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**An Economic Analysis of Poverty in The Agricultural Sector:
A Case Study of Indonesia**

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Abstract

Poverty is a multidimensional aspect which involves different types of deprivation in human capabilities such as income, education, health, food and nutrition, shelter, power and human rights. Despite Indonesia being categorized as a newly industrialized country, poverty is still a major concern, especially to the large group of people engaged in the agricultural sector.

This study examines the characteristics of the poor households and the essential strategies to tackle the causes of poverty and notes policies for poverty reduction. As access to credit helps the poor to escape from poverty, this study also indicates that the characteristics can affect the households' access to credit. Furthermore, this study evaluates the impact of food-based and health care safety nets on the households' consumption expenditure. The two factors, educational level and area of employment of the household head play an important role in reducing poverty and accessing credit. A household head working in the service sector increases the household's chance to be non-poor. Meanwhile, engaging in the agricultural sector may increase the households' possibility to fall into chronic poverty and also lower the probability to get credit from formal institutions. The household heads with primary, secondary or tertiary level of education are most likely to escape from chronic poverty. Increase in years of schooling of the household heads reflects an increase in the households' creditworthiness and ability to achieve a higher income and avoid falling into poverty. Owning assets also increases the households' probability to move out from poverty and to secure formal and business credit.

The food-based (*Raskin*) and health care (*Askeskin*) safety nets in Indonesia assist the households in poverty which supplements these households' consumption expenditure. This result shows that the *Raskin* programme increases the households' consumption of rice. Although there is not enough evidence to conclude that *Askeskin* programme affects the household's consumption expenditure, a weak effect is found where it decreases the expenditure for medical services and increases the expenditure for non-medical items.

The empirical findings suggest that agricultural development is important to reduce poverty levels in Indonesia. The government should ensure the poor households' access to education and credit availability. Moreover, stabilizing food prices will be helpful to guarantee the nutrient intake of the poor, and thus can reduce poverty. These strategies should be supported by proper execution of the programmes such as targeting and integration.

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List of Abbreviations and Acronyms

ADB	Asian Development Bank
ADF	African Development Fund
AfDB	African Development Bank
Askeskin	<i>Asuransi Kesehatan Masyarakat Miskin</i> (Health insurance for the poor in Indonesia)
ATT	Average Treatment Effect on the Treated
BLT	<i>Bantuan Langsung Tunai</i> (Unconditional cash transfer programme in Indonesia)
BRI	<i>Bank Rakyat Indonesia</i> (One of government-owned bank in Indonesia)
BSM	<i>Bantuan Siswa Miskin</i> (Cash transfer for poor students in Indonesia)
BULOG	<i>Badan Urusan Logistik</i> (National Logistics Board in Indonesia)
CBN	Cost of Basic Needs
CCTs	Conditional Cash Transfers
CHNS	China Health and Nutrition Survey
EF	Equity Fund (One of health care safety nets in Cambodia)
FAO	Food and Agriculture Organization of the United Nations
FFA	Food for Asset Creation (Component of Integrated Food Security in Bangladesh)
FSVGD	Food Security Vulnerable Group Development (One of food-based safety net programmes in Bangladesh)
GDP	Gross Domestic Product
HDI	Human Development Index
HPI	Human Poverty Index
IFAD	International Fund for Agricultural Development
IFLS	Indonesian Family Live Survey
IFS	Integrated Food Security (One of food-based safety net programmes in Bangladesh)
IGVGD	Income Generating Vulnerable Group Development (One of food-based safety net programmes in Bangladesh)
ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Inverse Mill's Ratio

Jamkesmas	<i>Jaminan Kesehatan Masyarakat</i> (Health guarantee for the poor, a health insurance scheme for the poor in Indonesia)
JKN	<i>Jaminan Kesehatan Nasional</i> (National health insurance in Indonesia)
JPS-BK	<i>Jaring Pengaman Sosial Bidang Kesehatan</i> (Health safety net in Indonesia)
KUR	<i>Kredit Usaha Rakyat</i> (Business credit for Small and Medium Enterprises and Cooperatives in Indonesia)
MDGs	Millennium Development Goals
ME	Marginal Effect
MIQ	Minimum Income Question
MPI	Multidimensional Poverty Index
NCMS	New Cooperative Medical Scheme (China's medical insurance)
NGOs	Non-Government Organizations
NN	Nearest Neighbour
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OFSP	Other Food Security Programmes (One of food-based safety net programmes in Ethiopia)
OPK	<i>Operasi Pasar Khusus</i> (Special market operation, food-based social safety net in Indonesia in 1998)
PG	Poverty Gap
PKH	<i>Program Keluarga Harapan</i> (Family hope programme, one of poverty alleviation programmes in Indonesia)
PNPM Mandiri	<i>Program Nasional Pemberdayaan Masyarakat Mandiri</i> (National programme for community empowerment in Indonesia)
PPA	Participatory Poverty Assessments
PRA	Participatory Rural Appraisal
PSM	Propensity Score Matching
PSNP	Productive Safety Net Programmes (One of food-based safety net programmes in Ethiopia)
Puskesmas	<i>Pusat Kesehatan Masyarakat</i> (Community health centre in Indonesia)
Raskin	<i>Beras Miskin</i> (Subsidized rice for the poor in Indonesia)
RMP	Rural Maintenance Programme (One of food-based safety net programmes in Bangladesh)
ROSCAs	Rotating Savings and Credit Associations

RRR	Relative Risk Ratio
SCHIP	State Children’s Health Insurance Programme (United States government policy on children’s health service)
SFPs	Supplementary Feeding Programmes
SGP	Squared Poverty Gap
SMEs	Small and Medium Enterprises
TPDS	Targeted Public Distribution System (One of food-based safety net programmes in Bangladesh)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNSD	United Nations Statistics Division
VGD	Vulnerable Group Development (One of food-based safety net programmes in Bangladesh)
VHI	Vietnam’s Health Insurance
WFP	World Food Programme