

Policies for inclusive and sustainable growth in Indonesia

Indonesia has a very good record of poverty reduction, having halved its incidence over the past two decades. Nevertheless, almost 30 million people still live below the national poverty line, mostly in rural areas and in certain provinces. In order to make further progress in lifting these people out of poverty and economic vulnerability, policy needs to focus on generating strong, inclusive and sustainable growth. Pro-poor growth can assist in the process of economic convergence by facilitating the migration of workers out of the low-productivity agricultural sector into the industry and services sectors. By putting in place the right fundamentals, such as a well-designed and inclusive education system, efficient infrastructure and a stable macroeconomic environment, Indonesia will have decades of strong growth ahead by virtue of economic convergence with frontier countries. This has the potential to lift millions more out of poverty without exacerbating income inequality. Moreover, it will set Indonesia up for the next phase of innovation-driven growth that will propel it into the ranks of high income countries. While existing poverty reduction programmes have become increasingly effective, more resources are required, and efficiency could be further enhanced, especially through better targeting. The distribution of income has become markedly more unequal over the past decade and needs to be kept in mind when formulating growth policies. This Working Paper relates to the 2015 OECD Economic Survey of Indonesia (www.oecd.org/eco/surveys/economic-survey-indonesia.htm).

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