INDONESIA POVERTY ASSESSMENT

PATHWAYS TOWARDS ECONOMIC SECURITY

LOOKING FORWARD
A more ambitious poverty reduction strategy to reach high-income status

Extreme poverty is basically eliminated.

Policies can now focus on the poor more broadly defined and the economically insecure.
Pathways towards Economic Security

1. Creating better opportunities
2. Protecting against poverty
3. Financing pro-poor investments

Towards economic security

COVID-19
Global uncertainties
Climate Change

Improving future policies through better evidence
Work is often not enough to escape poverty and reach economic security.

Almost 90 percent of the poor are working.

Often in low-value-add-services (urban) and agriculture (rural).

Both sectors have low productivity, limiting incomes.

A third of poor households have one single male earner.
(1) Better opportunities

- Enable the private sector to create more and higher-productivity opportunities
  - Using cities as engines for growth
  - Improved competitiveness policies
  - Equip workers with the right skills

- Improve agricultural productivity
  - Better extension services and market access
  - Less market-distorting subsidies
  - Reduce food import restrictions

- Increase female labor market participation
  - Improve affordability and quality of childcare

Better opportunities increase household incomes.
More frequent and severe shocks will threaten poverty reduction.

The number of natural disasters is increasing.

The current global uncertainties can create additional shocks.

Many households lack instruments to mitigate the impact of shocks.
(2) Better protection against poverty

- Improve social protection
  - Scale-up social assistance
  - Expand coverage of social insurance

- Improve (digital) financial inclusion
  - Roll-out digital IDs
  - Make digital payment systems fully interoperable

- Invest in shock-resilient infrastructure
  - Improve resilience of housing and transportation
  - Adopt climate-smart agricultural approaches
Government revenues are limited.
Transfers and subsidies reduce poverty, but subsidies cost four times more.

![Graph showing efficiency of transfers and subsidies in reducing poverty.](image)

![Graph showing concentration of spending across deciles.](image)
(3) More pro-poor investments

- Increase Government revenues
  - Remove VAT exemptions
  - Increase taxes on alcohol and sugary beverages
  - Increase taxes on carbon

- Reduce inefficient subsidies
  - Remove energy subsidies
  - Reduce agricultural subsidies

- Increase sub-national administrative capacity
  - Better align sub-national resources with needs
  - Improve technical and administrative capacity

More financing for pro-poor investments.
Pathways Towards Economic Security

Towards economic security

COVID-19
- Creating better opportunities
  - Enable high-productivity and low-carbon sectors
  - Make urban areas engines of growth
  - Increase agricultural productivity
  - Improve affordability and quality of childcare

Global uncertainties
- Protecting against poverty
  - Better and more agile social assistance
  - Social insurance covering all workers
  - Increase financial inclusion
  - Infrastructure investments to create resilience

Climate Change
- Financing pro-poor investments
  - Re-examine the use of VAT exceptions
  - Increase taxes on alcohol, tobacco, sugar and carbon
  - Remove energy and agricultural subsidies
  - Improve sub-national administrative capacity

Improving future policies
- Enable data use
- Improve availability and quality of (sub-national) statistics
- Better understand Indonesia’s structural transformation and informality