

**ERADICATING POVERTY:
the Indonesian Experience**

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Distinguished Guests, Ladies and Gentlemen:

First of all, let me welcome you, our distinguished overseas guests to Indonesia.

Today is a proud day for us, since the community of nations, through the UNDP, has recognized this country and its people's efforts to eradicate poverty as one of the most important objectives of our development. We all witnessed the presentation of the citation by the UNDP Administrator to our President earlier this morning. And now we are also honored to be asked by the UNDP to host this international seminar on comparative experiences in poverty eradication.

It is therefore, with much pleasure, that I jointly with Mr. Speth, the UNDP Administrator, initiate today's discussions. For my part, I would like to briefly review and share with you Indonesia's experience in poverty eradication. Basically I will be underlying and elaborating on what has been said by the President this morning.

I should start by noting that poverty eradication is not, in itself, an isolated effort, but is rather part of a larger development program. Having said that, from the very beginning programs targeted toward improving the living standards of the people and especially the poor have always been among our highest priorities. In the late 1960s when we started our recent first long-term development, Indonesia was one of the poorest countries in the world. Per capita income was only US\$ 70 and around two-thirds of the population was living in abject poverty. Population growth was high, Indonesia was the world's biggest rice importer, and malnutrition was widespread. Nearly half the population was illiterate and only 40% of the children of primary school age were attending school.

As we complete the first long-term (twenty-five) year development, and enter the second long-term development, things have changed. Due to a sustained growth of around 7% a year for the last three decades, our income is now around \$1,000 per capita, and has increased by over 3 times in real terms. We are no longer a poor country, but have graduated to middle-income country status, albeit still among the lower middle income group. Our economy is being transformed from an agricultural to an industrial base. In spite of the recent monetary crisis, our economy is fundamentally solid, which creates confidence and attracts businesses and investment seeking good long term prospects.

With solid fundamentals, ample natural resources, a large and growing market, and its complement, a large pool of increasingly competitive human resources, Indonesia has been regarded as the next economic powerhouse as we enter the 21st century.

This is not the complete story however. In fact, the most telling aspect of the economic success is not the growth per se, but the improvement that growth has generated for people, especially the poor and those who are the least fortunate in traditional societies such as women. The percentage of poor has dropped from 60% in 1970 to 11% currently, nutritional standards have risen, life expectancy has also risen from 45 to 63 years, and virtually all children of primary school age are attending school.

Those were not easy tasks, considering the demographics involved. Indonesia has a large

population, now around 200 million. On top of that, the population is not evenly distributed. Almost 60% of our population is on one island which has only 7% of the land. The rest of the population is scattered on dozens of large islands but also in about 3,000 populated islands in our archipelago. Just imagine the cost of delivering services and infrastructure for people scattered on so many islands over such a large area.

How did we do it? I cannot give a simple and straightforward answer, because development strategy involves a complicated set of policies, set in a dynamic and endlessly changing context. Any question with regard to our development strategy will invariably be answered by referring to our guiding principles that we call the Trilogy of Development. The Trilogy indicates that we must develop policies that promote growth, equity and stability in a harmonistic and synergistic combination of efforts.

Although we do not adhere to “trickle down”, growth is an absolute necessity for development. Economic policies should be designed to generate growth at a sufficient level, and to assure its sustainability. Rapid economic growth has improved our capability to address poverty and other social and economic problems. In retrospect, selecting the right policies and approaches and maintaining a consistent equity-oriented development path seems to have been crucial.

Now allow me to briefly mention some of the elements of our development strategy that were particularly important to poverty reduction.

First, an emphasis on agriculture and rural development. From the very beginning, we realized that countries like Indonesia with a large population living in rural areas were naturally based on agriculture. Thus, the first development priority was to develop our agriculture and rural areas. Among the earliest targets was rice self-sufficiency, which we achieved in 1984. In the process, rural areas were transformed from economically dormant into productive and vibrant parts of the country. We built dams, and provided roads, and electricity that opened up the rural economy.

The development of the rural economy was complemented by an improvement in the qualities of the rural population. This, generally, was the second element of our strategy, human resource development. A substantial amount of public investment has been directed to the improvement of the education and health condition of the people. The first priority was to achieve six years universal primary education. This already achieved, we are now moving to nine years universal education. We now have 170 thousand primary schools, which accommodate around 30 million pupils. One of the most encouraging outcomes has been that girl students now attend school at almost the same rate as boys. Thus, education is a driving force behind women’s emancipation and empowerment in Indonesia. Community health services, eradication of communicable diseases, and improvement of nutritional standards of the people are the basic components of health development. We have 7,000 community health centers, and 21,000 auxiliary centers scattered all over the country.

The third element was the containment of population growth through the network of community health services, supported by local community and non-governmental organizations. We have been able to reduce population growth from 2.4% per annum in the 70s to 1.5%. This in itself is a significant achievement, but the impact on poverty reduction is of utmost importance. Smaller and healthier families are less likely to live in poverty and less likely to perpetuate inter-generational poverty. In some areas the population policies have been so successful that primary schools have had to be closed down or merged for lack of pupils.

I would like to note here that prior to this award bestowed on Indonesia for our achievement in poverty reduction, our President has also received awards from other UN institutions. The FAO presented an award in 1985 for our success in food and agricultural development; for moving from the largest rice importer to self-sufficiency. From time to time we have even been able to export rice. We have also received an award for success in our family planning program in 1989. Thus, this is not the first award from the UN family to Indonesia. But

we especially appreciate this recognition because it is the first being given by the UNDP and as eradicating poverty should be the central theme of any country's development program.

The fourth element, is that development programs must put an emphasis on job creation. In the last 25 years, we have been able to create 42.5 million new jobs. Jobs are very important to poverty reduction, as many of the poor are dependent on productive jobs. Our development programs in every sector and region are oriented toward creating new jobs and improving the quality of existing ones. Our industrialization process reflects this policy. This is evident in the emphasis on broad-based industrial development, which creates more jobs.

And lastly, it is an established fact that poor people are poor because their access to productive assets is limited, especially their access to capital. It is therefore very important to develop financial schemes to help poor people gain access to capital. Through the banking system we have created various schemes that provide small scale credits. Thus, there is a requirement that all commercial banks operating in Indonesia have to provide at least 20% (now 22%) of their overall credit to cooperatives and small scale businesses. Various grassroot financial institutions were established to channel microcredits to the people.

In 1994, as we entered the second long-term development and *Repelita VI* (the Sixth Five-Year Plan), we started a new scheme, that provides funds to poor people living in the poorest villages. These funds are grants from the government to the communities to be managed by the communities themselves. We call the program the IDT, or the program for least developed villages. This program is complemented by other schemes, for the poor people living in villages that are not designated as poor villages. The most important among them is the Family Welfare Savings Program, whereby credit provision is related to savings. In this scheme women play a central and private role. I assume you will hear more about these programs in later discussions.

This morning the President mentioned a very important instrument in our equity program, which we call the Presidential Instruction (or *Inpres*) program. Actually it is a fiscal instrument to allocate funds directly to the local government as grants to support regional development. It is also directed to support specific programs at the grassroot community level such as education, health, poverty alleviation, rural infrastructure, and the environment.

This instrument is very effective, as the funds have become an important source for the budget of the local government at various levels. It also directly channels funds to the field to be used as designated. It cuts the bureaucratic red tape associated with the government budgeting system. I think the Indonesian delegation will dwell more on this mechanism when they discuss in more detail our strategy to alleviate poverty and promote equity in our development.

Last, growth and equity can only occur in a stable environment. Uncertainty and turbulence hinder investment, the efficient flow of resources, and thus growth. Maintaining stability, is a critically important task for macro-economic management, with direct consequences on our ability to deliver poverty eradication. Social and economic stability is important for a nation to attain growth and equity objectives.

I have reviewed the most salient elements, if not all of our development strategy that bears on poverty alleviation.

Where do we go from here? From the Second Long Term Development, we have clear and rather specific quantitative targets. We aim to raise real per capita income four times. And we have confidence that during the long-term development we will be able to eradicate poverty in absolute terms. In fact by the year 2005, that is by the end of the next five year plan (or *Repelita VII*), we hope to eradicate poverty as a national problem, which means that we hope to reduce the poverty level to less than 3%. Having a clear albeit indicative target is important, so that we can measure the concrete results of our efforts.

Before I conclude, I would like to commend the UNDP for its contribution to our development efforts over the years. Since the very beginning, the UNDP has coordinated the participation of the UN family in our development. It has also been active in assisting us in

poverty programs, most recently the IDT program, working together with the government and other donors.

This is an appropriate forum to thank the UNDP for all their contributions to our development. The government and the Indonesian people appreciate it very much. We would also like to commend the UNDP for its long term efforts to help the developing world to improve the living conditions and welfare of their people. The UNDP is highly regarded for its initiative in developing concepts in poverty eradication.

And lastly, I wish you all a successful meeting. I trust and expect that we will all learn a great deal from each other, taking lessons from each other experiences, and gaining knowledge from sharing the successes and failures of each of us. We are gathered here to enhance our endeavors to meet the challenges of our time: eradicating poverty, so that all our people will have a fair and equitable chance to benefit from the opportunities created by human knowledge, and the world resources that are now being opened by advances in science and technology and through the elimination of restrictions on global trade and finance. And, I hope that you enjoy your stay in Indonesia.

Thank you.