

Protecting Present and Future Generations from Poverty

Key Messages

Indonesia has made progress in reducing poverty and is expanding its range of social protection programs. Economic growth, expanded access to health and education services, and improvements to infrastructure have helped to reduce poverty. Community block grants have successfully accelerated poverty reduction in rural areas. A range of social protection programs (economic assistance and insurance) have been introduced to protect households from risks and shocks.

Further efforts are needed to protect present and future generations who remain vulnerable to the threat of poverty. 32.5 million Indonesians continue to live below the poverty line and half of the population remains highly vulnerable to poverty. Individual social assistance programs are too fragmented to adequately protect families from shocks or to help them effectively manage risk. To address these challenges and maintain the pace of poverty reduction, programs and resources need to be concentrated in poorer regions.

Key Actions

The new government is in a strong position to accelerate poverty reduction and develop the next generation of social protection programs. As growth continues and fiscal space expands, Indonesia can invest further in programs that successfully reduce poverty. The social assistance and insurance programs currently in place are the potential building blocks for a comprehensive social protection framework. With this in mind, the key policy and program priorities for the next five years are to:

1. **Sustain an enhanced, national community-based grant program that focuses on channelling resources to the poorest areas.** Increase the size of PNPM-Mandiri (*Program Nasional Pemberdayaan Masyarakat - Mandiri*) community investment grants for the poorest 2,000 sub-districts (*kecamatan*). Support PNPM innovations to more effectively reach the poor living in non-poor areas, both rural and urban.
2. **Prepare emergency safety nets** to help stabilize the income of families vulnerable to shocks (economic and health shocks, natural disasters, and policy changes). Develop mechanisms that monitor shocks and trigger the deployment of emergency safety nets such as unconditional cash transfers (UCT) and/or public workfare programs.
3. **Create an integrated framework of social assistance programs to break inter-generational poverty.** Deploy health assistance programs, scholarships for the poor and conditional cash transfers (CCT). Establish a coordinated “one-roof” management system and create a unified database from which beneficiary lists can be drawn. Strengthen the capacity of implementing agencies to accurately target and implement social assistance programs.
4. **Develop a fiscally responsible second generation of social insurance programs.** Assess the implications of broader coverage and clarify the institutional reforms needed to deliver social insurance programs. Then, gradually phase in reforms, ensuring that the system is clear, feasible and affordable.

Where Indonesia Stands Now

Indonesia has made progress in reducing poverty but many people remain poor and vulnerable. Sustained economic growth has helped more Indonesians escape poverty by creating more jobs and increasing public expenditures for health, education and infrastructure. Since the 2004 national elections, the poverty headcount has fallen from 16.7 percent to 14.15 percent (2009). Despite these gains, 32.5 million Indonesians currently live below the poverty line and approximately half of all households remain clustered around the national poverty line (IDR 200,262/month). The gap between the poor and non-poor is also widening. The Gini Ratio, a measure of consumption inequality, has increased from 31.7 percent in 1999 to approximately 35 percent in 2009. Regional disparities also persist; eastern Indonesia lags behind other parts of the country, notably Java.

National community grant programs have reduced poverty by allowing the poor to help themselves. The government scaled-up the National Community Empowerment Program (PNPM-Mandiri) between 2007 and 2009 to provide block grants to rural and urban sub-districts (kecamatan) that support community-level development projects. The approach successfully leverages local knowledge to identify obstacles to development while building capacity for coordinated action. PNPM-Mandiri has successfully accelerated the pace of poverty reduction and is especially effective in remote, rural areas that need labor-intensive and productive infrastructure, such as roads that connect villagers to markets and services.

PNPM is now providing national coverage, but resources need to be focused on poorer areas to maintain the pace of poverty reduction. The PNPM-Mandiri program now reaches all 6,514 sub-districts across the country, but fails to focus on the poorest communities. The size of the block grants in these areas remains too small and has not kept pace with inflation. At the same time, many impoverished people live in sub-districts that are not considered poor. Grant programs need to be better tailored to reach the poor who live in these 'non-poor' rural and urban areas. With increasing urbanization, much needs to be learned about the nature and causes of urban poverty, as well as of the types of programs that can best help city-dwellers escape poverty.

The government has launched some social assistance programs to protect vulnerable households from shocks and inter-generational poverty. In 2005, it began shifting resources from regressive subsidies to a first generation of social assistance programs that targeted poor- and near-

poor households. The Bantuan Langsung Tunai (BLT), an unconditional cash transfer safety net, helped over 19 million households (one-third of the total population) cope with the inflationary shock caused by the fuel subsidy removal. The government is also piloting other types of social assistance programs that prevent families from resorting to negative coping strategies such as decreasing basic food- and health expenditures, or pulling children from school to join the workforce. These include Program Keluarga Harapan (PKH) and PNPM-Generasi, pilot programs that make grants to households and communities conditional on school attendance and the use of public health facilities.

Safety nets have been also introduced, but no broad-based system exists that can be quickly deployed to protect families from the shocks. The impact on households of unexpected events such as a sudden health crisis, natural disasters or the global financial downturn, and expected shocks resulting from policy reforms can undermine Indonesia's progress in reducing poverty. Padat Karya, a short-term workfare program launched in response to the 1997 financial crisis, failed to protect the poor because of its ineffective targeting and fragmented structure. The subsequent BLT was more successful targeted and designed and was thus more effective in buffering households during the fuel subsidy reduction. In the absence of a coordinated safety net or formal risk-pooling mechanisms, vulnerable households largely rely on informal, inter-household savings to protect themselves.

Social assistance programs protect families from risks but must be better coordinated and implemented to break the inter-generational cycle of poverty. Pilot conditional cash transfer programs (CCT) have shown promise in ensuring that families are able to manage risks while continuing to invest in health and education services. Expanding these programs however, requires addressing implementation issues and ensuring that health and education services are ready to absorb more clients from poor and near-poor families (addressing supply side issues). Other individual social assistance programs such as fee waivers for health services also face implementation challenges and have not worked well. The present fragmented social assistance system does not consistently target, or adequately cover the most vulnerable families.

As more Indonesians escape poverty, a new generation of social insurance programs is needed. The building blocks of a social insurance system are already in place, including Askes, a health insurance program, and the Jamsostek pension program for formal sector workers. Although the Social Security (SJSN) Law (No. 40/2004) outlines national aspirations to provide universal coverage, there

is no clear plan for how to build a coherent and feasible national system. There are questions regarding program's efficacy and effectiveness, the level of benefits provided, the scope of coverage, and its affordability and fiscal sustainability. Without adequate preparation, Indonesia may find itself in the same position as other middle-income countries that offer generous social insurance benefits but are now struggling with large contingent liabilities.

Expanding the scope of social protection programs requires clear institutional arrangements to ensure they are delivered effectively. Responsibility for the development of a social protection strategy – consisting of social assistance and social insurance programs – is fragmented. Although BAPPENAS is center-stage in developing a social protection strategy, it lacks the mechanisms needed to coordinate across programs and ensure inter-agency accountability. The Ministry of Finance (MoF) is involved in allocating resources but does not have a role in program delivery or management. The two bodies charged with the implementation of social assistance and social insurance programs – the Ministry of Social Welfare (Depsos) and the National Social Security Council (DJSN), respectively – face special challenges. Weak administration and limited management capacity within government agencies has also constrained the effective implementation of CCT programs such as PKH.

Where Indonesia Wants to Be

Tackling poverty and reducing vulnerability requires a comprehensive and coordinated response. Maintaining economic growth, tackling labor reform to create more jobs and better train workers, improving access to health and education services, and expanding infrastructure are all essential components of the fight against poverty. This section, however, focuses on how national poverty reduction programs and social protection systems can accelerate the pace of poverty reduction and better protect families from the risks they face.

Improve existing national poverty reduction programs

Finance an enhanced national PNPM-Mandiri program and concentrate resources in the poorest 2,000 *kecamatan*. The national PNPM network offers a proven mechanism through which the government can effectively create jobs for the poor and channel resources to their communities. Increasing the block grant allocations and providing additional resources for the poorest 2,000

kecamatan will benefit an estimated 16 million to 18 million families. PNPM however, needs to continuously innovate with new approaches to reach poor households that are located in non-poor areas, both rural and urban. Further research is required to better understand the issues around urban poverty and to more effectively tailor the PNPM programs to help the urban poor move out of poverty.

Develop an emergency safety net to mitigate the impact of shocks

Develop mechanisms to monitor shocks and trigger the deployment of emergency safety nets. The quarterly monitoring system that is being developed to assess the impacts of the current global financial crisis should be institutionalized to detect and track future shocks. Techniques that survey smaller groups on a rolling basis can improve the cost-effectiveness of the monitoring system without compromising the quality of the data, and should be adopted. Under such a system, data will be collected more frequently, and it will be easier to pinpoint affected regions and households. The data collated through the quarterly monitoring system will improve the decision-making processes that trigger emergency safety net programs, their duration and scope.

Create a complementary set of emergency safety net programs to deliver in-time assistance to those most affected by shocks. There is a need for an integrated emergency safety net system that can be quickly deployed to protect affected households. The programs can be used individually or in parallel, based on the response strategy defined for any given intervention.

- ◆ The BLT can be used to quickly distribute cash assistance to poor and near-poor households. Experience demonstrates the need for improved socialization before and during implementation to maximize public support and political buy-in. It will be important to maintain an up-to-date list of beneficiaries so that the program can be quickly deployed and accurately targeted.
- ◆ A national workfare program that can be launched quickly to provide short-term income generating opportunities for the poor should be developed under a single administrative agency. Care should be taken to ensure that wages paid by such a program are below market levels for unskilled workers to avoid attracting people who are already employed. Through this form of self-targeting, workfare can be used to reach the newly poor who are not included in program recipient lists. Programs such as PNPM can be used as a mechanism

for registering participants and channelling funds for labour-intensive projects, including tasks that attract the participation of women.

Create an integrated framework of social assistance programs to break inter-generational poverty

Develop a framework for an integrated social assistance program that is strategically managed by a single central institution. Improve the efficiency and cost-effectiveness of individual social assistance programs by unifying them in a coordinated framework. “One-roof” strategic management will help to ensure that programs implemented by various agencies work in concert to effectively protect families. Subsidies for health services and scholarships for the poor can be deployed in coordination with CCTs. Implementation challenges facing the PKH program must be resolved and improvements made to their technical and managerial oversight before they are scaled up nationally. As coverage increases, the government should phase out programs that do not distribute assistance to the poor efficiently. Coordination among line ministries is necessary to ensure that health and education services are prepared to meet increased demand: greater synergies can be generated by co-implementing these alongside the PNPM-Generasi to further improve local service delivery.

Further integrate the programs by developing a unified database of poor and near-poor households. Develop a consolidated national database from which individual social assistance programs (including the BLT) can draw beneficiary lists. This will help avoid duplications in assistance delivery and allow beneficiary tracking. Regularly update and recertify the database to prevent fraud, uncover households with too many recipients, and eliminate “ghost” beneficiaries. Transparent and accurate targeting will strengthen public buy-in and build political support for targeted social assistance programs.

Sharpen the skills and improve the performance of agencies responsible for delivering social assistance programs. Enhance the program design and management skills, and rigorously monitor and evaluate the performance of implementing agencies. Teach them how to use the unified database and apply appropriate and cost-effective targeting methods to reach those most in need. Strengthen front-line program delivery by building the capacity of local service providers and piloting new incentives for improved service delivery.

Lay the groundwork for a second generation of programs

Develop a second generation of social insurance programs that are fiscally responsible. Much preparation work needs to be done before Indonesia is ready to unify and extend a comprehensive social protection framework under the SJSN law. First, review the effectiveness, coverage, affordability and fiscal sustainability of current programs, including Askes and Jamsostek. Second, assess reform options for extending coverage including the level of benefits, contribution rates and collection mechanisms, and provider networks. Third, develop a reform roadmap to gradually phase-in the second generation of social insurance programs. Finally, clarify the institutional arrangements and reforms that will be required to implement the proposed programs. Incrementally phase-in the reforms to generate buy-in and ensure they are feasible, affordable and sustainable.

How The World Bank Can Help

Current Program

The World Bank is currently providing support to the Government of Indonesia to improve existing poverty reduction programs and develop social assistance interventions by:

- ◆ Providing financial and technical support for *PNPM-Mandiri* and several PNPM programs including PNPM-Rural, PNPM-Urban, SPADA and *PNPM-Generasi*. The World Bank serves as the Trust Fund Administrator for the multi-donor PNPM Support Facility.
- ◆ The World Bank teamed with BAPPENAS in the design and piloting of the household CCT program (PKH). A monitoring and evaluation system will assess the implementation and impact of the program to help make decisions about whether the program should be modified and/or expanded.
- ◆ BAPPENAS, BPS and the World Bank are partnering to develop a crisis monitoring system that collects existing data and generates new data to track the impact of shocks. Data will be used to inform the future development of response mechanisms.
- ◆ Together with BPS, the World Bank is reviewing the need to improve poverty measurements. The World Bank is also preparing a research report on how to improve targeting methodologies used by poverty reduction and social protection programs in Indonesia.

- ◆ The World Bank carries out original research on select topics to inform policy dialogue on key poverty issues. Research products included the 2006 Poverty Assessment and the forthcoming Indonesia Jobs Report.

Future Support

Future support will build on ongoing collaborations, and move towards helping the government to develop institutions and systems needed to execute its social protection agenda.

- ◆ Using the outcomes of the crisis monitoring system, the World Bank can assist the government in modifying the design of existing programs so that they are better targeted to regions or groups vulnerable to the effects of the crisis or other external shocks. The World Bank can also help develop a public works program based on lessons learned from Indonesia's last workfare program, *Padat Karya*, and international experience.
- ◆ Technical assistance will be provided in developing a social assistance framework that is integrated, efficient and cost-effective. The World Bank offers technical knowledge based on experience in Indonesia and similar programs globally, that can support agencies responsible for the implementation of key programs such as conditional cash transfers. Assistance will also be offered in refining targeting methods and creating a unified database.
- ◆ The World Bank is exploring options to support the government institutions responsible for the design and implementation of a social insurance system. First steps will include providing preliminary diagnostics, such as a social protection public expenditure review. This could later be extended to technical studies exploring reform options based on experiences in extending social protection in other middle-income countries, to inform policy makers responsible for designing the framework of the future National Social Security (NSS) system.

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