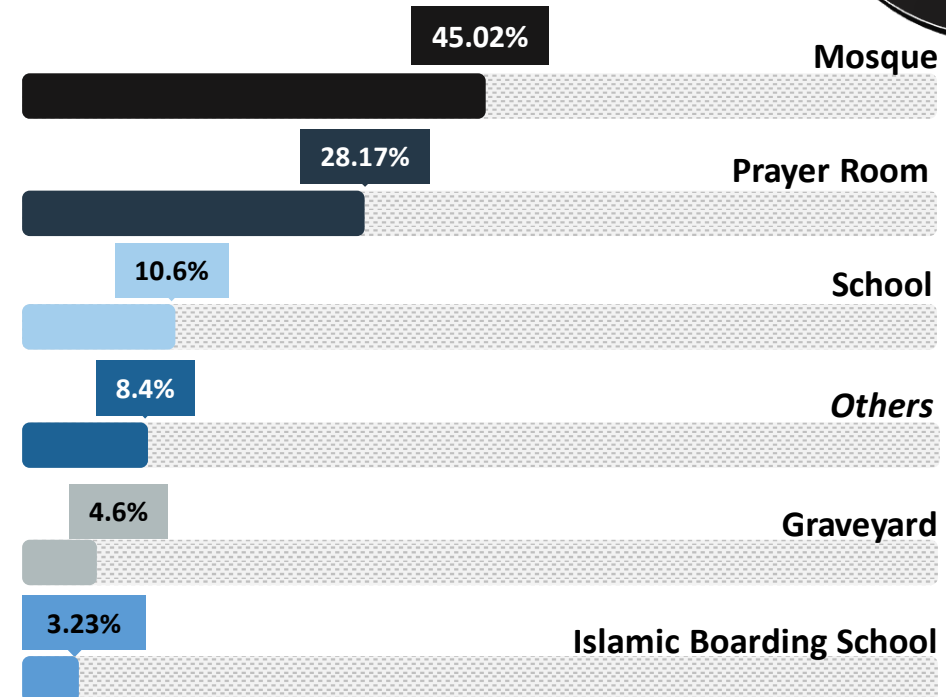
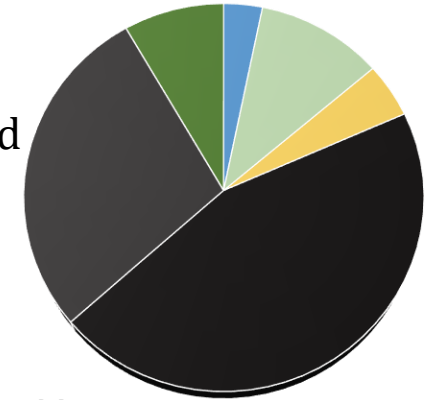
By 2016, the largest proportion of zakat disbursements was distributed in the **education** sector, which amounted to nearly 843 billion rupiahs.



Source: Indonesia Zakat Outlook (2018)

Use of Waqf Lands

By 2016, the number of waqf land in Indonesia reached 4.4 billion m², spread over in 435.768 locations throughout Indonesia....



Source: Indonesian Waqf Board

Further Improvement on Inclusive Development

Strengthening aspire middle income group through:

- Easiness to get business licenses
- Strengthening micro and small enterprises as well as empowering cooperatives
- Enhancing labor expertise and skill certification



Enhancing Village Fund to the lowest economic group:

- Development of basic infrastructures through cash for works programs
- Improvement of basic services
- Local economic development

Developing growth centers outside Java Island through:

- Strengthening infrastructure to connect between economic centers and supporting areas
- Strengthening local product development and supply chain products for export



The utilization of information technology to:

- Extend the outreach and better public basic services
- Stimulation of innovation and creative ideas that can be enjoyed by all levels of society

THANK YOU