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Indonesia Development Forum 2017

## **Fighting Inequality for Better Growth**

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# Seeing the unseen: For whom is the growth?\*



# *Seeing the unseen: For whom is the growth?\**

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\* Excerpt from the study titled  
“Alternative Narrative to Rural Development in Indonesia”  
(Kemitraan, 2017)

# Key message/Recommendation/Imagine

In the future,

- Development (i.e. effort to grow the economy) in Indonesia is implemented with full inclusion of community's economic right into business sector development by ensuring participation of community's assets in the ownership structure
- When planning the growth of the economy, the officials are fully aware of whose income is being grown by showing the numbers
- When inviting investment, national and sub-national government ensures that it does not cause displacement/marginalization of communities, and environmental degradation

***Imagine, what would have been the level of community's welfare in Kalimantan had the indigenous people of Kalimantan were directly entitled to the benefits of forest exploitation since it's start in 1967***

## Although rich in natural resources, Indonesia still faces poverty and inequality problems ...

- At more than USD 4,200/capita income:
  - Poverty rate: 27 of 260 million people +
  - Gini Index 0.40 (WB, 2016);
  - 1% population own 50% total wealth (Credit Suisse, 2016) -
  - Gini Index for Wealth = 0.83 (Credit suisse, 2013) **and growing**
  - Gini Land Assets = 0.72 (ESCAP, 2003) **and growing**
- In the past poverty alleviation program has limited focus on subsidies (rice, fertilizer, fuel, electricity, gas, education, health)
- High economic growth tended to ignore the portrait of inequality, and its root cause in inequality of access to productive assets, especially land



## With half population and two-fifths of labor still depend on rural agriculture,

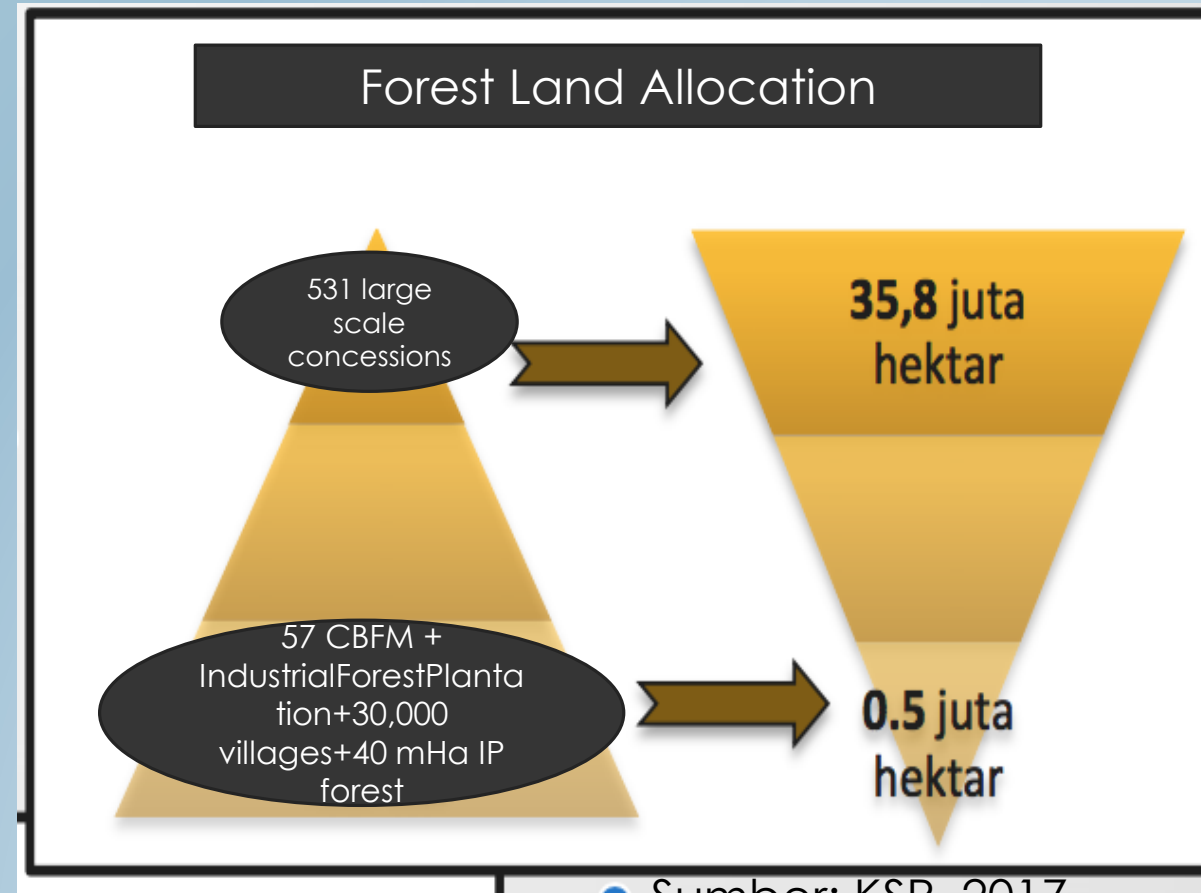
- **The increased inequality of land ownership** induced by granting of and use licenses to corporation are not correlated positively with reduction of poverty and inequality
- Wealth distribution is a strong determinant for the change in structural welfare distribution and poverty alleviation
  - Ownership of productive assets influences one's and his/her descendant's income:
    - Ownership of land
    - Access to productive capital (land, financial capital, technology)
    - Access to human capital development (skill)
  - Asset take over infringes upon the opportunity to income improvement, and hence, poverty alleviation, within the current and across generation



# A snapshot on policies land distribution .....

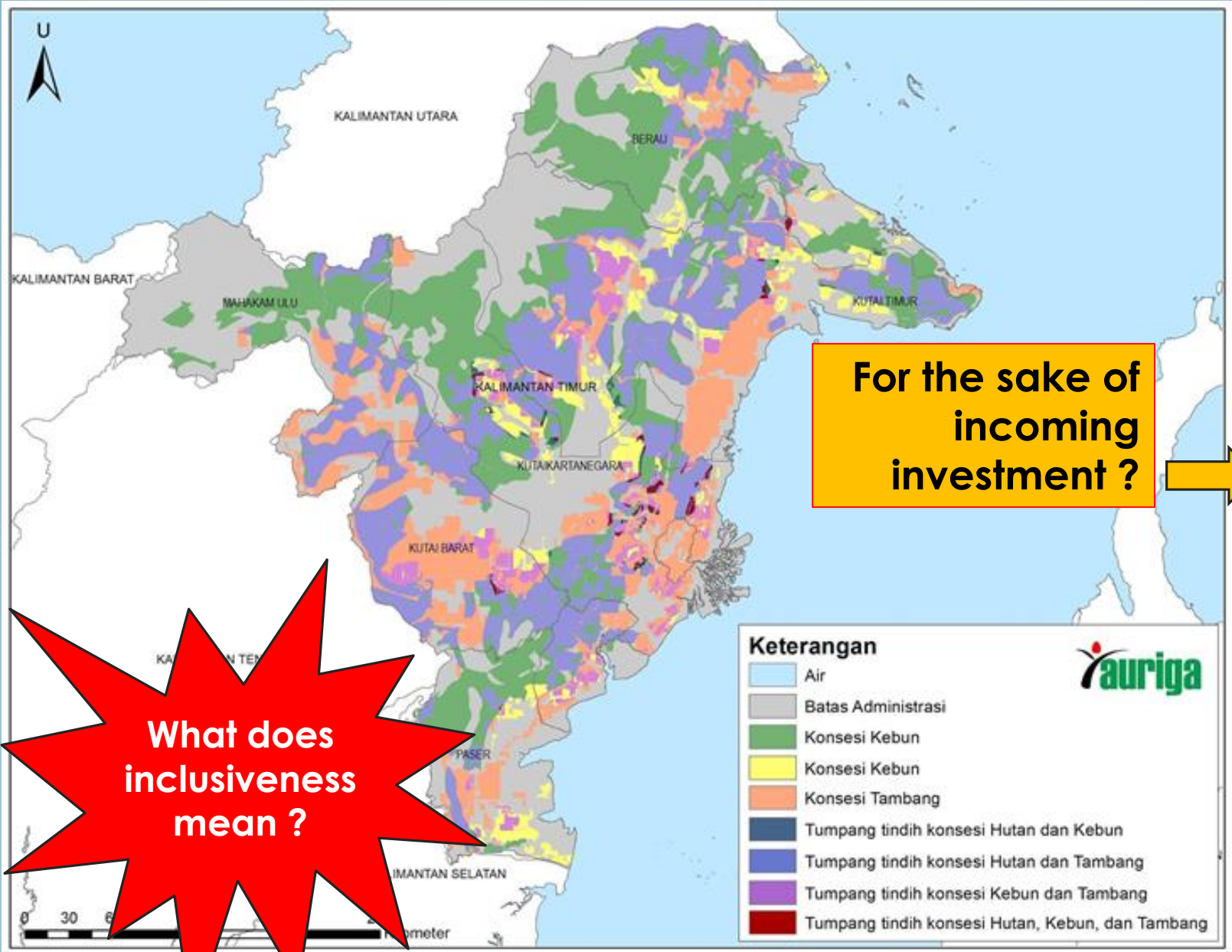
## ► Government policy

- prefers to give large scale land control to corporation
- Minimum support for small and medium farmers to get access to productive land
- Minimum protection for small farmers's land ownership and
- Minimum provision for landless population



— Sumber: KSP, 2017

# East Kalimantan Province is perhaps the most problematic



## Large scale land concessions

Konsesi	Luas [Ha]	Proporsi dari Luas Administrasi
Hutan	5.717.062	43,11 %
Kebun	931.307	7,02%
Tambang	5.132.340	38,70%
Total Luas Konsesi	11,780,709	

**89% of land is given to large corporations**



# And the results are .....

Items	KalTim
(i) PDRB/kapita/ <b>bulan</b>	Rp. 12,4 juta
(ii) Expenditure/kapita/ <b>bulan</b>	Rp. 1,3
(iii) Avg labor income/ <b>bulan</b>	Rp. 1,2
(iv) = (ii)/(i)	10.4 %
(v) = (iii)/(i)	9.7 %

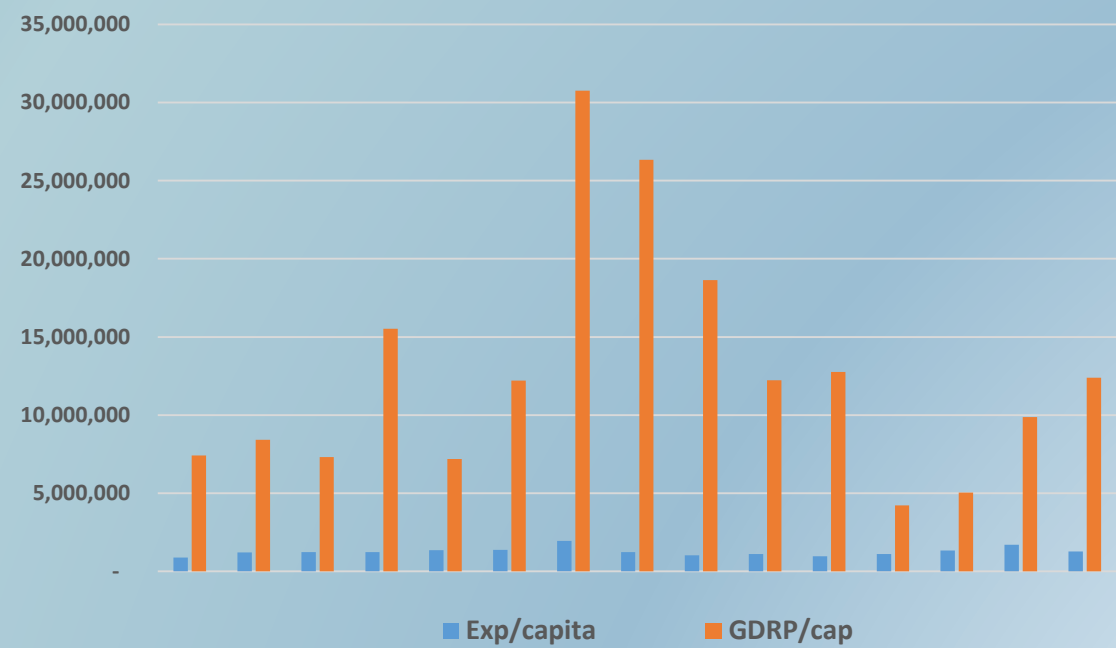
Sumber: Diaolah dari data PDRB dan Susenas BPS

Kabupaten/Kota	Index Gini Pendapatan Rata-rata Tenaga Kerja	Index Gini Pengeluaran perkapita Rumah Tangga
Kab. Paser	0.4050	0.3188
Kab. Kutai Barat	0.4579	0.2934
Kab. Kutai Kartanegara	0.4231	0.3493
Kab. Kutai Timur	0.4427	0.3410
Kab. Berau	0.4261	0.3445
Kab. Penajam Paser Utara	0.4283	0.3520
Kab. Mahakam Hulu		
Kota Balikpapan	0.4602	0.3730
Kota Samarinda	0.3775	0.3257
Kota Bontang	0.4741	0.4104
Kaltim	0.45078	0.3643

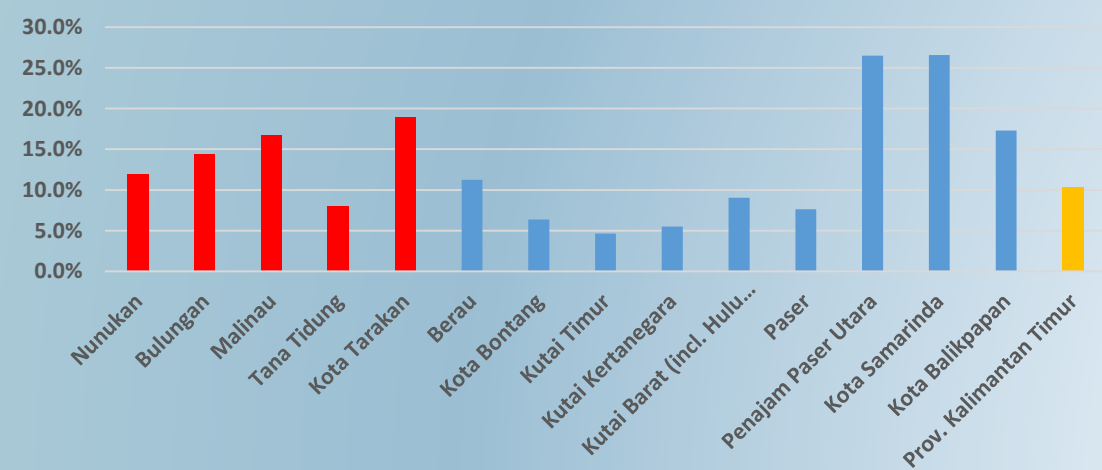
- Despite high economic growth (7-9% in 2002-2016) poverty alleviation has been very slow in KalTim
- Claim that oil palm development help reduce poverty in rural areas of KalTim is false because poverty reduction happened mostly in urban areas

Indicative  
Gini Index for Wealth  
~ 0.9

# That is because most incomes generated in KalTim are taken away...

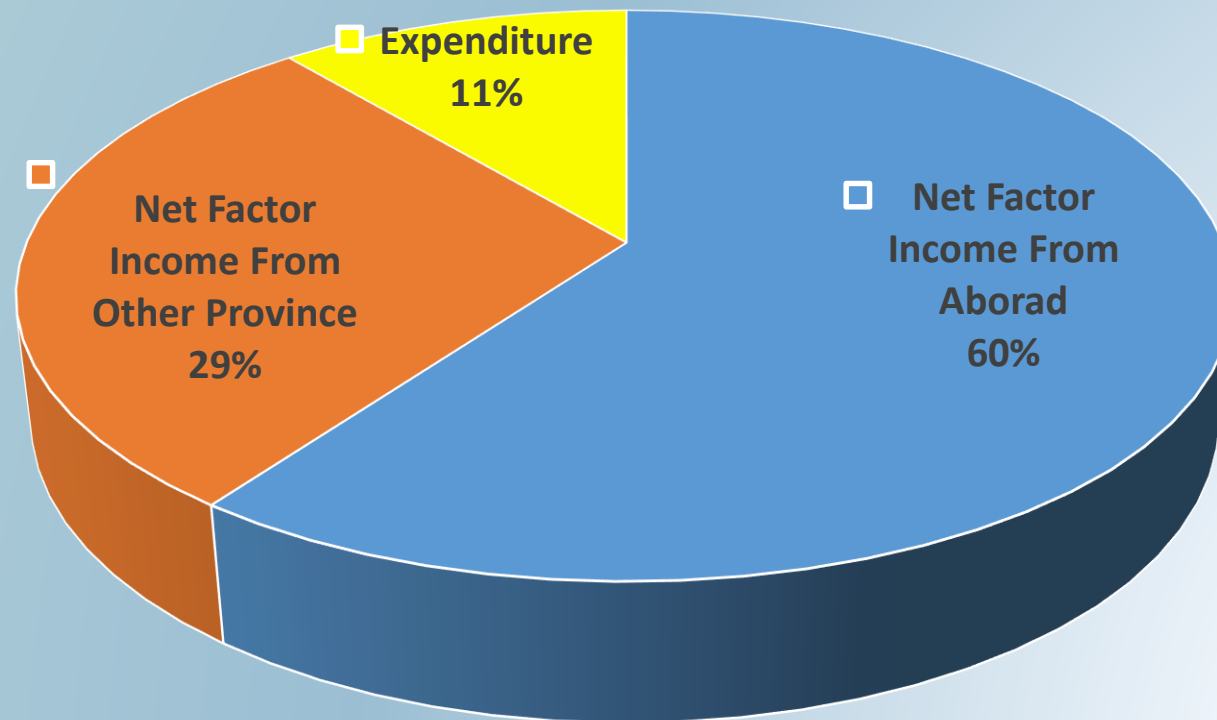


Percentage of expenditure/cap in GDRP/cap



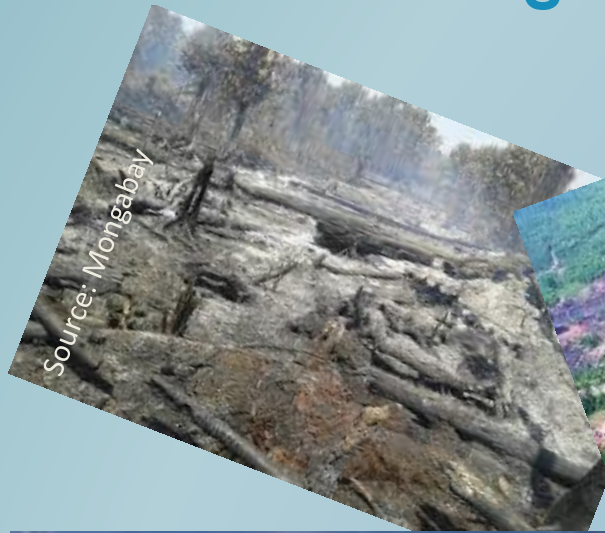
# As validated by a macro study on KalTim Economy

Gross Domestic Regional Products/Capita, 2012 (RP. 90 juta)



Source: BPS Data

# Are the investors bringing home these destructions along with their NFIs?



Would Rp. 10 million/capita enough to repair these ?

Are we not creating growth immiserizing effect ?

**Who pays for that externalities (kemudoratan yg ditimbulkannya) ?**

**Is the development fair and sustainable?**



# To conclude: So, what do we need for better growth ?

## ➤ Institutionalize transparent measures of inclusiveness and sustainability

- E.g. : GNP vs GDP (to know whose income are we growing); Natural capita and ecosystem accounting; # of land conflicts, community shares in company ownership, number of people displaced, etc.
- A growth planning tool needs to have measures on impacts of assets redistribution impacts of growth (Gini Index is an ex-post measure, not an ex-ante planning tool)

## ➤ Affirmative policy:

### ➤ Stop all forms of displacement/marginalization

- Participation (inclusiveness) for land owners should mean BEING INCLUDED IN THE OWNERSHIP STRUCTURE OF LAND-BASED BUSINESSES

### ➤ Protect community rights before entertaining investors

### ➤ Agrarian Reform (under preparation)

## ➤ Implement overall land governance reform

- Land information system, Tenure system, Licensing system, Landscape management system, Incentives system