



# **ROLE OF INFRASTRUCTURE TO ECONOMIC GROWTH AND POVERTY REDUCTION**

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**NATIONAL SECRETARIAT - COMMITTEE ON POLICY FOR  
ACCELERATION OF INFRASTRUCTURE DEVELOPMENT**

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## The Political Economy of Infrastructure

**But our infrastructure is deteriorating.....**

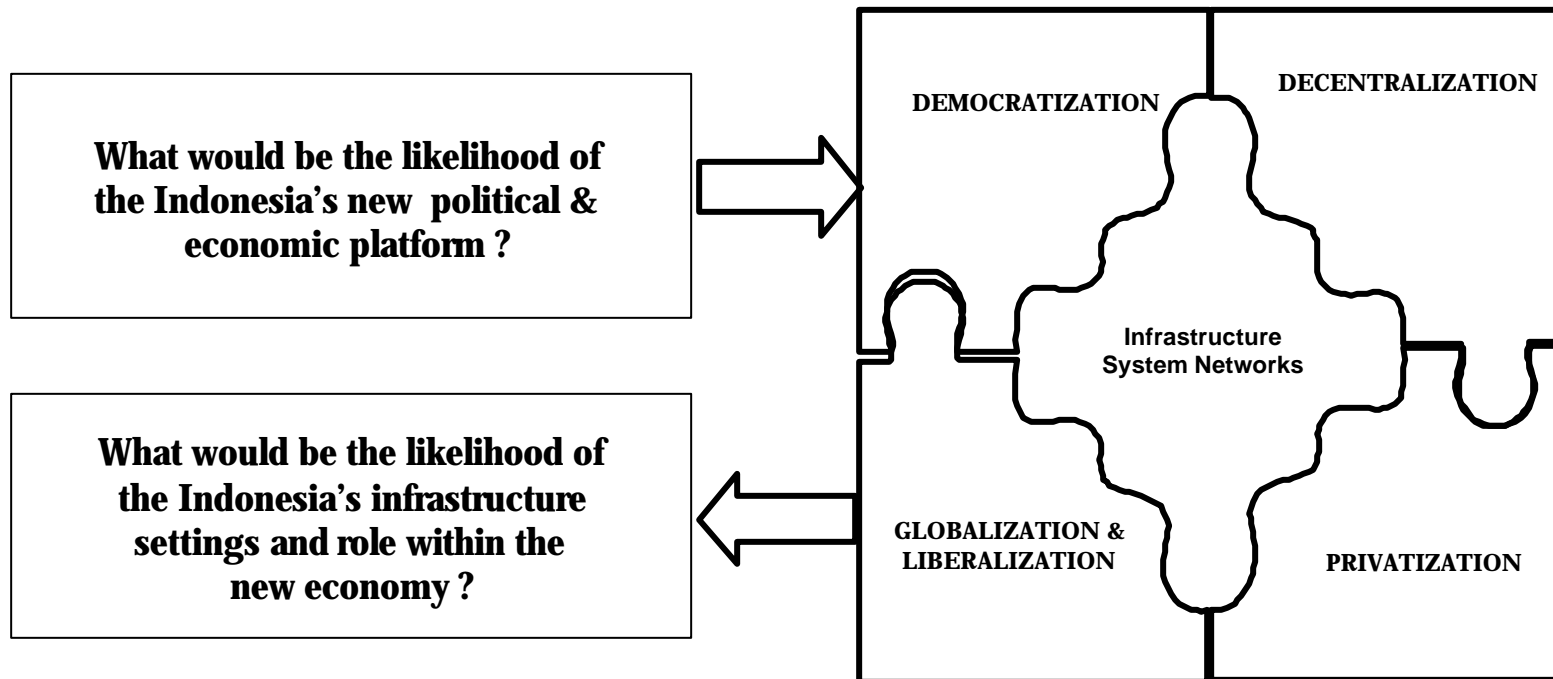
**The political and economic unity of this archipelagic nation is sustained by efficient and reliable infrastructure networks : free communication of thought through digital networks, easy transportation of people and goods, easy access to information, power and clean water, provision of healthy sanitation, and sufficient irrigation networks across the country. Together, the uniting forces of our integrated infrastructure system networks are dynamic elements in the very name we bear : Nusantara. Without them, we would be a mere alliance of many separate islands. (SD, inspired by Eisenhower, 300602)**

- **On top of inefficiency, low quality of civil works, excessive overloading, insufficient maintenance funding, and natural disaster, prolonged economic crisis has aggravated infrastructure condition in such a way that level of service and capacity have declined significantly, resulting in bottlenecks, increased price of commodity, hindered economic mobility, and high cost of the economy.**
- **Backlog maintenance and infrastructure damage has resulted in extremely high costs of users, much higher than investment costs by the government and privates. The social and political costs of infrastructure failure would also be unbearable to the society. This seemingly intangible is often disregarded by decision making process.**
- **Rehabilitation, maintenance, and reconstruction of infrastructure facilities will require extremely high investment costs that cannot be borne by government budget alone.**
- **Due to financial crisis and heavy debt burden, the current condition of State Budget (APBN) will not be able to fully finance basic infrastructure maintenance and rehabilitation, let alone building new facilities.**
- **All those difficulties are occurring in the middle of global movements of the new economy, trade liberalization, privatization, democratization, and decentralization. And yet there is no clear and decisive policies to overcome those challenges.**

# INFRASTRUCTURE ECONOMIC LANDSCAPE

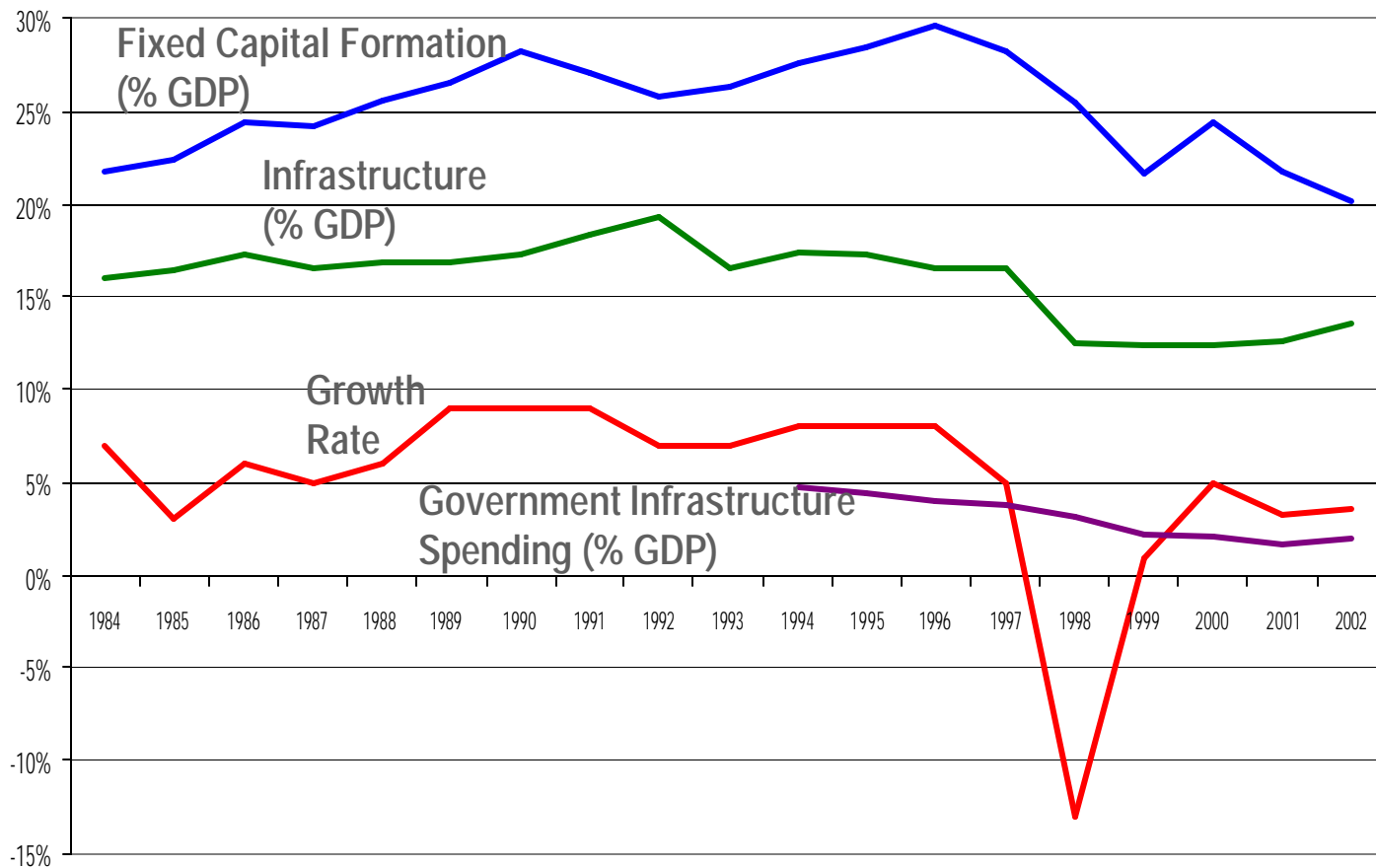
... defined as infrastructure setting and role within the new, future Indonesia's political economic platform

The future Indonesia's Infrastructure Economic Landscape lies at least on four main building blocks and there is a need to incorporate infrastructure into the new economy.....



# Infrastructure is key to growth and has played a critical role in Indonesia's growth

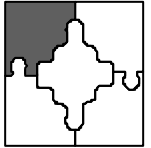
## Growth, Infrastructure, and Investments



# Infrastructure Development in Recent Decades

- Comparatively low growth of infrastructure (Power, telecommunication, Transportation, Water) vs other Asian Countries
- Foremost problem in maintenance, rehabilitation, and upgrade of current infrastructure.
- Increasing private provision, especially in the early 2000s.

# INFRASTRUCTURE: ECONOMIC GROWTH & POVERTY REDUCTION



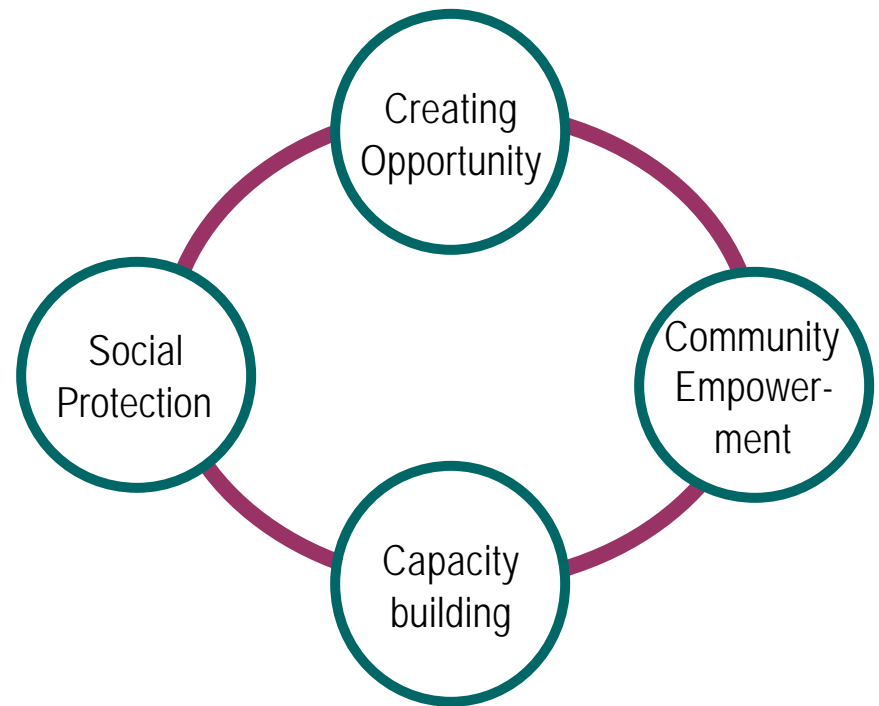
- **Enhancing an economy's potential for long term sustainable growth .**
- **Building up the capacity of the poor to benefit from and contribute to the growth.**
- **Infrastructure raises productivity and thus income levels of the poor by enabling them to share in the growth an dynamism of a market economy.**

# POVERTY REDUCTION AND INFRASTRUCTURE DEVELOPMENT

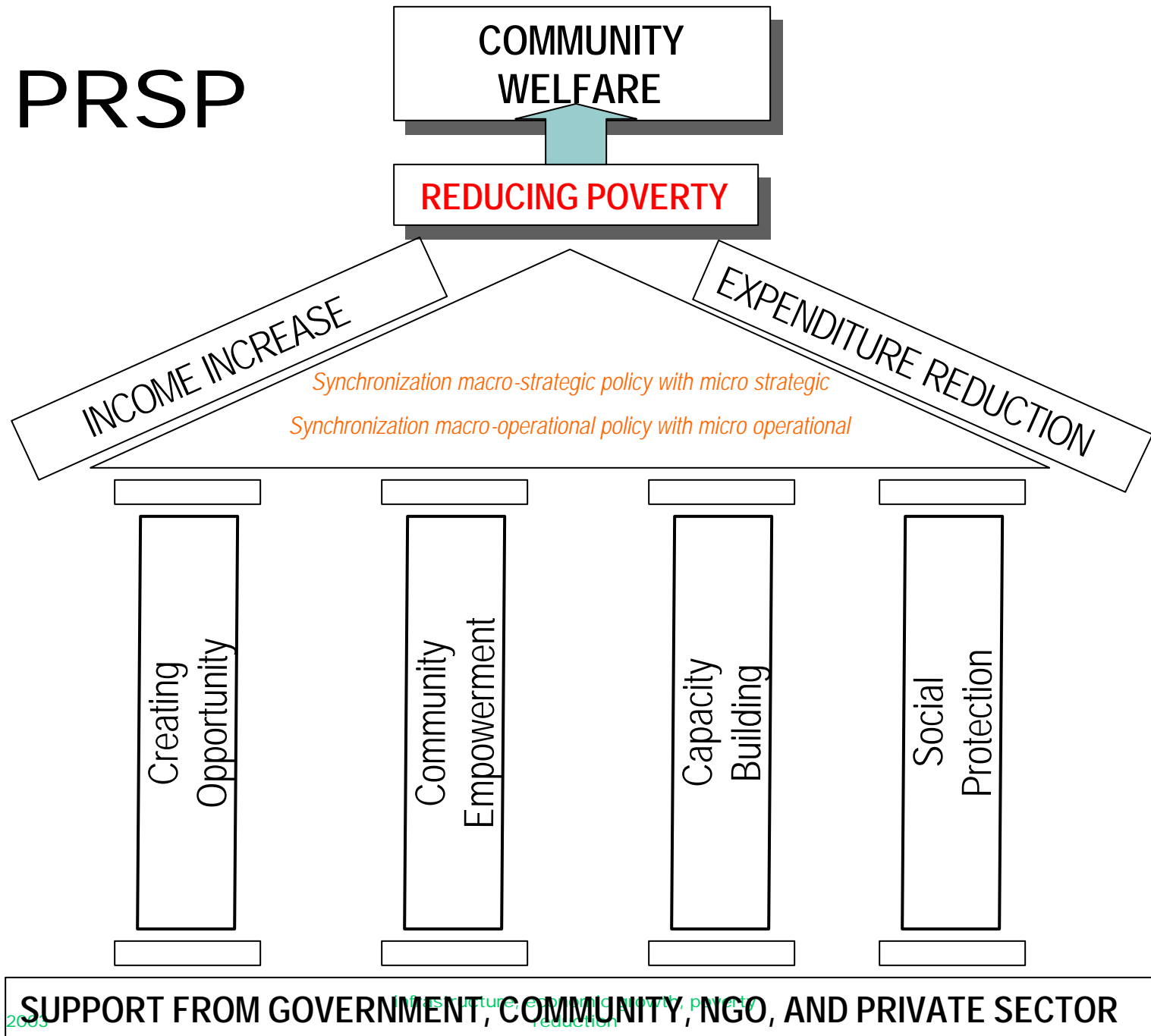
- In 2003, 38.4 million or 18.2% Indonesian live below the poverty line
  - Urban poverty 14.5% and rural poverty 14.5%
  - Java-Bali 57%, Sumatra 21.8%, and others 21.2%
- National Development Agency (1998), estimated that 6 million people – approximately 7% of the total workforce, lost their jobs during the crisis
  - Largest proportion of it (1 million) was from construction industry – with 25% of them was out of jobs
- National Economic Census, estimated a 9% decline in construction sector (an addition to 13% decline in industry sector and 27% in electricity sector)
- Construction sector is an important sector employment absorption (4.69%) and for semi-skilled and unskilled labourers

# POVERTY REDUCTION AND INFRASTRUCTURE DEVELOPMENT

- Indonesia has initiated a major effort in combating poverty by developing a poverty reduction strategy paper (PRSP) – to be used as a reference for pro-poor budgeting and program development
- Focuses on four pillars:
  - Creating opportunity
  - Community empowerment
  - Capacity building
  - Social protection
- Infrastructure development cuts across all four pillars

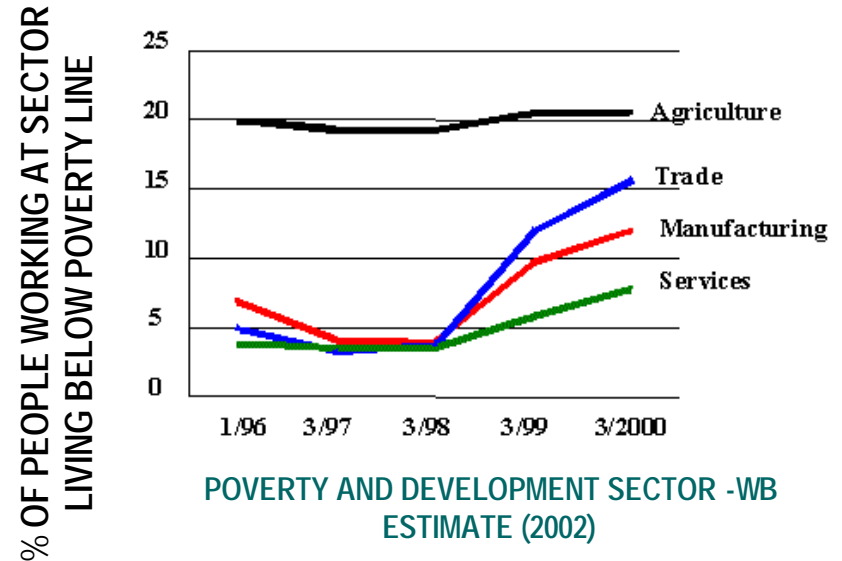


# I - PRSP



# RATIONALE FOR INTERVENTION IN RURAL INFRASTRUCTURE DEVELOPMENT

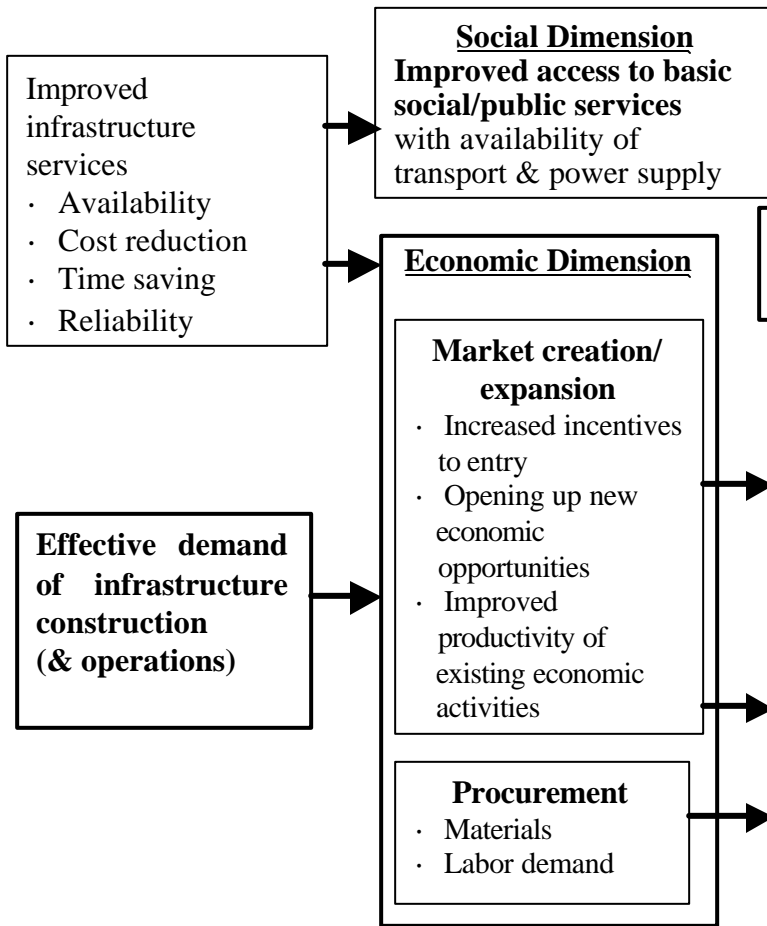
- Rural development is seen as the robust policy against future economic crisis and stable condition
- One of the factors hampering rural economic development is the lack of access to basic, social and economic services.
- Rural infrastructure will facilitate access of rural community to those services
- In the decentralization context:
  - It provides access to opportunities,
  - empowers the community,
  - require capacity building and
  - provide social protection during and after crisis



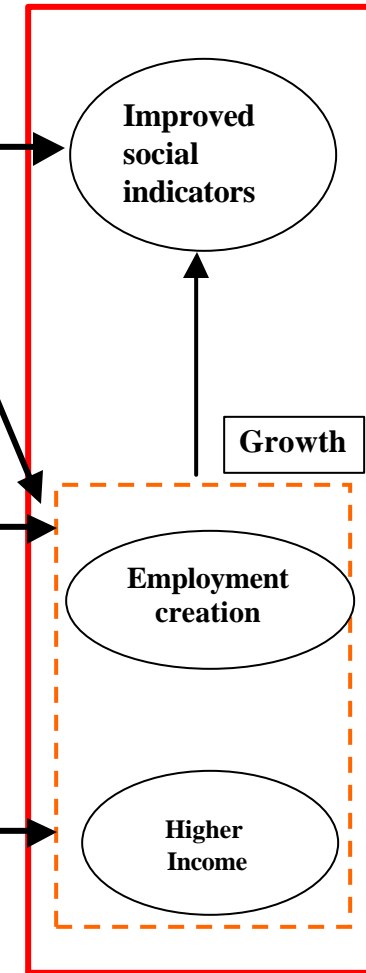
- Central government facilitates:
  - Capacity building – by providing expertise, norms, standards, procedures and manuals
  - Networking and information sharing
  - Rural infrastructure policy development

# Linkages among Large-Scale Infrastructure, Growth, and Poverty Reduction: Hypothetical Illustration

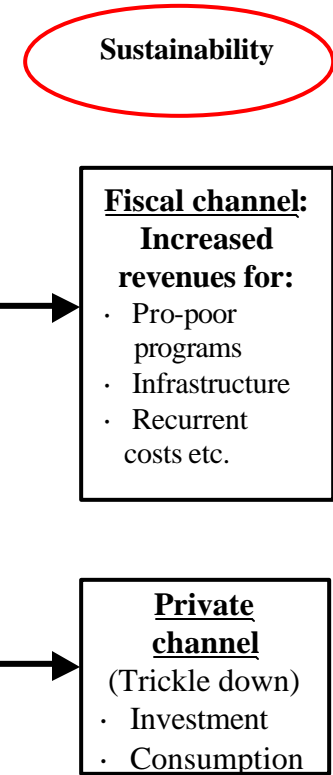
## Infrastructure Development



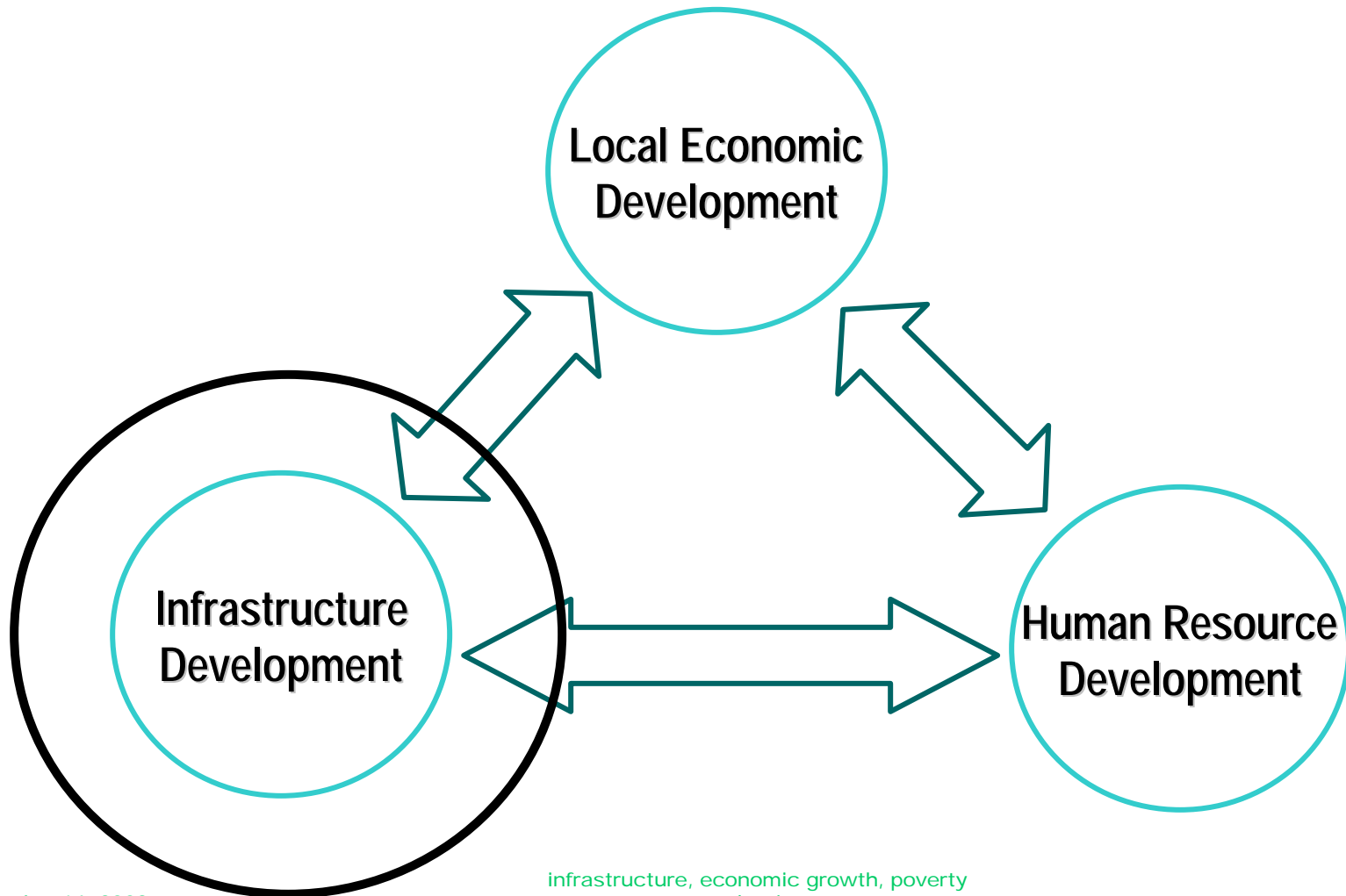
## Poverty Reduction (1st Round Impacts)



## Poverty Reduction (Broader Impacts)



# RURAL INFRASTRUCTURE DEVELOPMENT CONCEPT



# WHAT IS THE GOVERNMENT'S POLICY FRAMEWORK ?

- Support the acceleration of the postponed infrastructure project (Keppres 39/97).
- Adhere to primacy of the private sector in the provision of infrastructure
- Intervene in the direct provision of basic infrastructure, especially in rural areas, in support of the government's poverty alleviation program

# CHALLENGES

- INNOVATIVE AND SENSIBLE APPROACHES TO INFRASTRUCTURE PROVISION ARE NEEDED TO MAXIMIZE THE **STRONG SYNERGIES** IN ENHANCING THE POTENTIAL FOR LONG-TERM SUSTAINABLE GROWTH AND EMPOWERING THE POOR
- A SIGNIFICANT CONTRIBUTION IN HIGHLIGHTING THE **ROLE OF INFRASTRUCTURE** FOR LINKING SUSTAINABLE GROWTH AND POVERTY REDUCTION IN A VIRTUOUS CYCLE.
- THE **ACCESS OF THE POOR** TO INFRASTRUCTURE. SUPPLY OF INFRASTRUCTURE DOES NOT GUARANTEE THAT POOR PEOPLE WOULD BE ABLE TO USE IT.
- PUBLIC EXPENDITURE ON INFRASTRUCTURE WILL BE REGRESSIVE IF THERE WERE MARKET OR NON MARKET CONSTRAINTS ON **THE POOR BENEFITING** FROM SUCH INFRASTRUCTURE
- **PUBLIC-PRIVATE PARTNERSHIPS** IN INFRASTRUCTURE PROVISION AND AN APPROPRIATE REGULATORY ENVIRONMENT SUPPORTIVE OF COMPETITIVE PRESSURES COULD PLAY AN IMPORTANT ROLE IN ENSURING THAT INFRASTRUCTURE IS AFFORDABLE AND OF ACCEPTABLE QUALITY.

# KEY ISSUES TO ADDRESS

1. JOINING UP THE NATIONAL AND LOCAL AGENDAS
  - \* Ensuring local needs incorporated in national plans
  - \* Improving overall network management
2. ACCOUNTABILITY
  - \* Pro-poor reform of institutions
  - \* Improving responsiveness to consumers
  - \* Introducing / improving accountability mechanisms
3. CAPACITY BUILDING
  - \* **For Government** – investment, regulation, working with private sector and civil society
  - \* **For civil society** – empowerment and equity
  - \* **For private sector** – to strengthen local operators working with the poor
4. THE ENVIRONMENT
  - \* Sustainable solutions = sustainable livelihoods for the poor
  - \* Broader impacts must be considered and mitigated

# PRO-POOR GROWTH?

- **Broad consensus on the importance of growth in reducing poverty--but, inconclusive on the range of policy measures to attain pro-poor growth.**
- ***Channels and linkages*--many ways to cut poverty, direct and indirect. Strategy should be geared to each target.**

# THREE CHANNELS OF PRO-POOR GROWTH

## (1) DIRECT CHANNEL (impacting the poor directly)

- Basic health, education, sanitation, rural roads, etc.

## (2) MARKET CHANNEL (growth helps poor via economic linkages, or "*trickle down*")

- Inter-sectoral and inter-regional labor migration
- Increasing demand ( proto-industrialization, multiplier effect)
- Reinvestment (formal, informal and internal financing), etc.

(contd.)

**(3) POLICY CHANNEL** (supplementing the market channel and guiding the development process toward greater equality)

- Taxes, subsidies
- Fiscal transfer, public investment, infrastructure
- Micro and SME credit and other financial measures
- Proper design of trade and investment policies
- Pro-poor legal framework, etc.

# PRO-POOR INFRASTRUCTURE?

- Basic infrastructure: direct contribution to poverty reduction through the **direct channel**.
- Large-scale infrastructure:
  - Contributing to growth and poverty reduction through the **policy channel**.
  - Serving as a pre-condition for realizing the **market channel**.

# ANALYTICAL FRAMEWORK: DISTINCT FEATURES

## The impacts of large-scale infrastructure:

- Broader and complex (beyond the project site) -- compared to small-scale infrastructure -- through *linkages* effects
- Need time to emerge fully, also depend on supporting policies and the supply of other infrastructure.
- Large expenditure flows.
- Mode of utilization and management matters.

# ANALYTICAL FRAMEWORK: LINKAGE EFFECTS

## First-round impacts

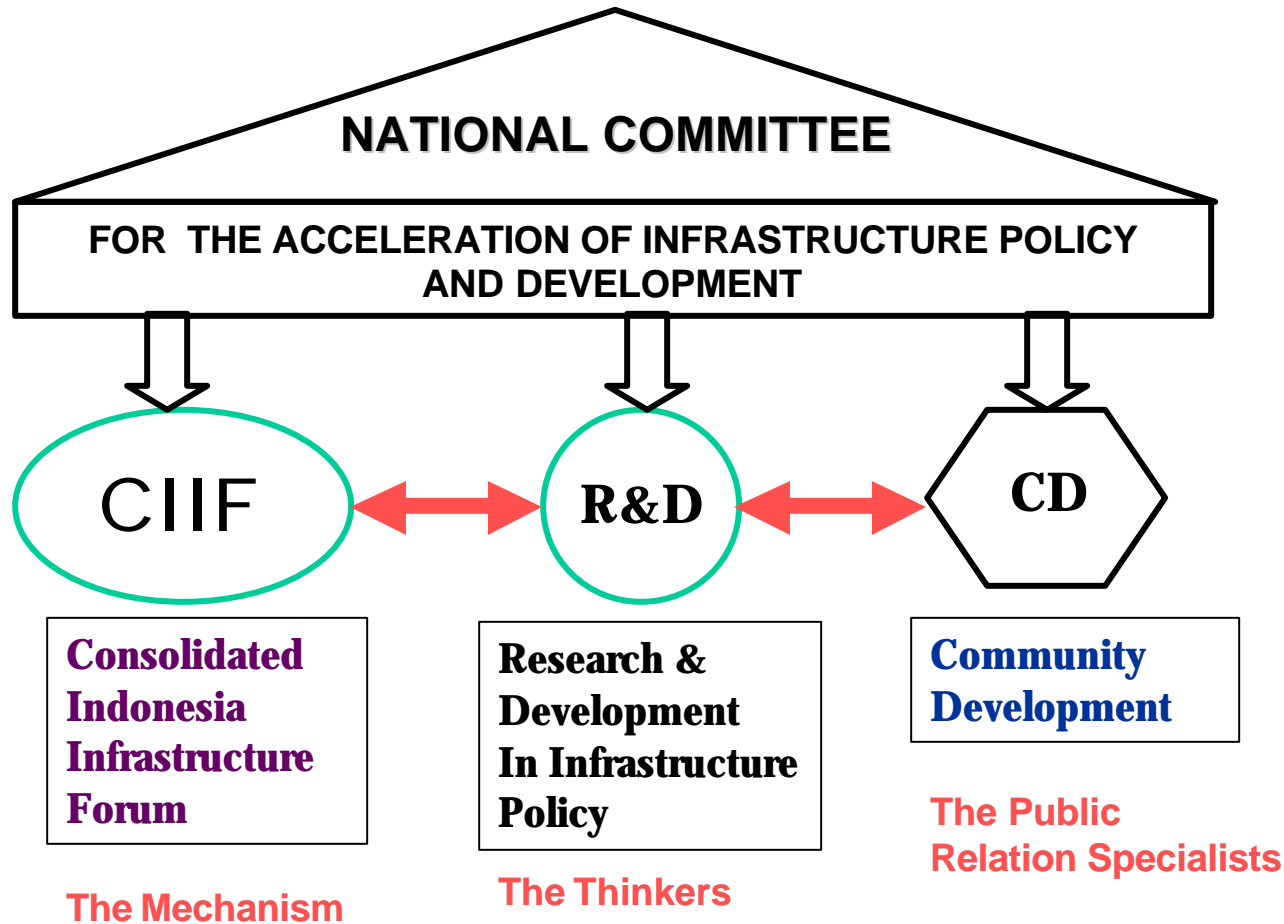
- Investment-inducement effect
- Regional economy activation effect
- Effective demand effect
- Social dimension

## Second-round impacts (broader and more general)

- Fiscal revenue and multiplier effect

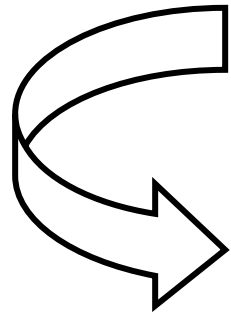
# CHAMPIONING THE INFRASTRUCTURE MAINSTREAM

**KKPPI**  
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# CHAMPIONING THE INFRASTRUCTURE MAINSTREAM

NATIONAL COMMITTEE FOR THE ACCELERATION OF  
INFRASTRUCTURE POLICY AND DEVELOPMENT  
(KKPPI)



**Consolidated  
Indonesia  
Infrastructure  
Forum**



**CIIF** IS DESIGNED AS A COHESIVE, DECISIVE, AND COMMITTED INFRASTRUCTURE FORUM TO CONSOLIDATE THE STAKEHOLDERS (Government, Private Sectors, Associations, User Groups, NGO, and Academy) AND TO BUILD UP CONCENSUS.

**CIIF** IS WORKING PROFESSIONALLY TO CREATE CONVERGENT INFRASTRUCTURE CONCEPT, POLICIES, STRATEGIES, AND RECOMMENDATIONS AND MAKING ANY EFFORT POSSIBLE TO INCORPORATE THEM INTO POLICY MAKING PROCESS.

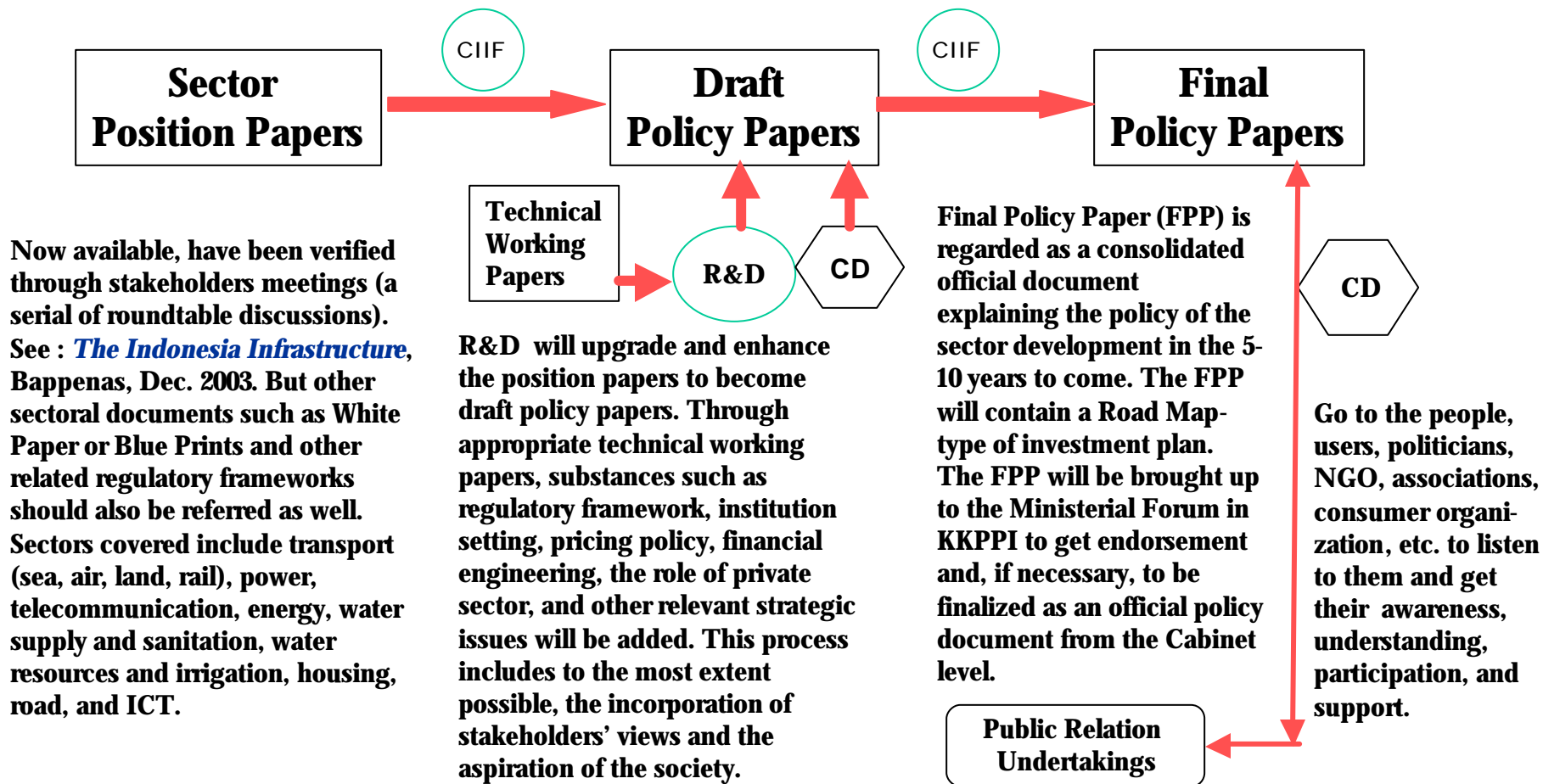


IN DOING SO, **CIIF** WILL CONDUCT APPROPRIATE SECTORAL CRITICAL REVIEWS SUPPORTED BY ACADEMIC ASSESSMENT AND WILL ASSOCIATE WITH INTERNATIONAL AS WELL AS NATIONAL PROMINENT AND COMPETENT FIGURES IN INFRASTRUCTURE UNDERTAKINGS. **CIIF** WILL ALSO BE DIRECTED AS RESEARCH INSTITUTION IN INFRASTRUCTURE POLICY AND PLANNING.

# CHAMPIONING THE INFRASTRUCTURE MAINSTREAM

The mechanic of linking the policy and political decision making process.....

For any sector policy paper, CIIF will convene at least twice in an iterative fashion. CIIF participants will consist of competent and legitimate professional and specialists. They could originate from industry, NGO, association, private investors, government official, academy, and users representative.



# CONCLUDING REMARKS

- 1. Infrastructure is probably a blunt instrument to target the poor, especially the transient poor.**
- 2. Quality, not just quantity, of infrastructure matters.**
- 3. Poverty-reducing effects of infrastructure are constrained by low levels of state variables (complementary investments and government policy)**
- 4. Considering on cost-effectiveness of alternative investment options, including various types of infrastructure, to reduce poverty.**