



# ANALYSIS OF POVERTY: Case Study - Indonesia

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# TOPICS


- I. Introduction
- II. Economic Growth, Poverty Incidence and Unemployment in Indonesia
- III. What Happens With Indonesian Agriculture?
- IV. Making The New Indonesia Work for The Poor



# I. INTRODUCTION



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1. A poverty profile describes the pattern of poverty, but is not principally concerned with explaining its causes.
  2. A satisfactory explanation of why some people are poor is essential if we are to be able to tackle the roots of poverty.
  3. There is no one cause or determinant of poverty. Combination of several complex factors contribute to poverty.
  4. Poverty may be due to national, sector-specific, community, household or individual characteristics.



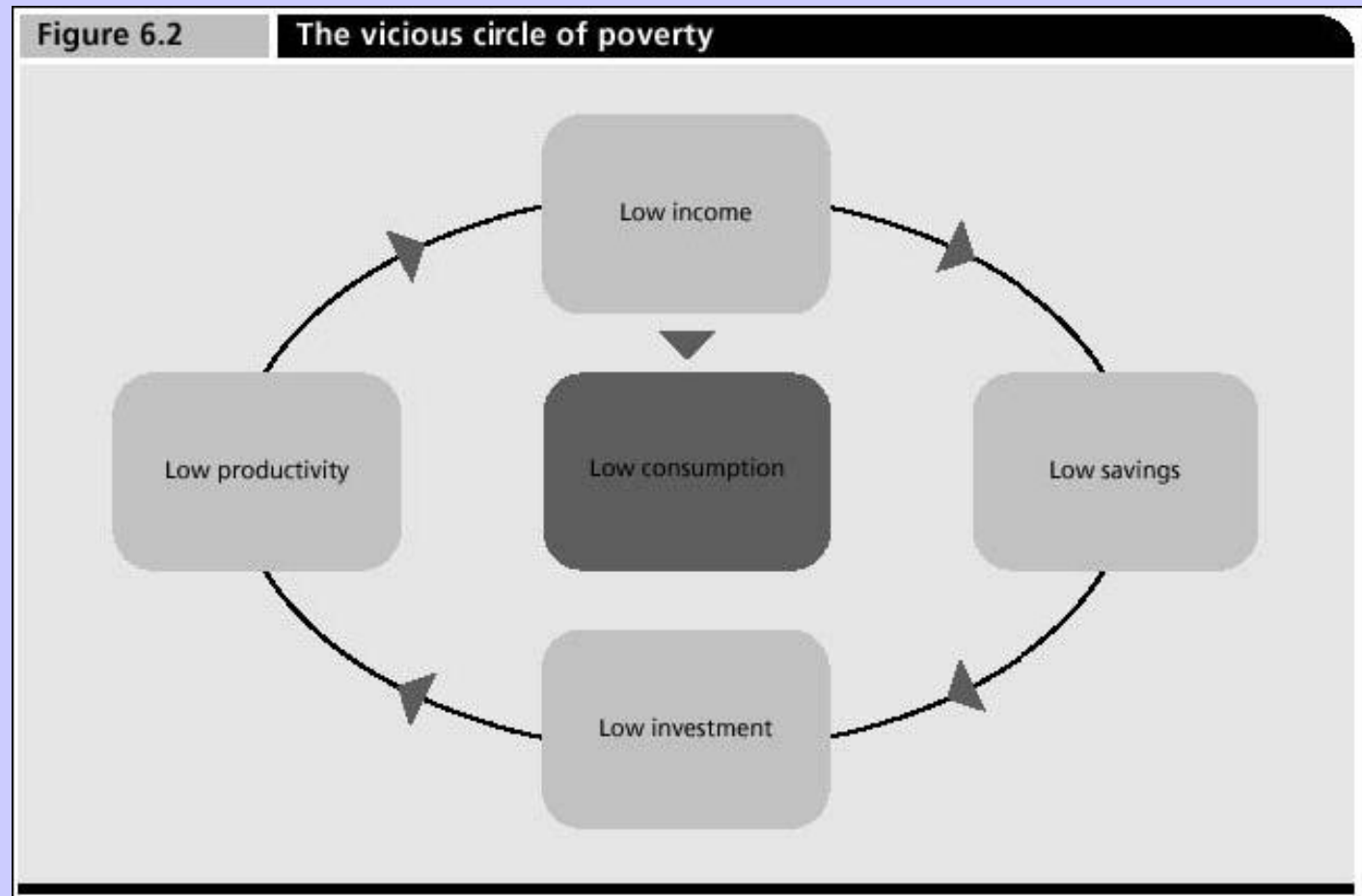
5. Among the key causes, or at least correlates, of poverty are:

- a. **Regional-level characteristics:** vulnerability to flooding or typhoons; remoteness; quality of governance
- b. **Community level characteristics:** the availability of infrastructure (roads, water, electricity) and services (health, education), proximity to markets, and social relationships.
- c. **Household and individual characteristics:**
  - **Demographic:** household size, age structure, dependency ratio, gender of head.
  - **Economic:** employment status, hours worked, property owned
  - **Social:** health and nutritional status, education, shelter.

## 6. Two cautions:

- a. **It can be difficult to separate causation from correlation** → poor people tend to have low levels of education. Are they poor because they have little education, or do they have little education because they are poor? A statistical association alone is not enough to establish causality, additional information is required.
- b. Regression techniques are good at identifying the immediate (“proximate”) causes of poverty, but are less successful at finding the “deep” causes

# 7. The Vicious Circle of Poverty



- The very poor have to spend all of their income on basic necessities (food, shelter) and have none left over for saving.

- With no saving, people cannot acquire human capital or other forms of durable wealth such as tools, housing, or financial assets.
- Low capital implies low productivity which in turn leads to low incomes-circle closed.



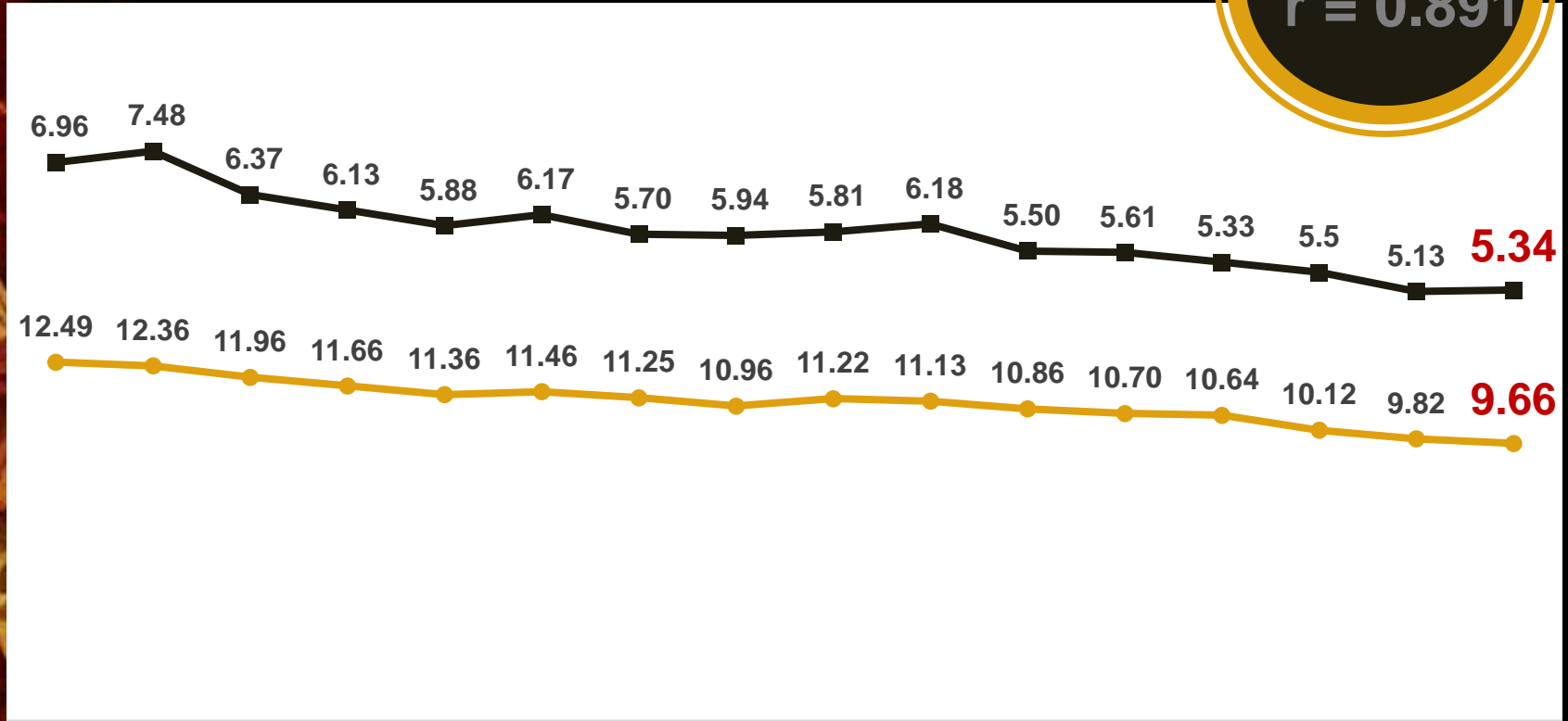


## II. Economic Growth, Poverty Incidence and Unemployment in Indonesia



# Percentage of Poor Household and Open Unemployment Rate (2011-2018)

$r = 0.891$

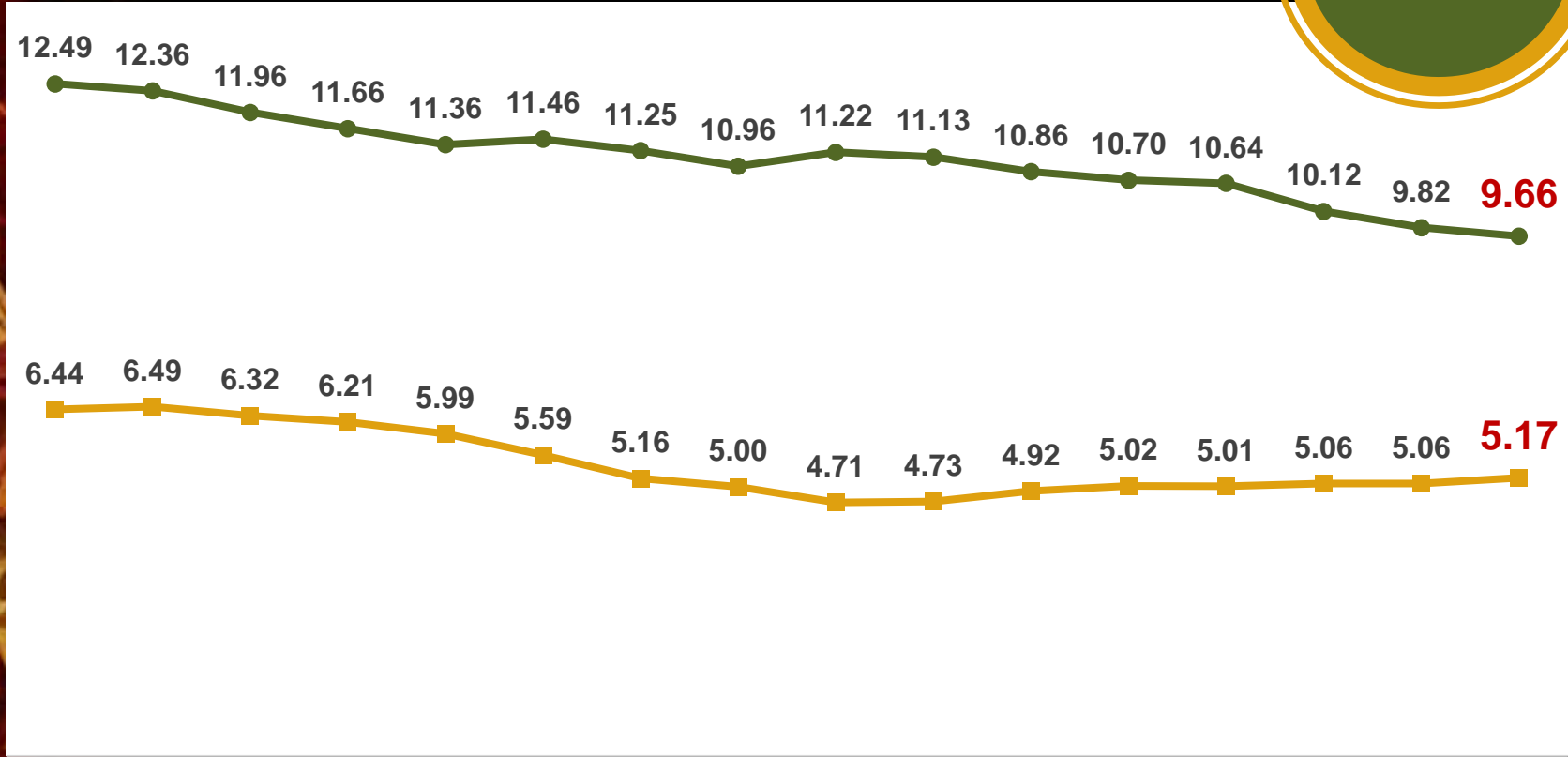


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■ Open Unemployment Rate      ● Percentage of Poor Household

# Percentage of Poor Household and Economic Growth (2011-2018)

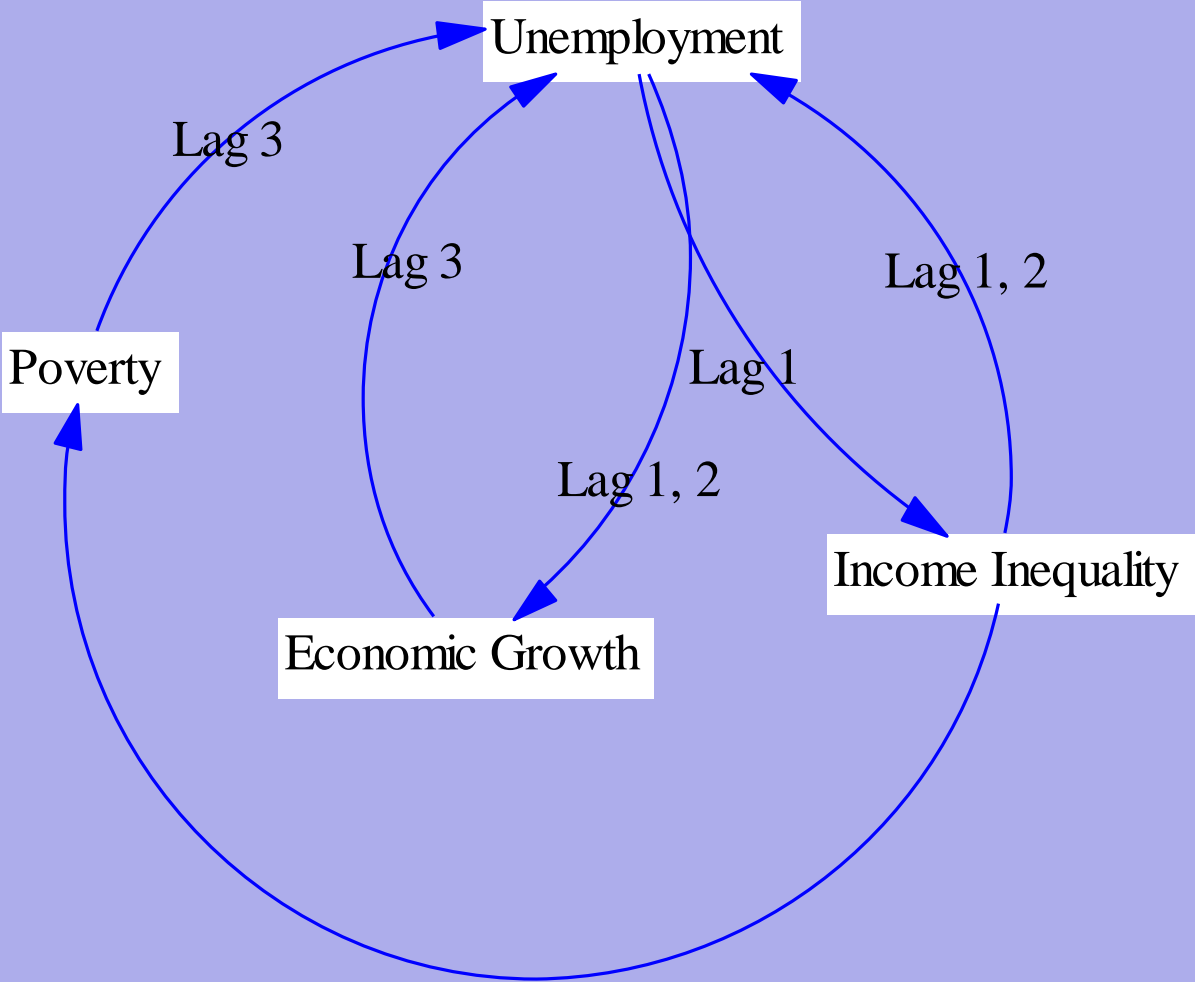
$r = 0.739$



2011 (Mar) 2011 (Sept) 2012 (Mar) 2012 (Sept) 2013 (Mar) 2013 (Sept) 2014 (Mar) 2014 (Sept) 2015 (Mar) 2015 (Sept) 2016 (Mar) 2016 (Sept) 2017 (Mar) 2017 (Sept) 2018 (Mar) 2018 (Sept)

—●— Percentage of Poor Household    —■— Economic Growth (YoY)

# Granger causality between economic growth, poverty, unemployment and income inequality





# Analyzing the determinants of poverty:

## Regression techniques

Model:

$$\text{Log } P0_{it} = \beta_0 + \beta_1 * \text{Log}(PDRBHK_{it}) + \beta_2 * \text{Log}(Gini_{it}) + \\ \beta_3 * \text{Log}(TPT_{it}) + \beta_4 * \text{Log}(IHKM_{it}) + \beta_5 * \text{Log}(RNM_{it}) + e$$

- $P0$  = percentage poor people (Head Count Index)
- $PDRBHK$  =  $GDRP$  per province.
- Gini = gini ratio
- $TPT$  = unemployment rate
- $IHKM$  = Food CPI
- $RNM$  = non food ratio
- $\beta$  are the coefficients that are to be estimated.

# Results of Regression Analysis (panel data):

<i>Independent Variable</i>	Log(Poverty)		
	With Gini And Unemployment	Without Unemply.	Without Gini
(1)	(2)	(3)	(4)
Constant	<b>4,730<sup>***</sup></b> (4,761)	<b>4,958<sup>***</sup></b> (4,962)	<b>4,370<sup>***</sup></b> (4,373)
Log(GDRP)	<b>-0,103</b> (-1,476)	<b>-0,109</b> (-1,555)	<b>-0,078</b> (-1,113)
Log(Gini)	<b>0,003</b> (0,044)	<b>0,009</b> (0,149)	
Log(Unemployment)	<b>0,071<sup>**</sup></b> (2,215)		<b>0,073<sup>**</sup></b> (2,339)
Log(CPI Food)	<b>0,012</b> (0,298)	<b>0,002</b> (0,041)	<b>0,004</b> (0,092)
Log(Non Food Ratio)	<b>-0,171<sup>***</sup></b> (-3,026)	<b>-0,146<sup>**</sup></b> (-2,588)	<b>-0,169<sup>***</sup></b> (-3,217)
R-Squared	0,9894	0,9890	0,9895
Adjusted R-Squared	0,9891	0,9887	0,9892

\* Indicate the significant level at 10%.

\*\* Idem., 5%.

\*\*\* Idem., 1%.