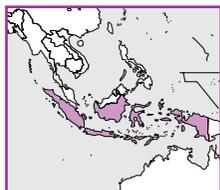


## More is needed



The global financial crisis has placed an additional burden on Indonesia, which was already facing problems such as a large foreign debt, corruption and macroeconomic policies that have failed to take concrete action towards poverty elimination. The severest effects have been felt by workers, since companies lay off their employees as a first option to save their assets. Civil society insists that the Government must take strategic steps to integrate poverty elimination into the national budget.

### Social Watch Indonesia

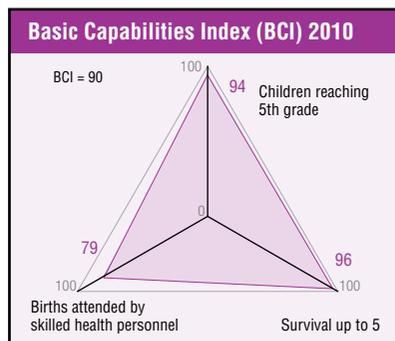
M. Firdaus (ASPPUK)  
Wahyu Susilo (INFID)  
Nani Zulminarni (PEKKA)

Although Indonesia performed better than its neighbours during the global recession, the country is still suffering from the impacts of the financial crisis that shook the world economy in the middle of 2008. Also, despite the fact that the Central Bank estimated growth of 5.6% for 2010 and as much as 6.5% for 2011, the announcement of several policy decisions seem to reflect the Government's anxiety. These decisions, aimed at giving some security to economic actors and investors, failed to have this impact and instead created uncertainty regarding the national economy.

One reason that the country outperformed its neighbours is that it is less reliant on exports. Nevertheless, many sectors – such as rubber and palm plantations, the wood and furniture industries, mining, manufacturing (especially textiles and garments), the automotive industry, electronics and crafts – were severely hit. The SMERU Research Institute, which registered the different levels of impact in 2009, has noted that the crisis hit the hardest among people with the lowest income.<sup>1</sup> Instability in the labour market led to a reduction in wage levels and an increase in informal jobs. Women have suffered more than men from income declines or job losses – for instance, many women have already lost their employment in the handicraft and furniture industries in Lombok Barat and Jepara. Things could become much worse if the garment industry collapses since most its workers are women.<sup>2</sup>

### An additional obstacle to poverty elimination

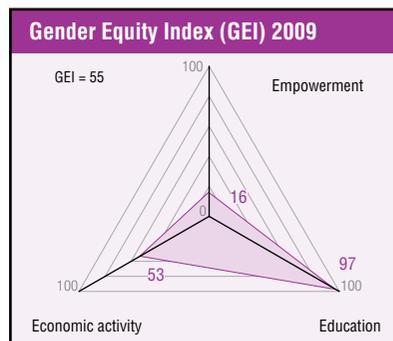
Before the global crisis hit the Government had increased its poverty elimination budget from Rp 51 trillion (USD 5.5 billion) in 2007 to Rp 58 trillion (USD 6.3 billion) in 2009.<sup>3</sup> Unfortunately, the level of results does not match the size of the budget: poverty was reduced by less than 2%.



The percentage of people living below the poverty line (out of the total of some 230 million inhabitants) has been fluctuating: 15.97% in 2005, 17.75% in 2006, 16.58% in 2007, 15% in 2008 and 14.5% in 2009.<sup>4</sup>

The Government goals for reducing the poverty rate were 9.5% in 2005, 8.9% in 2006, 7.9% in 2007 and 6.6% in 2008.<sup>5</sup> The initial goal of 8.2% in 2009 was subsequently adjusted to 12%-14% but the real poverty rate was still higher.<sup>6</sup> Poverty elimination programs in many government institutions at the national and local level will not be able to resolve the problem of poverty without bureaucratic reform and more political will.

At the same time, the effects of the global crisis make the reduction of poverty more difficult since Indonesia is facing such problems as a large foreign debt, corruption and a lack of consistency between macroeconomic policy on the one hand, and concrete actions to reduce poverty on the other. In August 2009, Bank Indonesia reported that the country's foreign debt had reached USD 165 billion.<sup>7</sup> Budget statistics issued by the Ministry of Finance show that the budget for foreign debt payments is bigger than the budget for the education or health sectors: USD 10.4 billion was allocated for foreign debt payment and interest in 2009 while only USD



9 billion was allocated for education and USD 1.7 billion for health.<sup>8</sup>

### Impact on workers

A number of recent controversies regarding Government favouritism are reminders that in times of crisis it is the workers rather than the powerful who pay the costs. The corporations insist in laying off their workers in order to save their assets, with the support of the Government's policy.<sup>9</sup> In addition to 250,000 jobs lost since September 2008, the International Labor Organization predicted that 170,000 Indonesian workers were laid off in 2009 as a result of the global financial crisis. The unemployment rate in Indonesia last year was estimated to be more than 8% and rising.<sup>10</sup>

For example, special treatment was given to Bumi Resources, the largest mining company in Indonesia, when the company's share price fell dramatically and many voices in the Government insisted on stepping in to save it. Its major shareholder is PT Bakrie & Brothers Tbk, a corporation chaired by Aburizal Bakrie, who is also the chairman of the Golkar party (part of the ruling coalition).

The financial crisis is also a threat to Indonesian migrant workers since it has caused their countries of residence to employ more local workers. The Indonesian Labor Union Confederation warned that some 300,000 migrant workers were expected to return to Indonesia by the end of 2009 after being

1 SMERU, "Monitoring the Socioeconomic Impact of the Global Financial Crisis in Indonesia." Available from: <www.smeru.or.id/crisismonitoring\_reportintro.php?id=4>.

2 *Ibid.*

3 Dian Kuswandini, "Fixing poverty: In numbers we trust?", The Jakarta Post, 27 December 2008.

4 National Development Planning Institute, *Indonesia MDGs Report 2009*, Jakarta.

5 *Tempo*, 26 October 2008.

6 Dian Kuswandini, *op. cit.*

7 Wahyu Susilo, "5 years to Millennium Development Goals deadline", GCAP-SENCA, 29 October 2009. Available from: <www.gcap-senca.net/index.php?option=com\_content&task=view&id=208&Itemid=1>.

8 *Ibid.*

9 Ames Gross and Andrew Connor, "Indonesia in the Global Financial Crisis: What HR Managers Need to Know", Pacific Bridge, March 2009. Available from: <www.pacificbridge.com/publication.asp?id=127>.

10 *Ibid.*

laid-off in host countries such as South Korea and Malaysia.<sup>11</sup>

The Government wrongly expected that remittances sent from abroad by migrant workers would provide an alternative source of revenue during the crisis. Some analysts and policy makers even argued that the Government should seek to increase the number of those earning overseas so that remittances could help reduce volatility in the Indonesian rupiah.<sup>12</sup> Indonesia expected remittances from its overseas workers to rise to around USD 10 billion in 2010.<sup>13</sup>

### The MDGs in Indonesia

Recently, the National Development Planning Institute recognized that Indonesia would not achieve the Millennium Development Goals (MDGs) by 2015, especially those related to maternal mortality rates, HIV and the environment.<sup>14</sup> According to UNDP – Indonesia:<sup>15</sup>

- More than 35 million people or 15.4% of the population live below the national poverty line.
- The proportion of the population with sustainable access to clean water and sanitation has not increased significantly.
- More than 30% of people in urban areas and 50% in rural areas do not have access to piped drinking water.

- Indonesia's maternal mortality rate of 307 per 100,000 remains one of the highest in South-east Asia.
- HIV and AIDS infections are accelerating sharply across the country, with Papua and high-risk urban areas of particular concern.
- Approximately 95% of children enrol in primary school but only 81% continue to secondary school.
- Between 1997 and 2000 Indonesia lost 3.5 million hectares of forest annually.

### Tackling poverty: more efforts needed

Besides the increase in budgeting and fiscal stimulus, the Government has taken some steps in order to reduce poverty including Law 40 2004 regarding the National Social Security System.<sup>16</sup> This law aims to provide social security for all citizens, not just those who are registered as poor in the National Statistics Office. It establishes five national social security programs covering health insurance, work accident insurance, old age pensions, pension insurance and life insurance. The law calls for a mechanism to be set up to collect funds from compulsory contributions to ensure that all citizens are able to provide for their minimum basic life needs, including access to health care. However, the Government has only applied one regulation, concerning the procedures

and organization of the Social Insurance Committee, while other important aspects – such as establishing the Social Insurance Administration Office to implement the law – were ignored. Thus, the old insurance system is still working as usual.

Poverty has been reduced very slowly and without leading to improvements in human development in 2009 and 2010. In the 2009 UNDP Human Development Report,<sup>17</sup> Indonesia is considered a country with several problems and a decreasing quality of life for its population. Its ranking in the Human Development Index has slipped from 107 in 2005 to 111 in 2009, worse than the Philippines (105) and Palestine (110).

The Government must take strategic steps to tackle this situation. First, it must integrate poverty elimination into the national budget, supporting the efforts of civil society organizations and avoiding overlapping and ineffective programs. Second, Government reforms must include the eradication of corruption and the establishment of good governance. The existence of a strategic plan for debt reduction and efforts to avoid new indebtedness are fundamental to facilitating sustainable development. ■

11 Hera Diani, "Future Looks Bleak for Laid-Off Indonesian Workers", *The Irrawaddy*, 19 November 2009. Available from: <[www.irrawaddy.org/article.php?art\\_id=17254](http://www.irrawaddy.org/article.php?art_id=17254)>.

12 Reuters, "Indonesian Migrant Workers Expected to Send More Money Home in 2010," *The Jakarta Globe*, 30 October 2009.

13 *Ibid.*

14 "RI to miss MDGs target", *The Jakarta Post*, 20 April 2010.

15 See: <[www.undp.or.id/mdg/](http://www.undp.or.id/mdg/)>.

16 Available from: <[www.sjsn.menkokesra.go.id/dokumen/publikasi/buku\\_reformasi\\_sjsn\\_eng.pdf](http://www.sjsn.menkokesra.go.id/dokumen/publikasi/buku_reformasi_sjsn_eng.pdf)>.

17 UNDP, *Human Development Report*, New York, 2009. Available from: <[www.hdr.undp.org/en/reports/global/hdr2009/](http://www.hdr.undp.org/en/reports/global/hdr2009/)>.