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Asset-based Policy in Indonesia: Pilot Study & Emerging Opportunities

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Summary

The Center for Social Development (CSD) at Washington University in St. Louis has collaborated with the Indonesian Ministry of Social Welfare and researchers from the State Islamic University (UIN) to design a major asset-based poverty alleviation pilot project in Indonesia. The government has committed significant resources to this five-year study, which forms a major part of the welfare rethinking in the Indonesian Department of Social Welfare's current five-year plan (2006-2010). This pilot study will operate in impoverished localities in parallel with Indonesia's successful micro-finance program (Cooperative Micro Businesses, or KUBE program).

Discussion of asset building has grown steadily in Indonesian government circles since the idea was introduced by CSD at a conference on poverty alleviation held in Jakarta in March 2005. At CSD's latest series of presentations in Indonesia and ensuing meetings in March 2006, the Indonesian Minister of Social Welfare, Mr. H. Bachtiar Chamsyah, expressed the government's high interest in studying asset-based policy to

explore its future expansion. A set of meetings are currently being planned at which asset-based policy will be presented to Indonesia's President.

These discussions are supported by a growing body of Bahasa-language publications on asset building, including a translated version of Michael Sherraden's book, *Assets and the Poor*, and articles from Indonesian domestic policy experts.

Plans

The Indonesian Ministry of Social Welfare is operating a major pilot study on poverty alleviation through asset-building beginning in April 2006. The policy tool, analogous to Individual Development Accounts (IDAs), is called DAPIs in Bahasa Indonesian (Dana Abadi Pengembangan Individu, literally translated as "fund for everlasting individual development"). The Center for Social Development (CSD) supported and assisted in including DAPIs in the Ministry's current five-year plan (2006-2010). With a total budget of IDR 5.2 billion (US\$550,000), the pilot project is expected to support 665 individual



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accounts for saving for micro enterprises, 660 for saving for education, and 660 for housing (either repair or new purchase). Several localities in four provinces have been identified for pilot studies, and DAPIs will be developed in collaboration with the KUBE program and micro-finance institutions that assist KUBE.

Michael Sherraden and Li Zou of CSD assisted the Indonesian Ministry of Social Welfare in the development of this legislation, and traveled to Indonesia in March 2006 to assist the Ministry in design and implementation of the pilot project. CSD staff may return to Indonesia later in 2006 for an international conference, and are exploring pathways to expand the pilot project.

Meetings, workshops, conferences. Li Zou of CSD introduced asset-based policy in Jakarta in March 2005 at an international conference entitled “From Democratic Consolidation to Social Development: Mainstreaming Social Development in the Indonesian Welfare System”, which was co-sponsored by the State Islamic University (UIN) and CSD. The day after CSD’s presentation, a daylong workshop entitled “Asset Building Approach for Poverty Alleviation” was offered at UIN to explore the possibility of asset-based development in Indonesia. Dr. Hari Hikmat from the Directorate of Poverty Alleviation of the Indonesian Ministry of Social Welfare presented details of existing microfinance schemes in Indonesia. Zou presented CSD’s research and policy tools developed through the American Dream Demonstration (ADD) and facilitated discussion on applying this experience to social development in Indonesia.

This meeting and workshop kicked off a productive year for asset-based policy in Indonesia. CSD returned to Indonesia in March 2006, under the sponsorship of UIN, the Indonesian Ministry of Religious Affairs, and the Canadian International Development Agency; Sherraden delivered a keynote lecture entitled *Asset for the poor: New perspectives for poverty alleviation in Indonesia*. A workshop entitled *Asset Building Pilot Study Program Design* was organized at UIN to plan operational details of this pilot study. Dr.

Hari Hikmat, Dr. Mu’man Nuryana, Senior Chief Research, their colleagues from the Indonesian Ministry of Social Welfare, and scholars from UIN engaged Sherraden and Zou in discussions regarding roles of government, financial institutions, and research institutions for the pilot study.

Discussions

These meetings added to the growing discussion of asset building within the Indonesian government. Government officials—including Mr. H. Bachatiar Chamsyah, Minister of Social Welfare; Dr. Gunawan Sumodiningrat, Director General of Social Empowerment; and Dr. Makmur Sunusi, Director of Child Welfare Services from the Indonesian Ministry of Social Welfare—are interested in this innovative pathway to poverty alleviation.

While the idea of asset building has been embraced enthusiastically by some, others are skeptical. Appropriate questions were raised about whether saving incentives offered to the poor are simply another subsidy that may discourage the Indonesian poor from working hard. In this regard, asset-based policy may be different in that it benefits those who work hard and contribute to their own development. DAPIs provide a mechanism for investment in families and communities that may contribute to Indonesia’s social and economic development.

Context

(1) A fundamental context of this demonstration, research, and policy development is the severe poverty in some remote islands of Indonesia. Transportation is a major barrier for distribution of any form of policy, and many people live on natural resources. Moreover, financial institutions do not reach all of Indonesia. (2) Another context is uneven development, with economic growth in urban areas (mainly on the island of Java), and continuing poverty in rural areas in most other islands. (3) A third important factor is the relatively recent ousting of a corrupt dictatorship in favor of a democratically elected government. For democracy to take hold and for the government to retain legitimacy, it will be important to make progress in living conditions

and create trust and hope among impoverished Indonesians.

Role of research

CSD's key contributions have been to provide key concepts, examples, and research. Of particular value have been findings from the American Dream Demonstration (ADD), and associated policy implications. Research is required to document the Indonesian pilot study and address key social development questions pertaining to the Indonesian context. For example, the extension of asset-based assistance to isolated island communities with no existing financial institutions will be enormously challenging. Also, culturally appropriate educational and support networks for asset-building programs should be thoughtfully designed and studied.

Publications

A body of scholarship on asset building is emerging in Indonesia. In addition to *Assets and the Poor* (Sherraden, 1991), which was published by Rajawali Pers (Jakarta) in March 2006 in Bahasa Indonesian, several Indonesian scholars are now writing articles in this area.

Funding

For limited general funds, CSD has helped to support initial meetings and part of the 2005 conference. The Indonesian Ministry of Social Welfare, the Indonesian Ministry of Religious Affairs, the Canadian International Development Agency, UIN, the Department of Social Welfare at the University of Indonesia, and Bandung College of Social Welfare have helped to support conferences and workshops.

Most significantly, the Indonesian government has committed over half a million US dollars for IDA pilot projects.

External sources of funding are vital at this point to: (1) enable CSD to continue support of policy design and drafting in Indonesia; (2) develop an effective research program for the upcoming pilot study in the context of the existing KUBE program; and (3) support for a major conference and resulting

publications that can take the discussion to a higher level—this conference will include the President of Indonesia.

Potential

The transparency and accountability inherent to IDAs is attractive in the Indonesian context, in light of difficulties in these areas in previous administrations. IDAs can create a structure for aid that goes directly to households and is fully transparent, avoiding government agencies and middlemen who in the past may have presented problems of mismanagement or corruption.

Caveats, concerns, challenges

(1) The matched saving mechanism of asset building may be viewed by some Indonesian officials as a replacement of—instead of a supplement for—existing programs that subsidize consumption by the poor. This would be a tragedy. In severe poverty, consumption support is essential. Asset building should be a complementary policy that promotes development in addition to basic consumption. (2) Corruption in national and local governments cannot be overlooked. Misuse of funding for poverty aid was not uncommon under previous administrations. Although a new national government is in place, accountability may still be a challenge. (3) The most critical challenge will be reaching the rural poor in some remote islands of Indonesia, a population that has been historically left out of economic development and social benefits.

Continuing collaboration

CSD will continue to work closely with the Indonesian Ministry of Social Welfare and UIN in research and program consultation for the pilot project. CSD staff plan a return to Indonesia, perhaps in late 2006, to participate in an international conference on asset-based policy.

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