



INTRODUCTION TO POVERTY CONCEPT

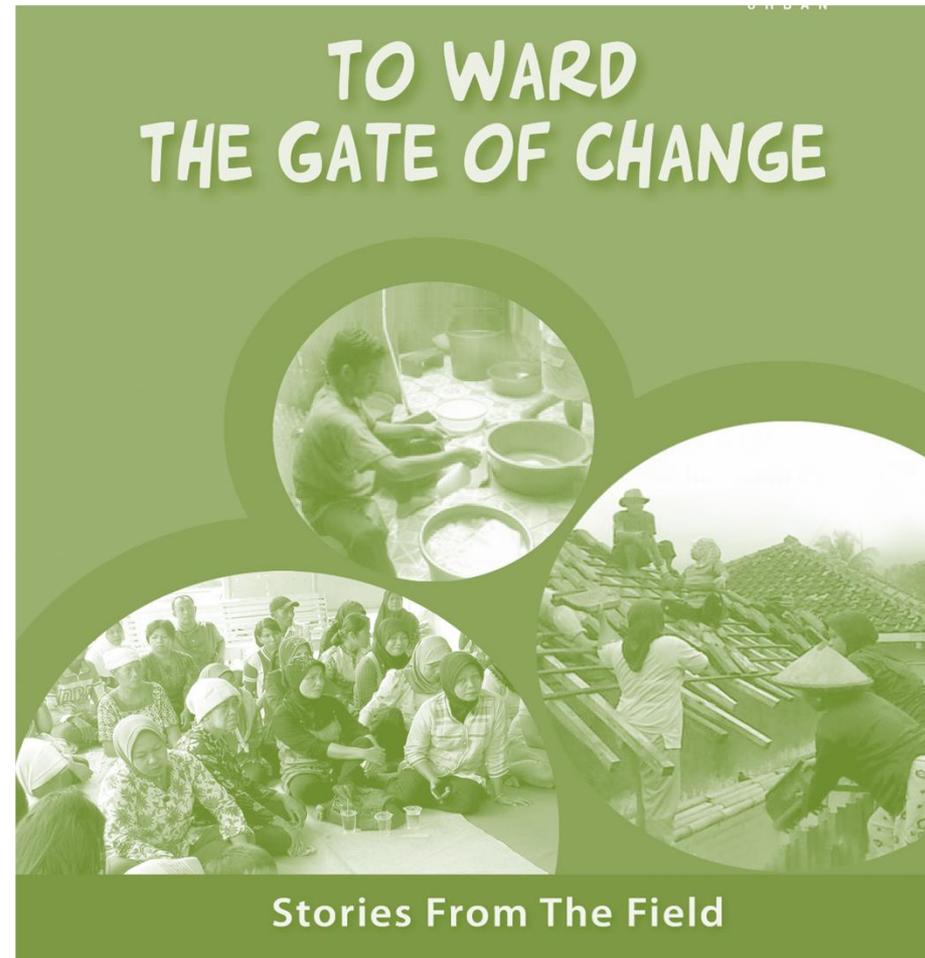
**Ministry of National Development Planning/
National Development Planning Agency
(Bappenas)**

May 6th – 8th, 2014

Schedule for Today



| TIME | TOPICS |
|---------------|--|
| 09.00 – 09.30 | OPENING AND INTRODUCTION |
| 09.30 – 09.40 | FIRST VIDEO |
| 09.40 – 10.00 | STORY ABOUT PAK AMAT |
| 10.00 – 10.30 | DISCUSSION |
| 10.30 – 10.45 | BREAK |
| 10.45 – 11.30 | POVERTY TRAP |
| 11.30 – 12.00 | TOWARDS THE GATE OF CHANGE – FIRST STORY |



Putting a Face of Poverty*

- Pak Amat lives alone in a small village in Indonesia. He has three children.
- His wife works in the city, as a live-in maid
- The oldest, a 13-year old, dropped out of school and was working as a construction worker in the nearby city
- The other two children were staying with their grand-parents
- There are no single furniture in the house

* The story based on the lectures from MIT-Open Course, Abhijit Banerjee, Esther Duflo

Putting a Face on Poverty*

- Pak Amat worked a farm laborer.
- He does not have any land.
- The increase in fertilizer and oil prices, farmers stopped hiring workers to save money and started to work the farm themselves
- Pak Amat loses his job
- He cannot work as a construction worker, because he is too weak for basic job, too unskilled for the better jobs, and too old to be an apprentice

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Putting a Face on Poverty *

- He had no money to feed himself.
- Nobody can lend him money
- He eats about once a day, when gets subsidized rice, or he catches a fish on a bank of the river

Let's Discuss

What is **unique** in the case of Pak Amat, and the contrary, what seems to you to be **representative** of the lives of many of the poor

Poverty Trap

Someone like Pak Amat does not have enough calorie to be productive

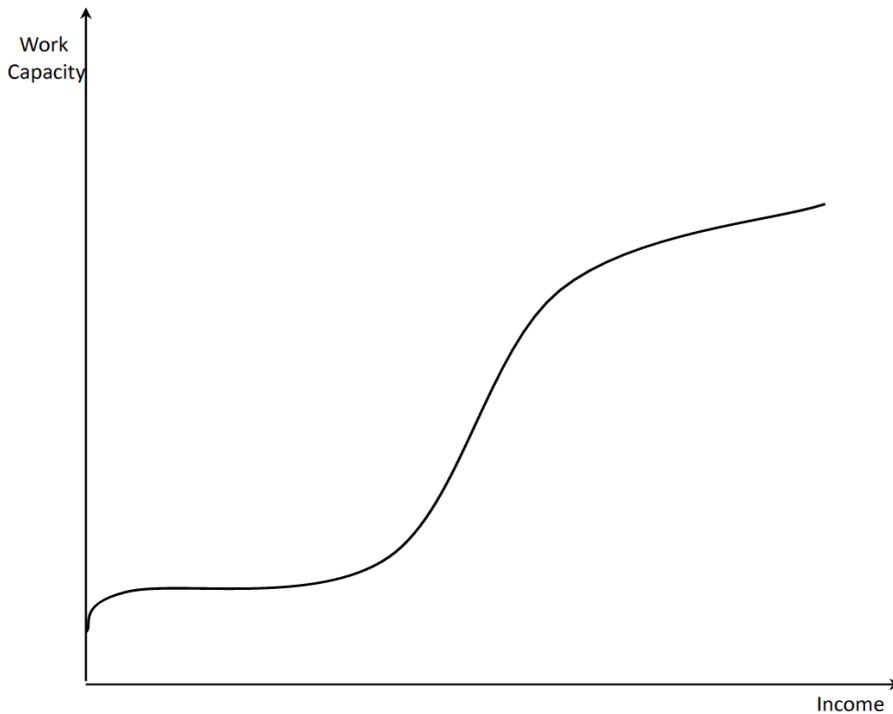
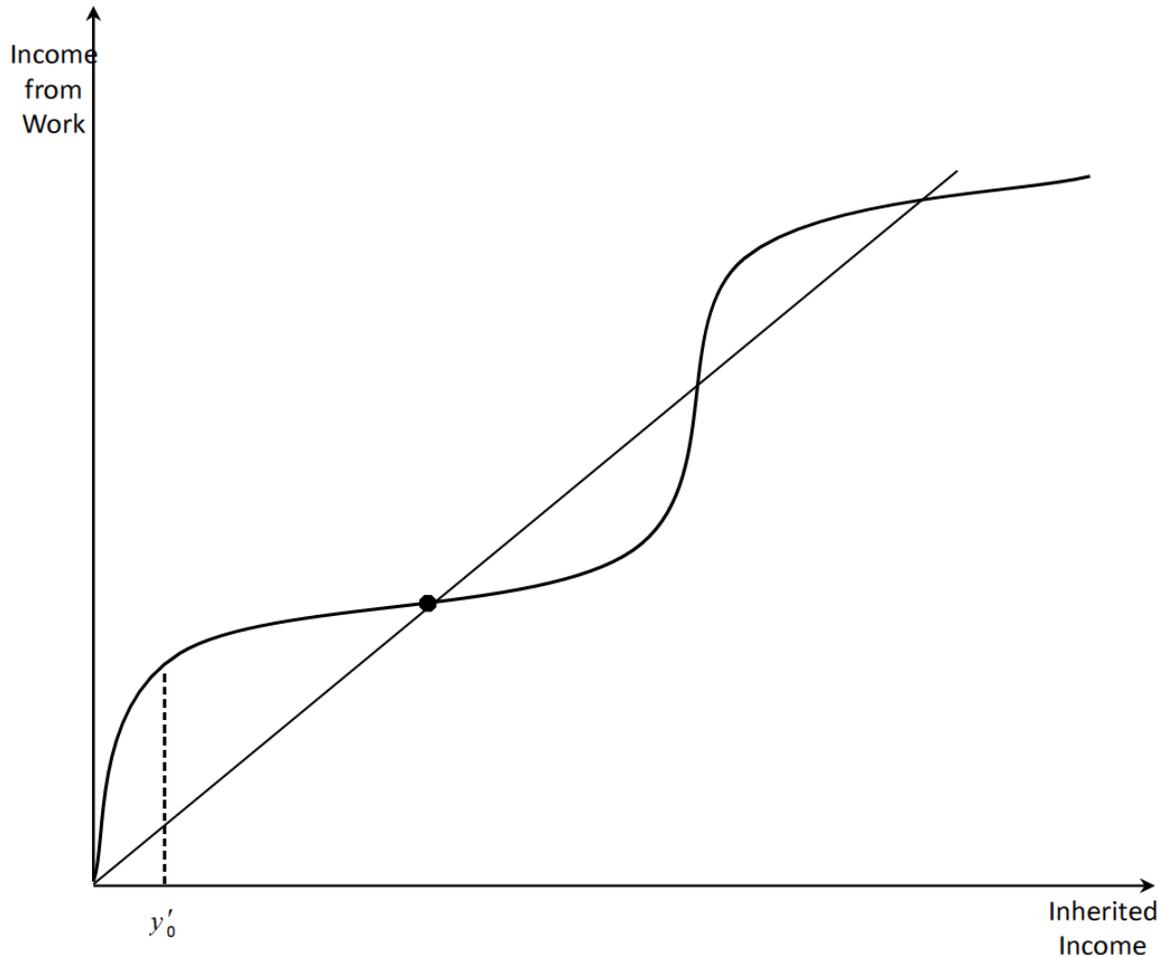


Figure 1: The Capacity Curve : the Shape

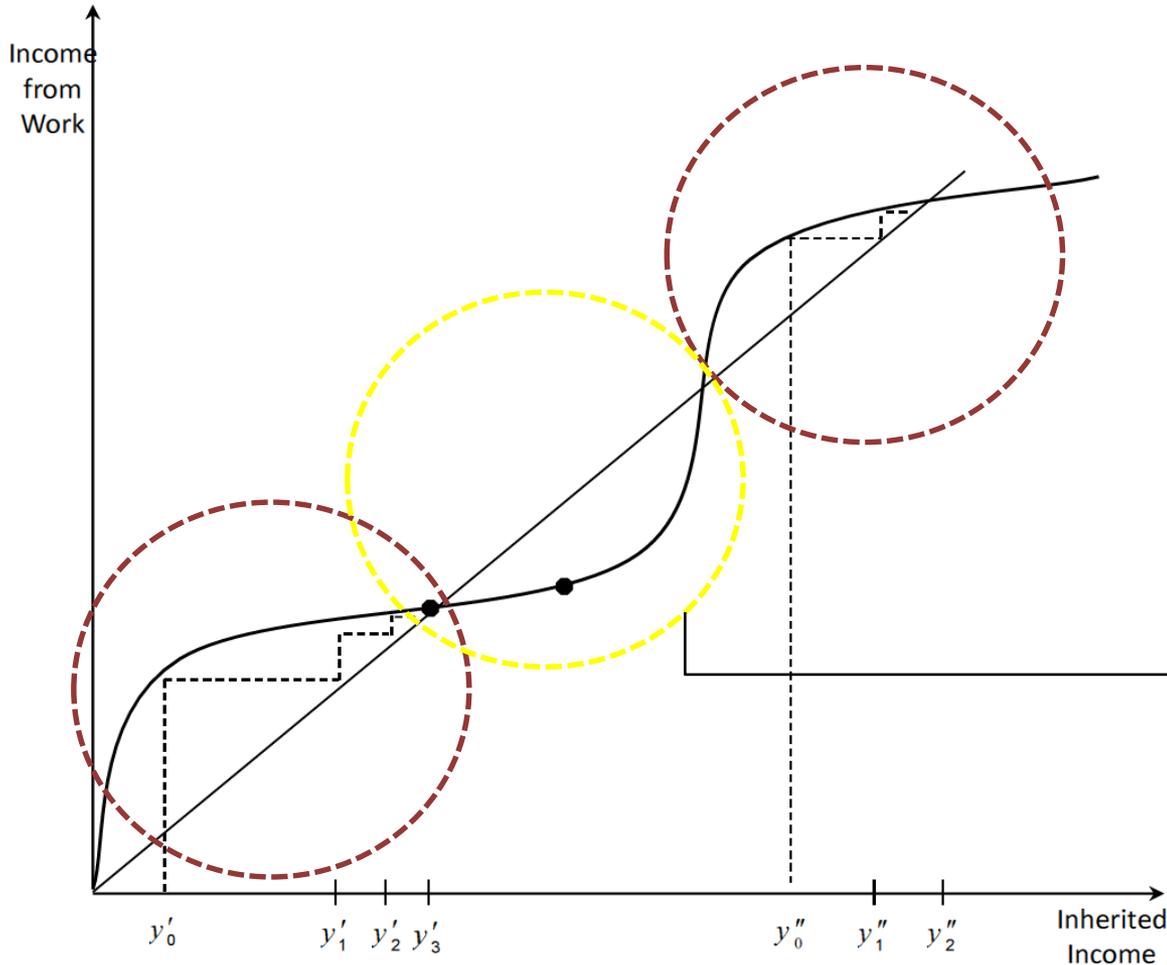
Poverty Trap (2)



People can move from one point of income to the other point of income.

With a given endowment, people can move from the poor or even trap in the same condition or worse

Income Dynamic and Poverty Trap



Two conditions where the poor can escape from their current states. → with concave relationship between income today and income tomorrow, there will be no poverty trap

Every body ends up poor in this situation and difficult to move on

Income of the poor grows so slowly makes tomorrow's income is below the today's income.

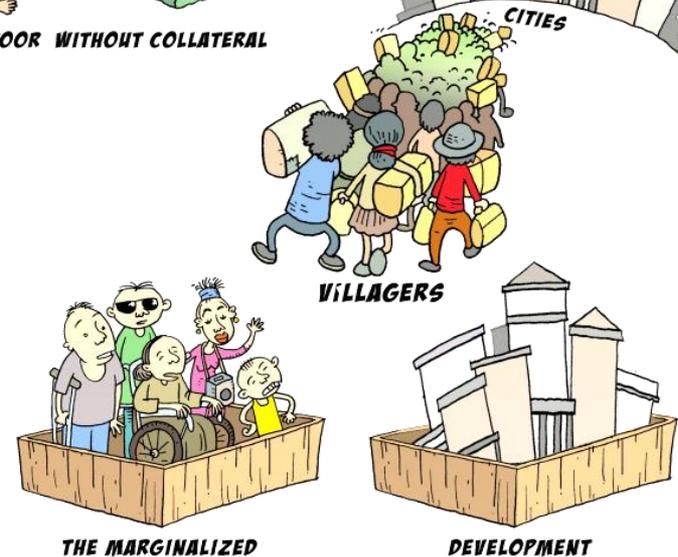
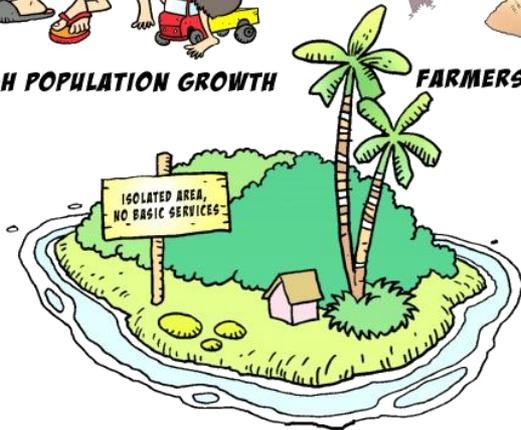
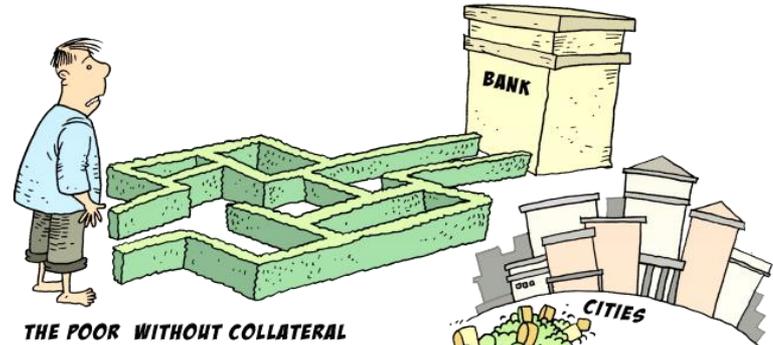
Remarks

- For the poor people, income grows slowly, makes the income tomorrow is below the income today: the poor become poorer (up to a point)
- At some point, the rate of growth of income start increasing: income yesterday becomes larger than income today: the middle class and the somewhat rich continue to be rich

Remarks

- What do we need to know whether there is poverty trap or not ?
- A poverty traps opens the possibility of a big push or a small action could have big benefits:
 - Health (e.q. free bednets)
 - Agriculture (e.q. free fertilizer one seasons)
- If we are not in the situation of poverty trap, helping the poor will simply be a form of redistribution, but it wont produce efficiency gains.

Poverty Reduction Challenges In Indonesia



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THANK YOU