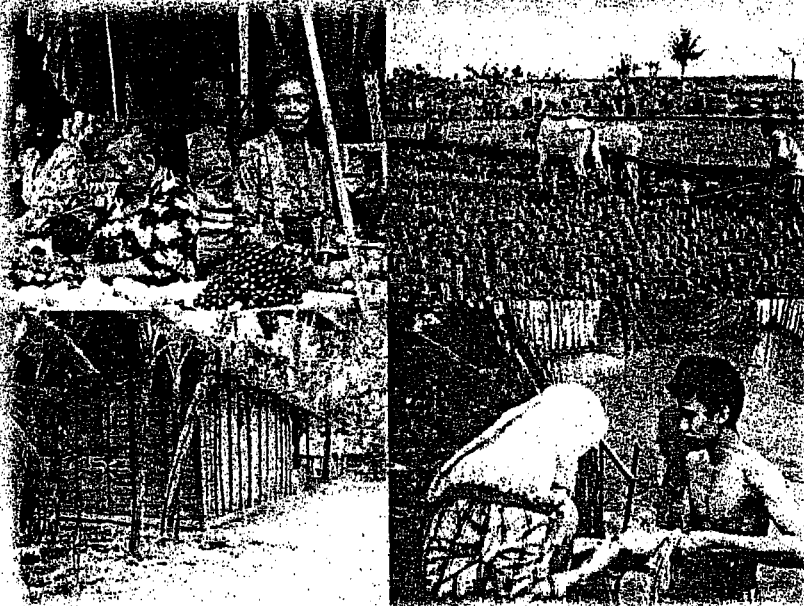




REPUBLIC OF INDONESIA

INTERIM POVERTY REDUCTION STRATEGY PAPER

**A Process Framework of Strategic Formulation
for Long Terms Poverty Alleviation**



COMMITTEE FOR POVERTY ALLEVIATION

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Jakarta, March 2003

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**Message from
The Coordinating Minister for Social Welfare
Republic of Indonesia**

Assalamu'alaikum Wr. Wbr.

Thank God almightily; we may finish the document of Interim Poverty Reduction Strategy Paper (I-PRSP). I greatly appreciate the Coordination Team to Prepare Poverty Alleviation Policy Formulation (TKP3-KPK) that supports Committee for Poverty Alleviation (KPK) in coordinating this document.

The I-PRSP document is a provisional document and prepared as escort for the nation to compose a Grand Strategy for long-term poverty alleviation policy that hopefully we will finish in 2004. The aim of the I-PRSP document is the document of PRSP that will be use as platform of the long-term strategy for poverty alleviation in Indonesia.

The process of making I-PRSP is highly participative and absorbing the stakeholders aspirations (Department, Ministries, Government's Body, NGO, business, financial institutions/bank, and Universities), therefore we hope the document can bear its core mission to escorting Indonesia to develop long term strategy for poverty alleviation.

We will socialize the document to the regions as key steps because the poverty is in the *regions*. We hope regional PRSP should elaborate localities in the national context of poverty alleviation.

Finally, my sincere thanks go to all parties. We hope the document will be beneficial to alleviate poverty in Indonesia. May God always be with us.

Wassalamu'alaikum Wr. Wbr.

Jakarta, March 2003
Coordinating Minister for Social Welfare
As
Chairperson of Committee of Poverty Alleviation

A handwritten signature in black ink, consisting of stylized initials and a long horizontal stroke extending to the right.

M. Jusuf Kalla

CHAPTER I
INTRODUCTION

CHAPTER 1

INTRODUCTION

1.1. Background

Indonesia possesses abundant natural resources while its geographic position is a foundation of high potential in economic. The climates in Indonesia allow continuously use of the land all year long which also produces woods and mineral sources as well. Despite all the advantages Indonesia gives in natural sources, however, they are not able to contribute much for the welfare of most of Indonesian people.

The majority of Indonesian is still in the poverty level that is marked by vulnerability, hopelessness, isolated, and inability to express their aspiration and needs. As the results, these conditions accountable for: (i) the high of social-economic burden of the society (ii) the low quality and productivity of the human resources (iii) the low participation of the people, (iv) lessen of the public order and safety, (v) reducing the trust of the society upon the bureaucracy in term of its ability to serve people, and (vi) threat of the lost generation.

The endeavours to the poverty reduction that have been done in Indonesia for the last three decades were quickly being reversed as millions of rural poor fell below the poverty threshold and significant numbers of people increased their vulnerability and clustered around the poverty line because of politic, economic, and social turmoil as well as natural disasters in some regions. These factors indicated that there are some weaknesses in the efforts of poverty alleviation in the past that need a major improvement. We might point this condition to: (i) the government put in much of its focus to macro-economic growth (ii) centralized policies (iii) mainly consists of charity purposes (iv)

treat people as the objects (v) define poverty merely by economic-based (vi) generalized poverty problem assumption and solution.

Besides, the efforts to alleviate the poverty nowadays are also complicated by the following issues:

(i) Region autonomy and decentralization,

The implementation of region autonomy and decentralization policies gives the local governments the authority to plan, to construct, and to implement their own policies and programs that will best suit for the characteristics of their local. A careful and accountable resources management by local governments that involving local communities gives a potential impact to reduce disparity in any sectors.

(ii) Demand for good governance,

The existence of good governance will block the chronic growth of corruption- collusion-nepotism (notoriously known as KKN) practices of governments' officials that brought the nation into bankruptcy. In this case, the good governance will open opportunities to the lower-class communities to get benefits from the nation's development.

(iii) Globalization.

The globalization brings economic recovery to the efficient and competitive countries into the global market. But on the other side, this system will cause economic disparities, marginalizations, and social exploitations. The increase of economic disparity worsens the attempts to reduce poverty that have been done so far. Therefore, the root of poverty cannot be seen merely by the traditional factors such as an inequality access to education and urban bias, but we must also consider global

imbalances of complex interactions of assets, markets, and institutions (Machinko Nissanke, 2000¹).

Based on the analysis above, it is compulsory to define our stand on the poverty alleviation, based on either economic, social, politic, or moral grounds. Economically speaking, the poverty emphasizes on the sustainable development. On social background, poverty can be the source of social insecurity. In politics, it is regulated in Chapter 27:2, Ch. 31:1, and Ch.34 of the Constitution. And it is our moral obligation to alleviate poverty of the people².

Therefore, it is necessary to form a long-term poverty alleviation strategy (year 2004-2015). This strategy will be presented thoroughly in a document under the subject of *Poverty Reduction Strategy Paper* (PRSP): The objectives of this paper are:

1. To provide comprehensive guidelines for government, private sector, and community as stakeholders of poverty alleviation development.
2. To provide guidelines for local governments as elements of Republic of Indonesia to form their own poverty alleviation strategy.
3. To provide guidelines for the People of Indonesia as part of the World community to join poverty alleviation attempts in Indonesia.

To prepare the PRS document, an *Interim Poverty Reduction Paper* (IPRSP) will be provided as a preliminary part that contains the strategy methods to guide policies and programs in poverty alleviation for 2 years ahead and a list of activities (road map) needed to issue PRSP in the year of 2004.

- 1 UNDP Human Development Report in 1999 stated that people in 5 richest countries can gain 82% from export improvement and 68% from foreign direct investment, whereas people in 5 poorest countries can gain only about 1% from both element.
- 2 Ch.2:2: Every citizen is entitled to proper occupation and way of live for humankind; Ch.31:1 : Every citizen is entitled to education; Ch.34 : The poor and neglected children are subjects to government's responsibility.

1.2 A Review on Poverty

All over the world, poverty and inequity are problems that constantly faced by the government, private sectors, and communities. Poverty strongly relates to other factors, such as wages, health, education, access to goods and service, locations, gender, and environment condition. Many experts and institutions have produced number of definitions on poverty. The one defined by the World Summit for Social Development in Copenhagen in May 1995, which read as follows:

Poverty can take in many forms, for instance: low level of income and productive resources needed to ensure a sustainable life; famine and malnutrition; low level of health; lack of access to education and other basic services; increasing number of ill conditions and frequent deaths due to diseases; homelessness and lack of shelter; unsafe environment; discrimination and social isolation. Poverty is also marked by low level of participation in decision-making process at either civil, social or cultural life.

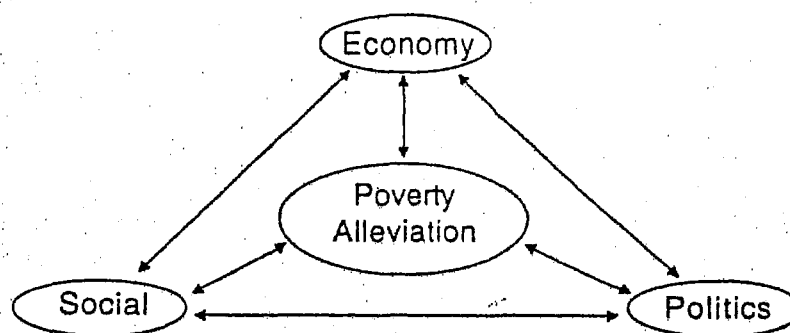
Based on the complexity and variety of poverty dimensions, the cause of poverty in a region may entirely be different from that of others, even if at household and individual levels. Propensity to generalize any approach to identify poverty causes must be avoided to give place to a local-specific approach.

Since poverty is a complex matter that is influenced by many correlating factors, any attempts to alleviate it has to be supported by stability in economic, social, and politic sectors³. The stability in any sectors will affect others. The stability in all sectors will act as a necessary circumstance in order to attain a macro condition that is

³ Economic sector includes: industries, trades, services, agriculture, etc. Social sector includes: education, health, religion, etc. Politic sector includes: national defense and security, regulation, governance, etc.

conducive for any poverty alleviation attempts⁴. This correlation can be seen in Picture 1.1.

Picture 1.1.



1.3 Poverty Condition in Indonesia

Number and the Distribution of the Poor⁵:

From the year of 1976 to 1996, the total number of the poor population decreased drastically (from 54.2 million in 1976 (40.1%) to 40.6 million in 1981 (26.9%), to 27.2 million in 1990 (15.1%) and to 22.4 million in 1996 (11.3%)). The coming of economic crises has multiplied the number to reach 49.5 million in 1998 (24.23%) consisted of 17.6% in urban areas and 31.9% in rural areas. This number was quite similar to poverty level between 1981 and 1994. Changes of the percentage of the poor in Indonesia between the year of 1976 to 2002 can be seen in Figure 1.2.

- 4 On the other hand, any failure in poverty alleviation will cause threats to development sustainability in economic environment, social disturbances in social environment, and in politic environment can be abused by certain politic groups in their favor.
- 5 Poor population is defined by BPS Poverty Line. Poverty Line is calculated based on food adequacy or food consumption equals to 2.100 calories per day per person and non-food expenditures spent on minimum needs, such as housing, clothing, health, education, transportation, etc. Both elements are obtained by means of identification surveys on non-food commodities which are classified as basic needs for the poor.

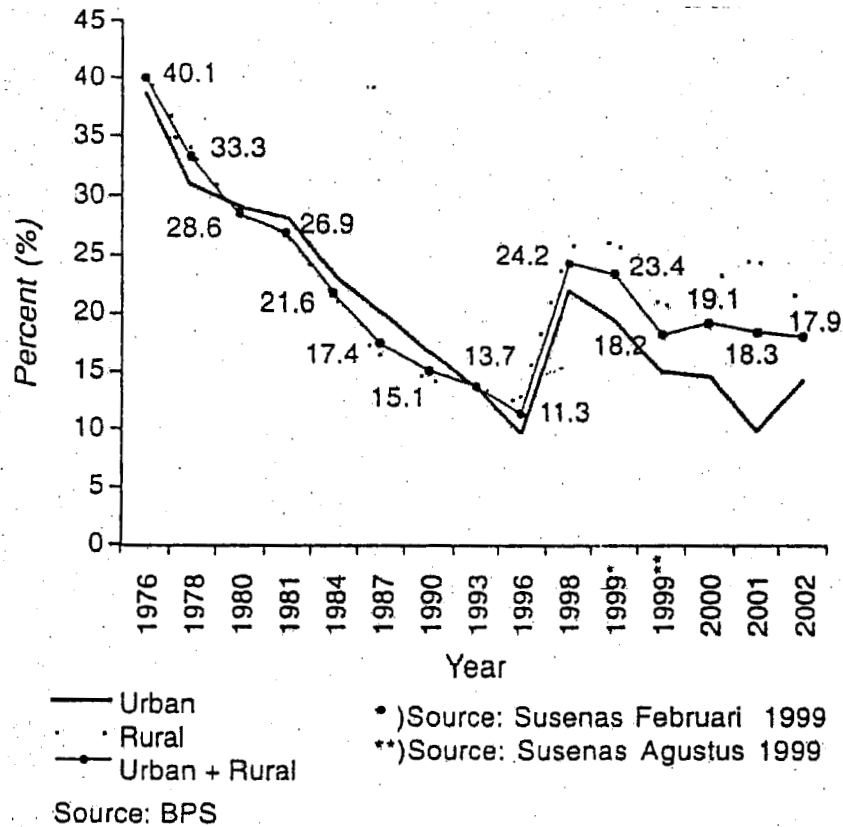
The record of Bureau of National Statistics (BPS) shows the percentage of the poor in 2002 will rise approximately to 38.4 million or 18.2% (14.5% in urban areas and 21.1% in rural areas). This implies the change of poverty rate percentage, which is 6.63% better than 1998 level. This level spreads 57% in Java and Bali, 21.8% in Sumatra, and 21.2% in Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Irian Jaya.

Poverty Magnitude and Severity Level:

Poverty Magnitude Index indicates the average gap of the living standard of the poor compared to the poverty line, while Severity Index specifies the gaps among the poor. BPS record shows that the Poverty Magnitude Index in urban areas increased from 2.55 in 1996 (before crisis) to 4.35 in 1998 (during crisis), while in rural areas such index escalated from 3.53 to 5.01 in the same period. Also in the same period of time, severity index has risen from 0.71 to 1.27 in urban areas and 0.96 to 1.48 in rural areas. This data indicated that the economic crisis has made the poverty condition in Indonesia even worse than ever before. However, BPS study in 2002 shows that Poverty Magnitude level improved to 3.01 and Poverty Severity level to 0.79

Picture 1.2.

CHANGES IN POOR POPULATION PERCENTAGE



Characteristics of Poor Household

BPS 1999 indicated that the average of family member was 4.9 persons, the poor households had more burden than normal households with only 3.9 of average family members. In terms of education, heads of the family in 72.01% of poor households in rural area got education just below the primary school level, and the other of 24.32% completed only the primary school. The same characteristics appear in urban households where the heads of the family in 57.02 % of poor households have education level below primary school and the other

31.38% completed only their primary school. On the other hand, based on economic activities, 75.7 % of the poor rural households rely heavily on agricultures. This indicated that poverty in Indonesia was closely related to rural phenomenon. While 75% of the poor urban households, only 24% rely on the agricultures.

1.4 Progress in the Poverty Reduction Initiatives

Over the last three decades, the Government of Indonesia has undertaken many initiatives to alleviate poverty through various policies and programs with the main objectives to provide basic needs such as (1) food, (2) education and health services, (3) employment/job opportunity, (4) agricultural infrastructure assistances, (5) business credit for the poor, and (6) infrastructure assistance for urban slums.

Such initiatives have been intensified since 1994 when government organized various programs, such as *Inpres Desa Tertinggal* Program (IDT), a special treatment for poor villages; (*Pembangunan Prasarana Pendukung Desa Tertinggal/P3DT*), infrastructures development in poor villages; Kecamatan Development Program (KDP); and Urban Poverty Alleviation (*Program Penanggulangan Kemiskinan Perkotaan/P2KP*), as well as Social Security Net or JPS during economic crisis. These programs were unfortunately unable to substantially solve the very basic problem of poverty despite their success to reduce the number of the poors.

As a matter of fact, the decrement of poverty degree is still very vulnerable to the changes of macro economic situation, political conflict, social disturbances and conflict in some regions, and natural disasters. In addition, there are many contradictory macro policies to increase people welfare. Program implementation, for example, is still sector-based, lack of focus that is not accommodative to the needs of the poor, and lack of public participation.

It is in accordance with the implementation of local autonomy since 2001 that poverty reduction began to be executed in a decentralized system by continuously encouraging local governments (province, district/municipality, and village) and all community elements (university, private sector, NGOs, poor people, etc.) to be actively involved. It is also in the new spirit that poverty reduction should be accomplished through a comprehensive, integrated, and sustainable framework.

CHAPTER II
COMPREHENSIVE POVERTY REDUCTION

CHAPTER II

COMPREHENSIVE POVERTY REDUCTION

The extended economic crisis, which began in 1997, has not only raised the number of poor people but also made poverty problem even more complicated and hampered the initiatives to solve it. Given the complexity of poverty characteristics and a need to improve its approach, poverty reduction initiatives in the future need to be comprehensively implemented while giving attention to revise some of its critical points as follows:

- ◆ Poverty needs to be comprehended as a multi-dimensional phenomenon of social, economic, political, cultural, legal, defense and security aspects.
- ◆ Poverty reduction needs to integrate some of the following strategies: (1) opportunity creation, (2) empowerment, (3) capacity building, and (4) social protection of the poor.
- ◆ The process of poverty reduction is as important as its final output. One of the key components of poverty reduction process is the participation of all development actors (government, private sectors and civil societies) in policy formulation, implementation, monitoring and evaluation.
- ◆ The implementation of a sound strategy and planning must be supported by good governance principles of the institutions involved in the program implementation - primarily government institutions - to avoid convulsion or manipulation. To improve the way things are done and to open broader opportunity for the poor to participate are the two key strategies to empower the poor.
- ◆ The need of policy mainstreaming to synchronize various programs as the initial step to make poverty reduction more effective.

- ♦ The synergy between economic growth and reduction of the poor. In other words, economic growth has to be accompanied by initiatives to direct it to be more beneficial for the poor.

This multidimensional interaction and synergy among sectors as well as among actors in poverty reduction strategy are drawn below (Figure 2.1.):

2.1. The Government Commitment in the Poverty Reduction

Government of Indonesia has committed that poverty reduction will be a top priority, as noted in Law 22, 2000 on National Development Program (PROPENAS) declaring that the next five-year target (2000 – 2004) is to reduce number of the absolute poor to 4% from 1999 level. Such reduction will imply that the number of the poor in 2004 will be about 28.86 million people. This will be accomplished through (1) enhancing productivity of the poor community so they can obtain a better opportunity, management capacity, and protection in economic, social, cultural, and political activities as well as security insurance, (2) diminishing cost for the poor to access basic needs such as education, health, and infrastructure that are used to facilitate social and economic activities.

As a completion of the initiatives to accelerate poverty reduction in the next two years, Government of Indonesia has also come to a decision to mainstream poverty reduction in RAPBN, starting with the 2003 Annual Development Plan, which placed poverty reduction as one of its top 11 priorities. Therefore, the government will also converge the policies and programs of 2003 APBN in all sectors by: (1) creating opportunities related to macro economic recovery as the main target, the construction of Good Governance, and the improvement of public services, (2) community empowerment related to the provision of the poor with access to economic resources and their involvement in decision-making process, (3) capacity building regarding the im-

provement of education, health, food, and housing services for the people in order to increase their productivity, and (4) social protection for people with physical defect, poor, isolated, experiencing social conflict and job-loss whom prone to fall into poverty.

2.2. Some Initiatives

- ♦ With the issue of Keppres No. 124, 2001 jo. Keppres No. 8, 2002, the Government of Indonesia has established Poverty Reduction Committee led by Coordinator Minister of People Welfare and Coordinator Minister of Economic affairs as its deputy. As the main task, the Committee has to coordinate the formulation and implementation of poverty reduction program by engaging not only government institutions but also other development actors in each level of government as well as legislative agencies, NGOs, university, professionals associations, private sectors, civil society, etc.
- ♦ The Committee also determined some key approaches in alleviating poverty, namely, (1) reducing economic cost burden of the poor, and (2) increasing the poor's income and affordability.
- ♦ Those approaches are considered as guidelines for pro-poor development policies including (1) maximasize APBN and APBD utilization, (2) program focusing, (3) synchronization of program planning, its target and implementation as well as monitoring and evaluation regarding poverty reduction, (4) involvement of NGOs in program monitoring and evaluation, and (5) improving micro credit provision for small and medium scale enterprises by bank or other institutions and technical assistance provision and institutional strengthening as a result of the Government and the Bank of Indonesia agreement.
- ♦ In accordance with the aspiration of Good Governance such as democratization, participation, transparency, and accountability, government needs to formulate poverty reduction strategy as an

integral part of a long-term development policy framework which engage all actors previously described.

- ♦ Poverty Reduction Strategy Paper (PRSP) is now under formulation to include several phases of (1) identification of poverty problems (2) evaluation of poverty reduction policy and program (3) strategy and policy formulation (4) program formulation and its delivery system and (5) evaluation of policy and program implementation.
- ♦ To follow the mainstreaming of poverty reduction policy and program, from the year of 2002 thereafter government will:
 - (i) Prepare the guideline for sector and local institutions in formulating pro-poor development program and its budget line and provide technical assistance for them to implement the program and policy in a decentralized system.
 - (ii) Evaluate all programs with direct relations to poverty reduction that are being implemented in the year of 2002. Its effectiveness will be evaluated according to the policy framework, so that a decision can be made whether the program should be continued or not.
 - (iii) Made a list of foreign loan/grant allocation from benefactors for every poverty reduction program/policy to ensure that the various programs/policies do not contradictory of each other. Government must also inform their findings in the participatory method to the poor community.
 - (iv) Conduct a policy analysis, which the result can be used to assist in directing policy and program formulation including pro-poor regulation and developing a delivery system program and a credible and accountable alternative funding.
 - (v) Continue the process of PRSP formulation as an integral part of a long-term development policy framework.

CHAPTER III

THE MAINSTREAMING OF POVERTY REDUCTION POLICY AND PROGRAM OF THE YEAR 2002 - 2004

CHAPTER III

THE MAINSTREAMING OF POVERTY REDUCTION POLICY AND PROGRAM OF THE YEAR 2002 – 2004

There are two main approaches of poverty alleviation:

- (i) Increasing income by improving productivity into which poor community will have a good management capacity and a better opportunity and protection to attain a better result of social, economic, cultural, and political activities.
- (ii) Reducing expenditure cost for basic needs, such as access to education, health, and infrastructure, to facilitate social and economic activities.

The two approaches are accomplished by means of 4 basic policies as follows:

- (i) **Creating opportunity.** The government and private sectors and communities should make an effort to create job and business opportunity for the poor.
- (ii) **Community empowerment.** The government, private sectors, and communities should empower the poor so that they are able to attain their economic, social, and political rights; to be in charge of every decision that affects their future; to express their aspiration; to identify their own problems and needs.
- (iii) **Capacity building.** The government, private sectors, and communities assist in building the poor capacity/capability in order to be able to work and produce in higher level of productivity, and to work for their own needs.
- (iv) **Social protection.** The government through its public policy invites the private sectors and the community to provide social protection of the poor.

To focus on both macro and micro policies of these four basic policies, the mainstreaming of various policies and programs is very crucial to improve efficiency and effectiveness of poverty reduction initiatives and to ensure its sustainability.

In this context, mainstreaming is defined as an effort to place a right perspective in inter-policy and inter-program consistency as well as consistency between program and budgeting, between target formulation and its delivery system, and to delineate role sharing among various development actors involved in poverty reduction program.

The process of mainstreaming are (1) maintaining consistencies between macro-micro policy and their strategic-operational term, (2) synchronizing of various policies and programs, (3) delineating role-sharing among the development actors. By doing this, the mainstreaming process will ensure that every policy, program, regulation, or any form of decision will always consider its positive and negative impacts to poverty reduction, directly or indirectly.

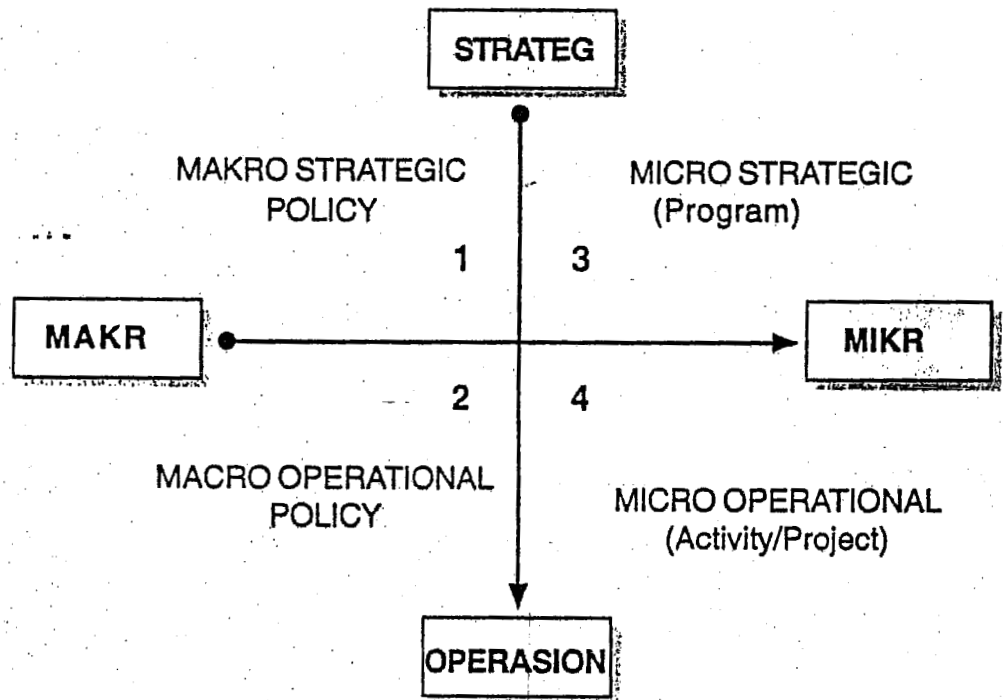
3.1. Synchronization of Macro-Micro and Strategic-Operational Policy

There are many programs that have been implemented by various actors for the purpose of poverty alleviation. Unfortunately, there is no a synchronized program of the government itself (department/institution at national and local level) and among the government, private sectors, and communities. Moreover, there is no clear role-sharing actors and a common perception on poverty reduction among the development actors. It is understood then that despite various programs with huge resources to implement them, the impact on poverty reduction has not come up with a maximum result yet. The mainstreaming of poverty reduction is a key strategy to handle such convolution.

One concrete breakthrough of the mainstreaming is by establishing the congruent linkage of macro-strategic and micro-strategic programs; macro-operational and micro-operational project policies to achieve a consistent relationship among these four instruments. The arrangement can be seen in figure 3.1.

Picture 3.1.

Macro – Micro and Strategic – Operational Linkages



In the real situation, there have been many macro policies that are irrelevant and even raise negative impacts on social and economic condition such as tax, rice import, trade, and industrial policies. They all have created unfavorable circumstances of business development of the poor.

On the other side, the government has focused on various poverty alleviation projects that have not seemed to have an obvious impact. Those various projects are very often not related to the other three

instruments (strategic macro, strategic micro, and operational macro). The mainstreaming policy to achieve a clear relationship and synchronization of these four instruments will be able to repair this situation.

There are many steps toward the mainstreaming policy by identifying (i) macro policy,⁶ (ii) key program,⁷ (iii) program detail⁸, (iv) project, (v) decentralization, and (vi) the roles of every development actor. These steps must be followed up by (i) revising all macro policies, especially economic macro policies, (ii) revising the linkages among National Development Program (Propenas), Annual Development Plan, and RAPBN; Local Annual Development Plan (Repetada) and RAPBD,⁹ (iii) consolidating the role of poverty reduction actors, (iv) consolidating and making poverty reduction projects synergy to each other, and (v) decentralizing poverty reduction.

The Strategic Macro Policy (1)

The strategic macro policy is a macro policy that directly supports the establishing of a stable and conducive social, economic, political, cultural, and security circumstances. These subjects are achieved by implementing the 4 basic policies: creating opportunity, community empowerment, capacity building, and social protection.

The Operational Macro Policy (2)

The Strategic Macro Policies are macro policies that are used to execute the 4 basic policies mentioned above by using policy orientations in economic, politic, and social sectors. The policy orientations will include:

- 6 There are still various policies which in their implementation give no support to poverty reduction initiatives.
- 7 There are also many key policies which forsake macro policies. Therefore, poverty problem must be solved through in line with the very basic cause of poverty such as lack of access to education, health, funding resources, and other hindering regulation.
- 8 Program detail does sometimes not refer to the main program.
- 9 There has also to be harmony among National Development Plan, Strategic Planning, Annual Development Plan; among Local Development Program, Local Annual Development Planning, and APBD; and among sectoral, sub-sectoral, program and project planning.

Economic

- a) Fiscal policy including (i) the increase of budget allocation of poverty reduction, (ii) the enactment of direct progressive tax and providing subsidy for the poor (iii) the increase of regional transfer cost of poverty reduction, (iv) etc.
- b) Monetary policy, including: (i) inflation rate control, (ii) improved access to credit with moderate interest rate, (iii) supporting banking or financial institutions to finance micro business, (iv) etc.
- c) Investment policies that provides incentive to support investors for poor regions.
- d) Industrial and trade policy, directed toward (i) ensuring inter-region goods, services, and people mobility, (ii) providing protection for agricultural trade, (iii) etc.
- e) Labor policy, including (i) regulating a sensible provincial minimum wage, (ii) protecting informal sector businesses and its workers, (iii) etc.
- f) Natural sources policy, which is directed toward ensuring the increase of value added of the poor people and regions, through (i) accelerating land certification, (ii) land reform, (iii) conversion of unused land, (iv) progressive tax, (v) enforcement of spatial management (RUTR) law, (vi) etc.
- g) Infrastructure development policy to support social and economic activity of the poor.

Social

- a) Social protection policy, to (i) improve formal public services by providing direct subsidy, social insurance, and social assistance, and (ii) develop community-based social protection system of the poor.

- b) Human resources development policy, including (i) improving the quality of human resources by improved education and health, and (ii) social, economic, and cultural organization and institutional strengthening.
- c) Women empowerment policy, which is directed toward decreasing the gap in quality of life of men and women in their participation in the development.

Politics

Policy alternatives are:

- (a) Increasing local government responsibility to alleviate poverty,
- (b) Enhancing good governance principles in poverty alleviation,
- (c) Promoting local organization and institutional capacity to establish democracy, participation, and conflict resolutions in term of social resilience enhancement
- (d) Law enforcement.

The Micro Strategic Policy (Program) (3)

Micro Strategic policies are programs that refer to the macro operational policies. These programs can take the form of regulations in micro level of poverty reduction initiatives that support the implementation of macro operational policies.

Micro Operational Policy (Activity/project) (4)

To support the implementation of micro strategic policies in operational level, it needs policies that affect directly to the economic, social, and political activity of target groups in the community level.

3.2. The Role-Sharing of the Development Actors in Poverty Reduction

As one of key development agendas, poverty reduction is implemented by engaging all actors from various sectors. Government will play direct and indirect key role in (i) policy and regulation, (ii) public services, and (iii) facilitation and mediation to support other development actors to participate actively in poverty reduction initiatives. Government will be both local and national executives as well as legislatives.

Private sector should provide access to the poor while keeping environmental balance in the production process. Those who act as private sectors can be individual business actors, companies or other business organizations at national and local level.

Civil society with its institutions will establish a social protection mechanism of the poor, articulate their aspiration, facilitate and advocate them to achieve their rights. Civil society can be individuals or community groups, organized or unorganized. The three sectors will interact mutually to solve poverty problems based on their capacities and roles.

The Roles of Government

a. Regulation Role

To review all regulations that hamper poverty reduction initiatives, to formulate regulations that are conducive to support poverty reduction initiatives, and to enforce the law (national and local laws or regulations).

b. Public Service Role

This role is performed by various related sectors especially services that cannot be done by private sectors or the community itself.

c. **Facilitation Role**

As a facilitator, government has to provide a map of poverty condition at national, regional and local level. Those who have the same concerns in poverty reduction program must have an easy access to its result. The facilitator will have to encourage various actors to participate in the development problem management, primarily those related to poverty reduction. Government can also be a mediator of the aspiration of the poor and other sides especially private sectors.

Private Sector

a. **Direct Role**

Private sector can play a direct role to assist the program by means of business partnerships. Such partnerships can be based on business linkages to accomplish learning process. Moreover, private sectors which use the large scale of labors in the production process can utilize local labors and other supporting inputs to empower the community.

Banking sectors and other financial institutions can also play an important role to strengthen micro, small and medium scale enterprises by providing capital support, technical support, and partnership with micro-scale business. All the supports are intended to increase the use of banking sector capital and to strengthen the organization. Organizations that can be benefit from and involved in this support is Micro Credit Board and empowerment of any corporations that provide credit.

b. **Indirect Role**

Private sector also has indirect roles in the poverty reduction program by putting into consideration the well being of environmental condition. The activities that can cause negative impacts on environment as air, land, or water pollution will deteriorate the quality of environment and living species.

Civil Society/Community

a. Advocacy

Community through its institutions can express its aspiration to the government regarding its poverty condition. The NGOs and mass organizations can be the community partners to accompany and express community aspiration through various advocacy strategies.

b. Assistance and Facilitation

Community can also individually or collectively provide assistance and facilitation to the poor community to implement poverty reduction initiatives through various mechanisms.

c. Social Control

Both individually and collectively, community can control the implementation of poverty reduction program as well as its formulation and evaluation through a participatory mechanism.

Establishing Network

In alleviating poverty, the three sectors have different roles. However, these roles need to be integrated to strengthen one to another to manage the program. The establishment of network is very important for such collaboration and better coordination. Such network can be initiated or formed by government, private sectors, or communities at both national and local level. With the main functions as:

♦ Coordination Media

The three sectors undertake coordination on "what" and "how" things have to be done optimally to achieve certain targets and mutual benefits in poverty reduction.

- ◆ **Communication Media**

The Network performs as a medium of information sharing among development actors to enable them to access most current and important development information.

- ◆ **Learning Media**

The Network functions as a learning medium, which is capable of continuously enrich experience and deepen knowledge of the development actors to increase their capacity to alleviate poverty. Ideally, such network must be initiated and established by the community itself, especially those of poor communities.

Example on Policy and Program Mainstreaming in Economic Sector

1. Macro Strategic Policy

One of many approaches in dealing with poverty alleviation is by improving the poor's income. The poor's income can be improved if the poor actively participate in production improvement process. Therefore, the macro strategic policy alternative that can be taken is to create job opportunities as much as possible. The executor of this policy is central government

2. Macro Operational Policy

To implement the above macro strategic policy, alternative for its macro operational policy is by fiscal intervention on region transfer allocation improvement. Fiscal decentralization can give capital transfer to region then can be a trigger and a stimulation to improve region's capability in resource allocation and to improve region's capital management. The region is then expected to be able to improve its

community and official's ability to enhance the region's potentials, which in turn will create new opportunities for the community. The executor of this policy is central government

3. Micro Strategic Policy

One of many alternatives of micro strategic policy used to support its macro operational policy is to improve sector program whose focus is to improve productivity, and infrastructure development that directly affects economic activity. The executor of this policy is central/region government, private sectors, and communities.

4. Micro Operational Policy

At the end, intervention needs to be done directly on production level, by encouraging business society and banking sector, especially on small and middle scale of business development, and cooperation organization, and by encouraging the development of micro fiscal institution or alternative funding institution, using: (i) enforcement on business ethics and law.

CHAPTER IV

THE PRINCIPLES AND STEPS OF THE FORMULATION OF POVERTY REDUCTION STRATEGY

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Poverty reduction strategy is formulated through some key principles and certain steps. The 2004 Long-Term Poverty Reduction is described below:

4.1. Principles of PRSP Formulation

Participation

Poverty reduction is not the sole responsibility of the government since it has a limited management and resource capacity. The government has no right to monopolized the poverty reduction program. To be successful, poverty reduction initiatives must be collectively managed as a massive social movement where all actors at both national and local level (government, private sectors and communities) can actively participate in a democratic milieu.

Transparency

As a consequence of involving numerous actors in the development, it is important to maintain openness and transparency in the process of PRSP formulation. Moreover, as a national agenda, the process of PRSP formulation and its results cannot only be consumed by those who involved but must be published broadly to public. Therefore, a sense of belonging and control will be developed among all components.

Accountability

As one of the public domain activities, the formulation of PRSP must be involving various public resources and actors and should pay attention to the accountability aspect. Accountability of this subject is interpreted as both the insurance of achievement of the goal and objective of the PRSP formulation as a national mandate or agenda, and ability to answer to the public.

Collective benefits

All stakeholders' interests must be considered and accommodated in the process of PRSP formulation before forming a strategic formulation of poverty reduction strategy. This will ensure that all stakeholders can gain collective benefits. By executing this principle, all actors will be more committed to implement poverty reduction initiatives as well as ensure the sustainability of such initiatives.

4.2. Steps of PRSP Formulation

The process of PRSP formulation will last in 2004. It is initiated by the preparation of temporary document or Interim PRSP until the end of 2002. The process of PRSP formulation will be started in 2003 until May 2004 consisting of some activities as shown below (See Figure 4.1. and Table 4.1.).

4.2.1 Participatory Poverty Assessment = PPA

The initial step of PRSP formulation is to assess poverty condition and problem and all existing strategies to reduce poverty, to identify alternative solutions to be implemented, and to describe performance indicators of poverty reduction. The assessment will be accomplished by bottom-up and participatory approach, by aggregating all problems, experiences, and aspirations at local community level, NGOs, and business sector in poverty reduction. Key activities may consist of:

- ♦ *Identifying poverty problems and strategy to handle them*

Expected outputs from this activity are:

- A complete database on poverty, using both aggregate and local/community approach. The database should be available for any government level.
- Providing spatial description on poverty conditions and characteristics, to support more accurate information on existing problems and their sprawls.
- The documentation of the existing models of poverty reduction at the community or local level.

- ♦ *Formulating alternative actions*

The expected output is the formulation of various alternatives as a *template* of poverty reduction initiatives in responding poverty characteristics. For example, the development of small-scale enterprises, subsidy policy, land reform, special fund for poverty, and the likes.

- ♦ *Formulating performance indicators of poverty reduction (input, process, output, and outcome).*

The expected output is the formulation of instruments to be used to measure performance level of poverty reduction program in terms of input, process, output, and outcome.

PPA activities will last until the year of 2003 to enable the team to absorb and formulate the concepts, ideas, aspirations, and experiences to define, identify, and alleviate poverty from various kinds and levels of actors at both national and local level.

4.2.2 Reviewing Policy and Program

There have been many poverty reduction initiatives, sponsored by either government or communities or private sectors. Some of them were succeeded and some of them were failed, or there some cases

where the outcome was as expected in a limited degree. Therefore, it is very important to identify the previous and existing policies and programs as basis of strategy, policy, and program improvement of the future. Some key activities are as follows:

- *Identifying policies and programs relevant to poverty reduction*
The output of this activity will be the list of information on policies and programs that are relevant to poverty reduction initiated by government, private sectors, and communities. This will further produce a list of poverty reduction policies and programs divided into several categories.
- *Developing criterias and guidelines to commence policy and program review*
The output will be the procedures, criterias, and techniques that are available to assess the performances of policies and programs categorized in the context of poverty reduction.
- *Evaluating previous and existing policy and program*
The output will be an objective assessment of the previous and existing policies and programs of poverty reduction. The result of the evaluation of the previous programs will be a record of their success or failures, and evaluation on on-going programs will not only the records of the success/failure of the program, but also some recommendations on how it should maintain its sustainability.

This activity will be last in the year of 2003 with the interim output accomplished in the mid of 2003 as critical input for the process of subsequent policies or programs.

4.2.3 Policy and Program Formulation

At first, there was an identification of poverty problems and strategies to administer them, and then came up with performance indicators to

value policy and program achievements. The next step is to formulate a new strategy, policy, and program of the poverty reduction. They will be formulated by taking new paradigm and approach into consideration and by learning from previous policy and program experiences. Some key activities in this step are:

- ◆ **Formulating the poverty reduction strategy**

The output of this step is the formulation of national vision, mission, and strategy on poverty reduction. Although poverty reduction programs have already been included in the National Development Program (PROPENAS) and in the Annual Development Plan (REPETA), however, the formulation of poverty reduction strategy must be adapted to a new condition incorporating feedback, discussion, consultation, and active participation from all actors.

- ◆ **Formulating the macro and micro policy of poverty reduction**

The output is the formulation of basics of macro policy (macro economy, regulation, etc) and the basics of micro policy (public services, budgeting, etc) to reduce poverty. Both macro and micro policies have to be systematically evaluated by poverty reduction criterias, namely, a pro-poor policy to enable them to alleviate poverty and the protection of the poor to avoid deteriorating process that will put them even deeper in poverty.

- ◆ **Formulating poverty reduction program**

The output is the formulation of poverty reduction program that can be accepted by all actors. All actors should use this formula as a guideline in their work as actors in the development and poverty reduction. The strategy formulas must be in accordance with its vision, mission, and should have clear and measurable targets.

- ◆ **Mainstreaming poverty reduction of all sectors and regions.**

The output of this activity will be focused on putting the right perspec-

tive on the roles, budgeting, and delivery system synergy among all actors in poverty reduction. Its formulation will include:

- (i) A consistent formulation of macro policy, main program, detailed program, and projects implemented by government, private sector and community.
- (ii) Decentralisation of poverty reduction initiatives; and
- (iii) Role sharing of all development actors.

The process of mainstreaming will be held approximately for two years (2002-2004-) by using participatory mechanism at the local and national level. It is hoped that the target can be achieved more optimally so that the result can be used as a reference for the effective poverty reduction initiatives in the year of 2004 and on.

The activity of policy and program formulation will be commenced in the mid of 2003, assuming that the PPA and policy and program review have produced initial inputs. As a start, the first step will be the strategy formulation, which is then followed by the formulation of macro and micro policy at the end of 2003, while program formulation and policy mainstreaming will be commenced in the beginning of 2004.

4.2.4 Developing Monitoring and Evaluation System of Poverty Reduction

A monitoring/evaluation system is crucial to ensure correct implementations and achievement of goals/objectives of a poverty reduction policy/program. These monitoring/evaluation systems will be applied to the macro/national level, the mezzo/regional level, and even to the micro/community level. Development of monitoring/evaluation system will consider the following principles: objective, transparent, participative, accountable, punctual, sustainable, and works according to work criteria/indicators.

The monitoring in poverty reduction context has 2 definitions, monitoring of poverty conditions and monitoring of poverty reduction policy/

program. Evaluation, however, will be applied only to poverty reduction policy/program. Objectives of monitoring/evaluation development system on poverty reduction are:

- *Development of Social Indicators of Poverty Condition Monitoring*

This process is expected to produce social indicators poverty condition monitoring which has both universal and local perspectives. Results obtained from monitoring activity will be used as inputs to formulate the perfect poverty reduction policy/program formulation to its targets. Development of social indicators of poverty condition will include:

- Development of macro/aggregate indicators that follow universal and national guidelines. Universal guidelines can be found in goals, objectives, and monitoring indicators used by Millenium Development Goals which was approved by United Nations in 2000.
- Development of micro/community-based indicators that was obtained directly from the community/public

- *Development of Implementation Indicators of Poverty Reduction Policy/Program Monitoring*

This process is expected to produce success indicators on poverty reduction policy/program implementations. These indicators have to be used as monitoring instruments on many key aspects of poverty reduction policy/program implementation, such as goal achievement, efficiency, accountability, and alterations along with what caused them. Implementation Indicators include input indicators, process indicators, and output indicators.

- *Development of Work Indicators of Poverty Reduction Policy/Program Evaluation*

The process is expected to produce work indicators of poverty reduction policy/program. Work indicators will be used as evaluation instruments of success or failure, strengths or weaknesses, positive or negative impacts, and benefit significance

of the policy/program. Work Indicators include input indicators, process indicators, and output indicators for on-going evaluation, and outcome and impact indicators of ex-post evaluation.

- *Development of Monitoring/Evaluation Implementation System of Poverty Reduction Policy/Program*

The process is expected to produce a theory on system, procedure, and actors of monitoring and evaluation. Monitoring system and procedure will perform as an instrument to detect problems in policy/program and prevents those problem from growing. Evaluation and monitoring procedure have to be able to provide informations on whether a policy of program should be continued or not, and those informations will be used as a guide for future repairs. From the actors' point of view, policy/program monitoring/evaluation have to take any involvement from outside, thus the monitoring/evaluation will apply to all level of any elements (government, private sectors, and public). Development of monitoring/evaluation system shall take place throughout the implementation of policy/program. The activity of the development will be started at the same time with the formulation of poverty reduction policy and be ended by the time the formulation is over.

4.2.5 Building Commitment between Center and Local Governments in Formulating Local PRSP.

PRSP will not be formulated at national level only, but also be formulated at the region level. Central government will provide support for the regions, primarily in term of consultation and technical assistance in the process of PRSP formulation. Objectives in formulating local PRSP are:

- To have a common course in poverty reduction, where the local poverty reduction will consider local aspirations, concepts, and conditions while still in accordance with national agendas and strategies in the national poverty reduction

- To have an institutional base for local poverty reduction agendas.

Formulation of local PRSP is expected to be a shared commitment between central and local government in which consultation is the most important part. Assistance and support will be provided to regions that really need them. As for other regions, government will provide general information available to all regions. This step is consistent with the decentralization policy where central government will no longer dictate the regions on what they do, but to facilitate them to work on what they think is necessary and will do good for them.

Therefore, the region will determine for themselves what they need to do instead of getting instructions from central government. Objectives of the efforts in building a commitment between central and local government in formulating a local PRSP are:

- To form a guideline in formulating region's poverty reduction strategy and mainstreaming.
- To perform consultation as part of the process of formulating region's poverty reduction strategy to form an agreement on work relationship between the central and the region government.
- Providing technical and consultative assistance until the formulation of local PRSP is finished for regions that need or are responsive to the idea of the local PRSP formulation.
- Providing information on poverty concept and its alleviation initiative for the regions that are less responsive to the idea of the local PRSP formulation. Such information will be the stimulus for the region to begin seriously thinking of poverty reduction strategy for its region and to influence pro-poor planning and budgeting process.

The facilitation of PRSP formulation will begin at the end of 2002 when national PRSP document is assumed to be ready for consultation instrument of poverty reduction between local and central government.

Local facilitation will last until the end of 2003, and thereafter, central and local government will concentrate on finishing their own PRSP.

4.2.6 Studies in Policies

Besides implementing main activities according to several steps of the process of PRSP formulation, there will also be other activities as inputs for the development of PRSP formulation substance. These activities will be done in researches as follows:

- ♦ Developing MONEV system model of poverty reduction by the community at national, provincial, and local level.
- ♦ Evaluating social, economic and political regulations.
- ♦ Developing model of capacity building for local government regarding poverty reduction.
- ♦ Developing model for effective public service improvement at local level to serve the poor.

These priority activities will be implemented in 2003 and both the interim and final outputs will be the inputs as supplement for other activities in the context of PRSP formulation.

4.2.7 PRSP Documentation Process

The end of the whole PRSP formulation process is the documentation process in the shape of PRSP publication. The process of PRSP documentation will begin in mid 2003, consists of discussions of each PRSP draft formulated at each phase. The discussion will be accomplished through consultation with all development actors at national, regional and local level. The output of this activity will be formulated into final PRSP document, which will be published later on.

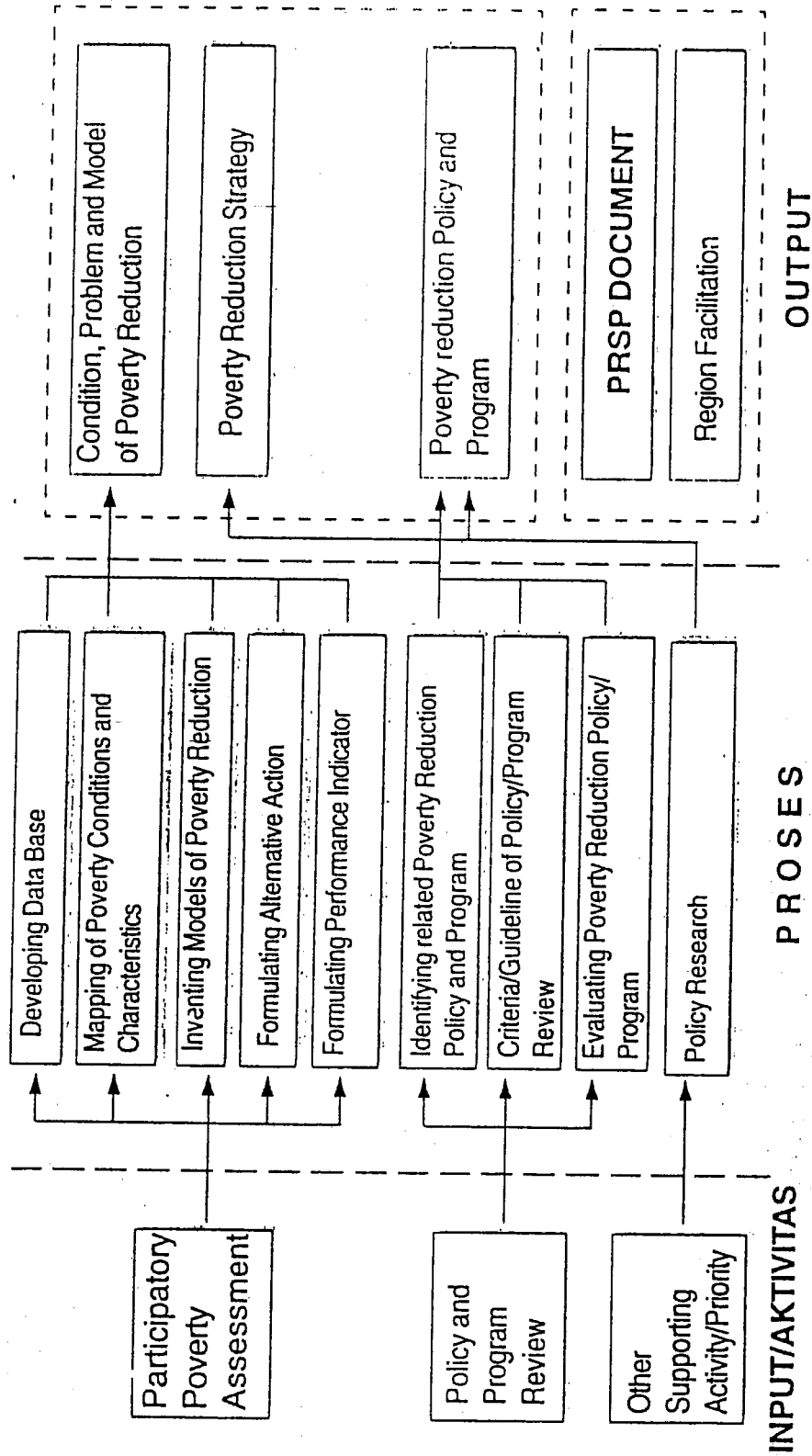
4.2.8 Monitoring on IPRSP and PRSP Processes

Monitoring is a supervised activity on the work of IPRSP and PRSP formulation process. This supervision is subjected to insure the achievement of IPRSP and PRSP goals, to identify any flaws as soon as possible, so that any incorrect process can be fixed immediately by, if needed, modifying the substance and structure of PRSP.

Data and information source for supervision can be retrieved from development records,, coordination meeting records, survey results, or combination of the three.

Supervision should be done by the government, private sectors, and communities based on principles as follows: objective, transparent, partisipatory, accountable, punctual, sustainable, and in accordance with the work indicator/criteria.

Picture 4.1.
STEPS OF STRATEGY FORMULATION



Tabel 4.1
SCHEDULE OF PRSP FORMULATION

	2002	2003	2004
I. PRSP Formulation			
II. LOCAL PRSP FORMULATION			
a. Formulating Local PRSP Outlines			
b. Facilitating the Regions to Formulate Local PRSP			
III. PARTICIPATORY POVERTY ASSESSMENT (PPA)			
a. Identifying Poverty Problems and Strategies to Handle Them			
b. Formulating Alternative Actions			
c. Formulating Performance Indicators			
IV. POLICY AND PROGRAM REVIEW			
a. Policy and Program Identification			
b. Criteria and Guideline Development			
c. Poverty Reduction Policy and Program Evaluation			
V. POLICY AND PROGRAM FORMULATION			
a. Strategy Formulation			
b. Macro and Micro Policy Formulation			
c. Poverty Reduction Program Formulation			
d. Mainstreaming Poverty Reduction in All Sectors and Regions			
VI. IMPLEMENTING OTHER PRIORITY			
a. Establishing MONEY System			
b. Assessing Social, Economic and Political Regulations			
c. Capacity Building for Local Governance			
d. Optimizing Local Public Service			
VII. DOCUMENTING PRSP			
a. Draft PRSP Formulation			
b. Inter-Actor Consultation at Local Level			
c. Regional Consultation			
d. National Workshops			
e. Finalizing PRSP			
f. Publication			
VIII. Monitoring the Process of IPRSP and PRSP			

CHAPTER V
CONCLUSION

CHAPTER V CONCLUSION

As inscribed in Law 22, 2000 on National Development Program, government has assertively stated that poverty reduction is the ultimate priority. Poverty Reduction Strategy Paper formulated in this context consists of (i) description of the past poverty reduction strategy and the need of the formulation of new long-term and comprehensive poverty reduction, (ii) efforts in the mainstreaming of the poverty reduction policies to synchronize macro, micro, strategic and operational policies, and (iii) activity phases to prepare the formulation of PRSP document, starting from the local community.

The key strategies of poverty reduction are: (i) creating opportunities (creating job and business opportunity for the poor), (ii) community empowerment (to empower the poor so that they can attain their economic, social, and political rights; can be in control for decisions that concerns their needs; can express their aspiration; can identify their own problems and needs), (iii) capacity building (to improve capacity or ability to fight for their needs), (iv) social protection/safety (to provide social protection of the poor). Basic principles of these strategies are: equality, justice, participation, democracy, market mechanism, legal order, mutual trust and sense of security.

To get various policies, programs, and regulations synergized with previous four strategies, there has to be mainstreaming policy to improve the effectiveness of poverty reduction in a sustainable way. In this context, there are many steps to accomplish, namely, participatory poverty assessment, policy and program review, policy and program formulation, facilitating the regions in formulating poverty reduction strategy at local level, and undertaking other priority activities.

It is hoped then that Interim Poverty Reduction Strategy paper can be an initial of an effective and efficient long-term poverty alleviation strategy. The system is therefore sustainable and supported by all stakeholders at both local and national level.

Synchronized social movement is another key word to ensure a comprehensive poverty reduction. It is understood that, from now on, every government institution from the central to regions, business sectors, NGOs, academics, research centers, professionals, organizations, mass medias, community organizations, political parties, and other components in the nation, has to be encouraged to commit collectively to alleviate poverty in a comprehensive system