Helpdesk Research Report: Social Protection Systems in Indonesia
11.11.2011

Query: How have social protection systems contributed to social and economic development in Indonesia?

- When and why were social protection systems introduced in Indonesia?
- What was the level of development and structure of their economies at this time and what sort of social protection systems were introduced?
- What is the evidence of the contribution of the social protection systems to national social and economic development?

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1. Overview

Social protection systems were introduced in Indonesia in the wake of the 1997 financial crisis, which had devastating consequences for the national economy and society. The government recognised that general economic growth could no longer be relied upon to protect vulnerable households from sudden shocks or help lift them out of poverty. This report reviews the introduction of social protection systems in Indonesia, what programmes are involved and what prompted their introduction. It also looks at the contribution of social protection systems to social and economic development in Indonesia.

Introduction of social protection systems
From 1998 onwards, the Government began introducing ad-hoc social safety nets and subsidies to reduce poverty, including: targeted sales of subsidized rice, targeted health care subsidies; school scholarships and block grants; work-creation programmes; and community block grants.

In 2005, the Government reviewed, expanded and replaced some of these programmes with a second ‘generation’ of social protection systems which were more comprehensive. These new programmes also included conditional and unconditional cash transfers, health insurance for the poor, and school assistance programmes.
In 2010, social protection systems have been integrated into a ‘three cluster’ strategy aimed at improving the social and economic well-being of poor and near-poor households, coordinated by a National Team for Accelerating Poverty Reduction (TNP2K). The clusters include: (I) household-based social assistance programmes; (II) community empowerment programmes; and (III) expansion of credit to micro- and small-scale enterprises.

**Contribution to national social and economic development**

While social protection programmes in Indonesia achieve a high degree of coverage, the evidence suggests that the actual benefits that the programmes bring to the poor and other vulnerable groups are much less significant, with an impact-on-poverty value\(^1\) of only 8, compared to the regional average of 23 (Baulch et al., 2008).

Although it is too early to evaluate the long-term impact on poor households’ health outcomes, there is clear evidence that the social protection system appears to be effective in improving access and usage of health facilities (Sparrow et al, 2010). One research study also found a positive impact on children’s height-for-age and birth weight, with a slightly stronger effect for girls compared to boys (Berlingieri, 2010).

Likewise, it is still too soon to fully review the long-term contribution of social protection programmes on education. However, empirical evidence suggests that it has helped improve motivation among students from disadvantaged backgrounds (SMERU, 2006); led to small but meaningful improvements in education outcomes; pressurised local governments to improve schooling; enabled school-age students to spend less time working during the academic year; and helped older (not targeted) siblings to remain in school (SPA, 2010).

The introduction of social protections systems do not seem to have had an impact on gender relations, the allocation of resources within the household, the division of labour and responsibility between men and women, and household decision-making - at least in the short-term (Arif et al, 2011).

There is considerable evidence that the impact of social protections programme on poverty is contingent upon targeting, and several studies have found that the Indonesian system has been undermined by significant leakage to the non-poor, with different programmes using different targeting approaches and different recipient databases. However, it is hoped that the planned introduction of a unified database of poor households will improve the accuracy and effectiveness of social protection programmes in reaching the poor and contributing to national social and economic development.

*This report is to be read in conjunction with other GSDRC Helpdesk reports on social protection mechanism, in particular:*

- *Social protection systems in China* (accompanying report)
- *Social protection systems in Singapore* (accompanying report)

### 2. Introduction of social protection systems in Indonesia

**When and why were social protection systems introduced in Indonesia?**

\(^1\) The indicator on social protection impact (SPIMP) is defined as the per capita social protection expenditure going to the poor as a percentage of the national poverty line.
Social protection programmes were initiated by the Indonesian Government in the wake of the 1997 Asian financial crisis. The crisis had severe consequences on the Indonesian economy and society: the value of the Indonesian currency, the Rupiah, fell by 85 percent; foreign investment dried up; domestic prices rose by 78 percent; and nominal food prices increased threefold. As the crisis continued to unfold, the economy contracted by almost 14 percent, and an additional 36 million people were pushed into absolute poverty as the national poverty rate increased to 33 percent (end of 1998). The social impact of the crisis created tension across the country and provoked mass rioting in Jakarta and other major cities, leading eventually to the fall of the Suharto government in May 1998 after three decades in power (Sumarto and Bazzi, 2011).

As a consequence, specific targeted interventions were required to help mitigate the social impact of the crisis. As Perdana and Maxwell (2004) noted: “if the Indonesian government had been slow to initiate programmes that were deliberately targeted at the poor, preferring general economic growth to provide the main mechanism to lift people out of poverty, this strategy suddenly had to be reassessed after the onset of the economic crisis” (p.12).

What was the level of development and structure of the economy at this time? Indonesia is the largest economy in Southeast Asia and a member of the G20 major global economies. It has a market economy in which the government plays a significant role by owning enterprises and administering prices on basic goods, including fuel, rice and electricity.

Prior to the crisis, the World Bank (1993) referred to Indonesia as an ‘East Asian miracle’ and the country experienced 35 years of continuous economic growth. Between 1989 and 1997, the Indonesia economy grew 7.3 percent on average, largely due to the export-oriented manufacturing sector. During their three decades in power (1967-1998), President Suharto and his ‘New Order’ government aimed to reduce poverty through the improvement and expansion of public infrastructure and social services, largely funded through rapid economic growth. Under the New Order regime, industrial output quickly increased, including steel, aluminium, cement, and products such as food, textiles and cigarettes. From the 1970s onward, the increased oil price on the world market provided Indonesia with a large income from oil and gas exports. Wood exports shifted from logs to plywood, pulp, and paper, at the price of large stretches of environmentally valuable rainforest (Toewen, 2010).

By most accounts, Indonesia succeeded in improving welfare indicators, such as infant mortality and literacy rates, and reducing absolute poverty from more than 50 million people (about 40 percent of the population) in the mid 1970s to 22.5 million people (around 11 percent of the population) in 1996. However, in the last decade of the New Order government (1987-1996), rapid economic growth was coupled with increasing inequality and growing social tensions, especially in urban areas (Booth, 2000).
3. What sort of social protection systems were introduced?

From 1998 onwards, the Government of Indonesia began introducing social safety nets programmes and subsidies to reduce poverty. Known by their Indonesian acronym, JPS, these ad-hoc programmes included:

- targeted sales of subsidized rice - the ‘OPK’ programme and its successor ‘Raskin’;
- targeted health care subsidies;
- scholarships to students and block grant to schools;
- work-creation programmes; and
- community block grants.

Assessments of these early social protection systems highlighted problems of poor targeting, low coverage, leakages and lack of coordination. For example, a World Bank Poverty and Social Impact Assessment (PSIA) in 2005 concluded that:

1. “The targeting performances of past programmes are poor. Current poverty reduction schemes rely too heavily on cash payments/transfer mechanisms that absorb much of the social protection budget, but are ineffective. At present, schemes such as rice subsidies consume too much of the budget, and are infra-marginal in their impact on the poor while they leave too little for programmes such as health and education which tend to benefit the poor more.
2. The largest transfer/subsidy programme - the fuel subsidies - in Indonesia is highly regressive.
3. Centrally owned programme such as RASKIN shows that the administration cost of the subsidy is high and ineffective - allowing leakages on a scale that offsets the potential welfare gains. The study indicates that as much as 30 percent of the RASKIN budget, is used to cover their operating costs.
4. We show that while the ability of central government in reaching poor regions can improve overall targeting, the targeting ability of local government is more important. Moreover, extreme targeting to poor areas could worsen overall targeting” (INDOPOV team, 2005).

After several years of operation, the Government of Indonesia reviewed these temporary safety nets with a view to improving efficiency and targeting and were replaced in 2005 by a new ‘generation’ of social protection programmes (World Bank, 2009).

The new range of social protection programmes tended to be social assistance, rather than social insurance in nature, and were both household and community-targeted (ASEAN/World Bank, 2009). An overview of the main social protection programmes is shown in the tables overleaf and includes:

- **Rice for the Poor (Beras Miskan or Raskin)** - a subsidized rice programme for the poor, which has been modified several times.

- **Unconditional cash transfers (BLT)** – the BLT was prompted by the sudden rise in fuel prices in 2005 which made the government’s subsidisation of fuel fiscally unsustainable. To offset the cut in fuel subsidy, the government introduced a temporary unconditional cash transfer (UCT) programme to be targeted at those hit hardest by the cuts. From October 2005, quarterly instalments of 300,000 Rupiah (about US$30) were distributed to over 19 million households, effectively the world’s largest UCT programme. The programme ended in late
### Overview of Household-targeted Social Protection Programs in Indonesia

<table>
<thead>
<tr>
<th>Nature of intervention</th>
<th>BLT (Unconditional Cash Transfer)</th>
<th>PMH (Conditional Cash Transfer)</th>
<th>Askesi / jaminan kesehatan (Health Insurance for the Poor)</th>
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<tbody>
<tr>
<td>Social assistance</td>
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<tr>
<td>In-kind</td>
<td>Cash</td>
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<td>Subsidized</td>
<td>Unconditional transfer</td>
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### Target population

- Poorest 30% of households by consumption
- Poor households with elderly aged 65 or pregnant women
- Still in pilot phase
- Poorest 30% of households by consumption

### Targeting methods

- BLT: classifies each household’s welfare level using various household characteristics
- PMH: survey approach from community-generated list of poorer households
- Askesi: household needs assessment

### Benefits and coverage

- BLT: Estimated 57% coverage of target population
- PMH: Estimated coverage of target population varies from 70% per government
- Askesi: 2009

### Expenditures

- BLT: Estimate 3-4% of GDP
- PMH: Not available
- Askesi: Not available

### Implementing agencies

- BLT: National Logistics Agency (Baleog)
- PMH: National Statistics Bureau (BPS)
- Askesi: National Health Insurance Agency (BPJS)

### Source: ASEAN/World Bank, 2009, p.18

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### Overview of Community-targeted Social Protection Programs in Indonesia

<table>
<thead>
<tr>
<th>Nature of intervention</th>
<th>PNPM Rural</th>
<th>PNPM Urban</th>
<th>BOG</th>
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<td>Social assistance</td>
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<td>development proposals</td>
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### Target population

- All rural sub-districts
- All urban sub-districts
- All private and public primary and junior high schools
- Priority for free reduction to go to poor students
- Poor students also eligible for additional stipend to cover transportation and other costs

### Targeting methods

- PNPM Rural: Grant size to sub-districts made on population size
- PNPM Urban: Grant size to sub-districts made on population size
- BOG: Fixed grant per student

### Benefits and coverage

- PNPM Rural: 60,000 villages in 2003 (around half of all villages)
- PNPM Urban: By 2005, 251 rural sub-districts were covered
- BOG: By 2009, national coverage of urban sub-districts is intended

### Expenditures

- PNPM Rural: Rp750 billion in 2006
- PNPM Urban: Rp30 trillion in 2006
- BOG: Rp3.2 trillion in 2006

### Implementing agencies

- PNPM Rural: PNPM Controlling Team at central level, with Ministry of Home Affairs as implementing agency
- PNPM Urban: PNPM Controlling Team at central level, with Ministry of Public Works (PU) as implementing agency
- BOG: Department of Education at central level, with Ministry of Public Works at local level

Source: ASEAN/World Bank, 2009, p.18
2006 as fuel prices decreased. The government revived the BLT again in 2007/8 during the food crisis "because it had proved itself to be a successful and appropriate mechanism for providing households with short-term assistance because of its broadly targeted nature and the ease with which the government was able to discontinue it once the economic conditions it was created to address had ended" (ASEAN/World Bank, 2009, p.9).

- **Conditional cash transfers (PKH)** – in 2007 the government introduced a conditional cash transfer programme, which provides cash to poor households on the condition that their children attend school and use preventative basic health and nutrition services.

- **Health insurance for the poor (Askeskin and its successor Jamkesmas)** – the Askeskin programme aimed to provide 60 million Indonesian households with health service guarantees worth 5,000 Rupiah per person per month. In 2007, the programme was expanded to an additional 16 million households and renamed Jamkesmas.

- **Community development programmes (PNPM)** - in 2007 the various different community development programmes targeted at poor communities came together under a single umbrella - the national programme for community empowerment (PNPM ). The programme covers approximately 200 million Indonesians across the country and is aimed at stimulating pro-poor local economic growth while also strengthening governance and institutions.

- **School assistance programme (BOS)** - provides block grants to most primary and junior high schools in return for their reducing or eliminating school fees up to the amount of the grant.

**Creation of the National Team for Accelerating Poverty Reduction – TNP2K (2010 onwards)**

In 2010, responsibility for coordinating poverty and social protection programmes was elevated to the Office of the Vice-President. A Presidential Regulation (No.15/2010) established the TNP2K to create a more sustainable, integrated and coherent social protection system. The strategy consists of three clusters, aimed at improving the social and economic well-being of poor and near-poor households:

- **Cluster I:** household-based social assistance programmes, including Raskin, the UCT and CCT; scholarship programmes; and the national community health insurance programme (Jamkesmas);

- **Cluster II:** community empowerment programmes, such as the National Program for Community Empowerment (PNPM); and

- **Cluster III:** expansion of credit to micro- and small-scale enterprises

**Social insurance and mandatory savings**

In addition to these targeted social protection efforts, Indonesia also provides social protection through contributory social insurance and mandatory saving for civil servants (TASPEN and ASKES), armed forces (ASABRI), and formal sector employees (JAMSOSTEK). However, this second type of intervention is characterised by low coverage, with only about 16 million out of 100 million workers covered by fragmented schemes. The informal sector, employing more than 65% of the total workforce, is largely excluded from the system (ADB, 2008).
4. Evidence of the contribution of social protection systems to social and economic development

Comparatively low impact on poverty
A study of social protection in six Asian countries found that while social protection programmes in Indonesia achieve a high degree of coverage, with 71 percent of the poor receiving social protection, the actual benefits that the programmes bring to the poor and other vulnerable groups are much less significant (Baulch et al., 2008). The researchers calculated that social protection programmes in Indonesia have an impact-on-poverty value of only 8 percent, compared with the regional average of 23 percent (see figure below).²


Source: Baulch et al. (2008, p.69)

² The indicator on social protection impact (SPIIMP) is defined as the per capita social protection expenditure going to the poor as a percentage of the national poverty line.
Although the poverty rate has fallen steadily from a peak of 23.4 percent of the population in 1999 to 13.3 percent in 2010, 33 million Indonesians live below the national poverty line, with approximately half of all households clustered around that line. These near-poor households are highly vulnerable to shocks, with national statistics showing frequent movement into and out of poverty over the last few years; 49 percent of the poor in 2009 were not poor in 2008, while 53 percent of those who were poor in 2008 had moved out of poverty by 2009 (Suryadarma and Sumarto, 2011).

There is evidence that the impact of social protections programme on poverty has been undermined by significant leakage to the non-poor. For example, the subsidy received by non-poor households as part of the rice programme has been estimated to be 2.5 times that received by poor households (World Bank, 2006). This leakage may be partly due to problems with the statistical tools used to determine poverty, with non-economic criteria included such as the ability to meet religious observations (ASEAN/World Bank, 2009). Furthermore, different programmes have used different targeting approaches and different recipient databases, leading to “duplication of effort, inconsistency in application, and dampened program impact” (Suryadarma and Sumarto, 2011, p.170). It is hoped that TNP2K’s new Targeting Working Group, in collaboration with the central statistics agency (BPS) and with technical assistance from the World Bank, will help develop a unified database of poor households, which will improve the accuracy and effectiveness of social protection programmes in reaching the poor.

Improved access and utilization of healthcare facilities
Although it is still too early to assess the long-term impact on poor households’ health, what is clear is that the social protection system appears to be effective in improving access and usage of health facilities. Whereas inequality in access to care was relatively high in Indonesia in 2001, particularly compared to other Southeast Asian countries such as Malaysia, Thailand and Vietnam (O’Donnell et al., 2007), there has subsequently been a “strong overall increase in health care utilisation and an improvement in horizontal equity. Nevertheless, inequities remain sizable, suggesting that barriers to health care access for the poor persist” (Sparrow, 2011, p.164).

For example, an evaluation of the ‘Health Insurance for the Poor’ (Askeskin) programme, a subsidized social health insurance for the poor and informal sector, reported that the programme improved access to health care and also increased utilization of public outpatient care. The study also concluded that the programme was targeted on the poorest quartile of households and those most vulnerable to catastrophic out-of-pocket (OOP) health payments (Sparrow et al, 2010).

Jamkesmas (Askeskin’s successor) has a much broader coverage, reaching over 76 million poor and near-poor Indonesians. Although there have been no formal evaluations of the impact of Jamkesmas, data from the government suggest that total utilization of services has increased by 50 percent for ambulatory care and about 106 percent for inpatient care and the rates of service use between the most affluent and the poorest have nearly equalized (Joint Learning Network, 2010). The World Bank (2010) recently observed how health insurance among the poor had tripled from 16.5 percent in 2004 before the Jamkesmas programme started to more than 43 percent in 2009: “Despite evidence of some mistargeting and programme leakage, the Jamkesmas programme appears to have helped equalise the overall distribution of access to health insurance across the population” (p.27).

There is evidence that the Unconditional Cash Transfer (UCT) programme has also had a positive impact on healthcare utilization. With kerosene prices and inflation soaring, the UCT programme was designed explicitly to prevent poor and near-poor households from having to reduce expenditures on essential food commodities, health and education. A study by Bazzi, Sumarto, and
Suryahadi (2010, cited in Sumarto and Bazzi, 2011) found that recipient households reported a range of uses for the UCT funds: 31 percent reported using the transfers for health expenditures; 23 percent for kerosene (the "tagging" effect); 9 percent for education; 6 percent for food; 12 percent for capital; and 20 percent for other expenditures. The researchers also found that the UCT led to increased utilization of outpatient healthcare services.

Positive impact on child nutrition
There is also evidence that social protection systems have contributed to improvements in the nutritional status of children living in households belonging to the lower income quartile. A study of two social protection programmes – Askeskin (the subsidised social health insurance programme) and BLT (the unconditional cash transfer programme) – found a positive impact on children’s height-for-age and birth weight, with a slightly stronger effect for girls compared to boys. The impact of the Askeskin health insurance was more significant than BLT, leading the researcher to conclude that: “This provides some evidence that a targeted social health insurance programme providing in-kind benefits can outperform a targeted unconditional transfer in improving health outcomes” (Berlingieri, 2010, p.40). The study also found that Askeskin has led to decreasing expenditures for delivery care.

Early evidence from an evaluation of the PKH conditional cash transfer programme, which provides cash to poor households on the condition that their children use preventative basic health and nutrition services, found that in recipient households (and in programme areas more broadly) the PKH led to increases in pre- and post-natal visits to health centre, infant weight monitoring, delivery-assisted births, and immunization rates (World Bank, 2011, cited in Suryadarma and Sumarto, 2011).

Improved access to education
There are several social protection initiatives which could potentially have had an impact on educational outcomes for poor households in Indonesia: a targeted scholarship programme (BKM); school operational support funds (BOS); the conditional cash transfer programme (PKH); unconditional cash transfer program (BLT); and the community conditional cash transfer program (PNPM).

Empirical evidence suggests that BOS has been successful at improving motivation among students from disadvantaged backgrounds, although the programme’s impact on drop-out rates at the lower-secondary level has been small (SMERU, 2006). The same study found that only 23 percent of students received special assistance by way of BOS funds. However, because BOS funds are disbursed directly to schools, it is difficult to ascertain the extent to which poorer students benefited differentially.

Research into PKH, a conditional cash transfer programme which provides cash to poor households on the condition that their children attend school, found that the programme has led to small but meaningful improvements in education outcomes, while also pressuring local governments to improve schooling (Yulaswati and Sumadi 2011; World Bank 2011; cited in Suryadarma and Sumarto, 2011). Research by the SMERU Institute has revealed that cash transfers are also spent on other children not explicitly targeted by the programme, thereby also enabling older (not targeted) siblings to remain in school (SPA, 2010).

The unconditional cash transfer programme, BLT, has also contributed towards educational outcomes in Indonesia, by enabling school-age students in poor households to spend less time working during the academic year (Sumarto and Bazzi, 2011).
Limited impact on gender relations
The evidence suggests that even when women are the direct recipients of the assistance money, social protection programmes in Indonesia have had little impact on gender relations, the allocation of resources within the household, the division of labour and responsibility between men and women in household decision-making (at least in the short-run). For example, a study of the conditional cash transfer programme (PKH) concluded that the programme has neither affected intra-household gender relations, nor the relative position of women within the household (Arif et al, 2011).
This lack of impact can be largely explained by the traditional role of women as ‘fund managers’ of the day-to-day financial affairs within the household, and in this context, additional PKH cash to women does not significantly influence their bargaining position in the household. The authors recommend that “in order to increase women’s roles beyond merely managing PKH funds ... it is perhaps necessary to link the implementation of PKH with other programmes that directly or indirectly can help to increase economic participation of women” (Arif et al, 2011, p.19). The study also found no link between the monetary assistance and increased conflict / domestic violence; instead the extra cash tends to reduce household tension by easing women’s demand for money from their husbands.

5. Sources


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http://www.jointlearningnetwork.org/content/jamkesmas


http://web.mac.com/adrianpanggabean/Loose_Notes_on_Indonesia/Poverty_files/ariperdana.pdf


Websites visited
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Experts consulted
Dr. Muliadi Widjaja, Institute of Economic and Social Research, University of Indonesia
Dr. Robert Sparrow, International Institute of Social Studies, The Hague

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