Outline

I. Background: Growth, Poverty and Inequality

II. Inclusive Growth

III. Strategies and Policies
I. SOME BACKGROUND:
GROWTH, POVERTY AND INEQUALITY
Indonesia is a huge potential market in Asia

5th Largest emerging market with the best middle class potential
4th Most Populous country in the world
15th Largest economy in the world
±5% Private consumption grows steadily

Indonesia Maintains High and Stable Economic Growth

High & stable economic growth

Economic Growth of Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>5.0</td>
</tr>
<tr>
<td>2015</td>
<td>4.9</td>
</tr>
<tr>
<td>2016</td>
<td>5.0</td>
</tr>
<tr>
<td>2017</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Progressive infrastructure development

4th Indonesia is projected to be the largest economy in the world by 2050

Source: World in 2050, PWC

Source: BPS, Team Analysis
The Poverty rate has reached single digit in 2018

- Although the rate of poverty rate has been declining, the absolute number of the vulnerable is significant. They are prone to back again to be poor in a chance of any risk such as sick, loss job, food price inflation, natural disaster, and economic crisis.
Poverty is higher in rural areas and Eastern Indonesia

Sumber: BPS, Maret 2018
Several causes of the slow decline in poverty and inequality

% People in the village who can access financial sevices

The 10% majority of the lowest welfare level only reaches informal financial services

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
<th>Rural-D1</th>
<th>Rural-D10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>38.98</td>
<td>28.57</td>
<td>20.71</td>
<td>19.28</td>
</tr>
<tr>
<td>2014</td>
<td>45.66</td>
<td>45.35</td>
<td>20.79</td>
<td>24.81</td>
</tr>
</tbody>
</table>

Need to Improve telecommunications networks

13 of 34 provinces have bad telecommunications signals in rural areas (below average)

Distribution of land holding

The majority of land is controlled by residents with the highest level of welfare of 20%

<table>
<thead>
<tr>
<th>Land holding (ha)</th>
<th>Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>6</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Natural Disaster</th>
<th>Number of Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood</td>
<td>15,745</td>
</tr>
<tr>
<td>Landslide</td>
<td>7,330</td>
</tr>
<tr>
<td>Typhoon/cyclone</td>
<td>6,716</td>
</tr>
<tr>
<td>Drought</td>
<td>4,591</td>
</tr>
<tr>
<td>Earthquake</td>
<td>3,379</td>
</tr>
<tr>
<td>Tide</td>
<td>1,373</td>
</tr>
<tr>
<td>Flash flood</td>
<td>1,366</td>
</tr>
<tr>
<td>Forest fire</td>
<td>1,136</td>
</tr>
<tr>
<td>Volcanic eruption</td>
<td>414</td>
</tr>
<tr>
<td>Tsunami</td>
<td>12</td>
</tr>
</tbody>
</table>
The Gini ratio has slowly decreased. The decline in the national was caused mainly by the decline in the urban area. Gini ratio in the rural area has increased by 0.004 Gini Points in 2018.

Source: BPS 2014-2018
Main Driving Factors of Inequality in Indonesia

Employment Inequality
(the less skilled are trapped in jobs with low productivity and wages)

Lack of social safety nets when shocks occur
(illness, job loss, price increases, natural disasters)

Inequality of access to basic services
(e.g. education, health, house, clean water, sanitation, and electricity)

Inequality of Income and Assets
(high concentration of wealth in a small group of people)
II. INCLUSIVE GROWTH
 Poverty Reduction, Equity, and Inclusive Growth

Anti poverty programs

- Increased Purchasing Power
  - Multiplier effects
  - Increased Domestic Demand
    - More job opportunity
      - Higher & sustained Growth
        - Reduced Poverty
          - Reduced Inequality
            - Political stability

- Good Health
- Better education
- Better nutrition

- Higher Productivity & competitiveness
  - Increased Domestic Demand

Source: Rook, 2014
Inclusive Economic Development for Indonesia

Economic development that provides equitable access and opportunities to all segments of society, improves welfare and reduces disparities between groups and regions.

PILLAR I: Economic Growth

Sub-Pillar:
1. Economic Growth
2. Employment Opportunity
3. Infrastructure in Economy

PILLAR II: Income Equality and Poverty Reduction

Sub-Pillar:
1. Inequality
2. Poverty

PILLAR III: Improving Access and Opportunity

Sub-Pillar:
1. Human Capability
2. Basic Infrastructure
3. Financial Inclusion

DATA

Each Province in Indonesia from 2015-2017 (34 PROVINCES)

TOTAL INDICATOR

21
Inclusive Economic Development Index at National Level in 2011-2017

**Pillar 1:** Economic Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>4.82</td>
<td>4.90</td>
<td>4.97</td>
<td>4.99</td>
<td>5.08</td>
<td>5.14</td>
<td>5.17</td>
</tr>
</tbody>
</table>

**Pillar 2:** Income Equality and Poverty Reduction

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>6.24</td>
<td>6.15</td>
<td>6.17</td>
<td>6.26</td>
<td>6.36</td>
<td>6.44</td>
<td>6.64</td>
</tr>
</tbody>
</table>

**Pillar 3:** Improving Access and Opportunity

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>3.75</td>
<td>3.89</td>
<td>4.35</td>
<td>4.56</td>
<td>4.77</td>
<td>5.05</td>
<td>5.05</td>
</tr>
</tbody>
</table>

• Note: In general, a score of 1–3 is mentioned as unsatisfactory progress, a score of 4–7 as satisfactory progress, and a score of 8–10 as excellent progress.
Bali is the 4th most inclusive province in Indonesia (2017)

What makes Bali unique?
- Tourism as an engine of growth
- Cultural attraction is the backbone of tourism
- Balinese culture is mainstreamed in all aspects of life
- High concern on affirmative policies for the poor

What makes Bali vulnerable
**Internal shocks:**
- Disasters surround the island and in the island (ex: Mt. Agung eruption)
- Security issues (Bali Bombing)

**External shocks:**
- Global economic crisis
- Travel warning as a result of disaster and security situation → Number and spending of tourists decline → Economy is weakening

What should be done?
- Based on this vulnerability assessment, Bali should have growth strategy that mitigate risk of tourism sector
- Revitalize agriculture sector to back up the tourism sector
- Agricultural products must be encouraged to be further processed so that medium and small industries grow and advance
III. STRATEGIES & POLICIES
Strategies For Reducing Poverty, Vulnerability & Inequality In National Medium-term Development Plan (RPJMN) 2015-2019

3 MAIN STRATEGIES

1. Comprehensive Social Protection System
   - Social Security: Health and employment Insurance
   - Social Assistance: Smart Indonesia Card (KIP), Health Indonesia Card (KIS), Family Welfare Card (KKS) for food voucher and Conditional Cash Transfer, and Assistance for Children, Elderly, Disability, and indigenous people

2. Basic Services Development
   - Improved Access and Quality of Basic Services for the 40% lowest income households: civil registration, education, health, housing, water, sanitation, and electricity

3. Sustainable Livelihoods
   - Productive Economic Community Empowerment
   - Access to credits and micro insurance
   - Vocational trainings
   - Facilitation and partnership
Significant subsidy reduction (from 3.4% to 0.8% PDB) between 2015 and 2018 has been allocated for SP:
- Premium of National Health Insurance for the poor.
- Social Assistance Programs has been scaled up.

In 2018, significant budget goes to infrastructure and economic investment.

Fuel subsidy allocation decreased significantly in 2015.

The subsidy allocation was transferred for the village fund and regional transfers to reduce inequality.

Subsidy Reform has continued to ensure:
- Right targeting
- Fiscal sustainability
- Energy diversification
THE ROLE OF ZAKAT & WAQF: Reducing poverty and inequality

ZAKAT

The potential of zakat in 2015:
286 Trillion Rp

- Moderating the social gap
- Generating the people’s economy
- Encouraging the emergence of a breakthrough model in poverty alleviation;
- Developing funding sources outside the national and regional budget for the welfare development of people

Source: Indonesia Zakat Outlook (2018)

WAQF

- Supporting real sector development
- Improving social services
- Enhancing social welfare
- Significant in supporting sustainable national development

Only 66 percent of waqf land in Indonesia is certified

Source: Indonesian Waqf Board
**THE ROLE OF ZAKAT & WAQF: Reducing poverty and inequality**

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**ZAKAT**

**Micro Hydro Power Plant (PLTMH) in Jambi**
Zakat has supported the construction of Micro Hydro Power Plant (PLTMH) to provide electricity for a total of 806 households from 4 villages, benefiting approximately 8,000 people.

**EMPOWERED VILLAGE PROGRAM**
Empowered Villages based on Zakat Infaq Sadaqah have been established and located in 1056 Desa Berdaya. The number of beneficiaries in 2017 reached almost 2 million people.

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**WAQF**

**ISLAMIC HOSPITAL OF MALANG**
Productive waqf land for VIP rooms. This was a pilot project on productive waqf from grants provided by the Ministry of Religious Affairs. In less than 7 years, the VIP building has reached BEP (break event point).

**TOWER 165**
Tower 165 in Jakarta is a commercial building built over mortmain properties under waqf.

**AGRICULTURE**
1550 Jabon trees was planted on a waqf land of 2.5 ha in Bogor, Indonesia. The value of the harvest that flows its benefits reaches 750 million rupiah per 6 years.
The zakat distribution needs to be continuously improved...

National Collection and Distribution of ZIS in 2014 – 2017 (Billion Rp)

Source: Indonesia Zakat Outlook

The absorption rate is increasing, and it is considered as “quite effective” in terms of the absorption of zakat funds used.

National Allocation of ZIS in 2016

2016

2017

Source: Indonesia Zakat Outlook (2018)
By 2016, the largest proportion of zakat disbursements was distributed in the education sector, which amounted to nearly 843 billion rupiahs.

By 2016, the number of waqf land in Indonesia reached 4.4 billion m², spread over in 435.768 locations throughout Indonesia....

Source: Indonesia Zakat Outlook (2018)

Source: Indonesian Waqf Board
Further Improvement on Inclusive Development

Strengthening aspire middle income group through:
- Easiness to get business licenses
- Strengthening micro and small enterprises as well as empowering cooperatives
- Enhancing labor expertise and skill certification

Enhancing Village Fund to the lowest economic group:
- Development of basic infrastructures through cash for works programs
- Improvement of basic services
- Local economic development

Developing growth centers outside Java Island through:
- Strengthening infrastructure to connect between economic centers and supporting areas
- Strengthening local product development and supply chain products for export

The utilization of information technology to:
- Extend the outreach and better public basic services
- Stimulation of innovation and creative ideas that can be enjoyed by all levels of society
THANK YOU