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HISTORY AND EVOLUTION OF SOCIAL ASSISTANCE IN INDONESIA

SOCIAL ASSISTANCE PROGRAM AND PUBLIC EXPENDITURE REVIEW 8

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List of Abbreviations, Acronyms and Indonesian Terms

AFC	Asian Financial Crisis
APBN	*Anggaran Pendapatan dan Belanja Negara* (Central Government Budget)
ASABRI	*Asuransi Sosial Angkatan Bersenjata Republik Indonesia* (Social insurance for members of the armed forces and civilians employed by the Ministry of Defense)
Askes	*Asuransi Kesehatan* (Health insurance for government employees including military and pensioners)
Askeskin	*Asuransi Kesehatan Masyarakat Miskin* (Health insurance for the poor)
Askesos	*Asuransi Kesejahteraan Sosial* (Social welfare/health and life insurance for low income employees in informal sector)
Bappeda	*Badan Perencanaan dan Pembangunan Daerah* (Regional Development Planning Agency)
Bappenas	*Badan Perencanaan dan Pembangunan Nasional* (National Development Planning Agency)
BKG	*Bantuan Khusus Guru* (Special assistance for teachers)
BKKBN	*Badan Koordinasi Keluarga Berencana Nasional* (Family Planning Coordination Agency)
BKM	*Bantuan Khusus Murid* (Scholarships program in compensation for fuel subsidy reduction)
BKS	*Bantuan Khusus Sekolah* (Special Assistance for Schools)
BLT	*Bantuan Langsung Tunai* (Unconditional cash transfer)
BOK	*Bantuan Operational Kesehatan* (Operational health assistance program)
BOP SD/MI	*Biaya Operasional dan Perawatan SD/MI* (block grant to support operational costs for primary schools, both public and Islamic, established in 1999)
BOS	*Bantuan Operasional Sekolah* (School operation funds)
BPS	*Badan Pusat Statistik* (Central statistics agency - Statistics Indonesia)
BSM/BKMM	*Bantuan Siswa Miskin* (Cash transfer for poor students)
Bulog	*Badan Urusan Logistik* (National Logistics Agency)
CCT	Conditional Cash Transfer
CDD	Community Driven Development
CMRS	Crisis Monitoring and Response System
CPI	Consumer Price Index
DAK	*Dana Alokasi Khusus* (special subsidy from central government budget to regional government budgets for specific activities)
DAU	*Dana Alokasi Umum* (general subsidy from central government budget to regional government budgets for general activities)
DBO	*Dana Bantuan Operasional* (Block Grant, e.g. School Based Grants, SGB)
DPRD	*Dewan Perwakilan Rakyat Daerah* (Regional Representative Council)
EPI	Expanded Program on Immunization

GFC	Global Financial Crisis (starting Fall 2008)
GOI	Government of Indonesia
IDT	*Inpres Desa Tertinggal* (Left behind villages project)
IFLS	Indonesian Family Life Survey
IP	*Infrastruktur Pedesaan* (Rural infrastructure program)
Jamkesda	*Jaminan Kesehatan Daerah* (Local level health insurance scheme for the poor)
Jamkesmas	*Jaminan Kesehatan Masyarakat* (Health insurance scheme for the poor)
Jamsostek	*Jaminan Sosial Tenaga Kerja* (Workforce social security)
JPK Gakin	*Jaminan Pemeliharaan Kesehatan Keluarga Miskin* (Health insurance for poor families)
JPKM	*Jaminan Pemeliharaan Kesehatan Masyarakat* (Community health insurance)
JPS	*Jaring Pengaman Sosial* (Social safety net)
JPS-BK	*Jaring Pengaman Sosial Bidang Kesehatan* (Health Safety Net)
Kabupaten	District/regency
Kartu Sehat	Health cards (for the poor)
KDP	*Kecamatan* Development Project
Kecamatan	Sub-district
Kelurahan	Urban precinct
Kemdagri	*Kementerian dalam Negeri* (Ministry of Home Affairs, MOHA)
Kemdikbud	*Kementrian Pendidikan dan Kebudayaan* (Ministry of Education and Culture, MOEC)
Kemenag	*Kementerian Agama* (Ministry of Religious Affairs, MORA)
Kemenkes	*Kementerian Kesehatan* (Ministry of Health, MOH)
Kemenkeu	*Kementerian Keuangan* (Ministry of Finance, MOF)
Kemenkokesra	*Kementrian Koordinator Kesejahteraan Rakyat* (Coordinating Ministry for Social Welfare)
Kemensos	*Kementerian Sosial* (Ministry of Social Affairs, MOSA)
KPS	*Keluarga Pra-Sejahtera* (BKKBM classification for "pre-prosperous" households)
KS-1	*Keluarga Sejahtera 1* (BKKBN classification for "poor" households)
LG	Local government
LKMD	*Lembaga Ketahanan Masyarakat Desa* (Community Residence Council – Part of Village Administration)
MDG	Millennium Development Goal(s)
MSS	Minimum Service Standards
MTDP	Medium-Term Development Plan
NGO	Non-governmental Organization
OPK	*Operasi Pasar Khusus* (Special market operation for rice)
OPSM	*Operasi Pasar Swadaya Masyarakat* (Subsidized Rice Safety Net)
PDM-DKE	*Pemberdayaan Daerah Mengatasi Dampak Krisis Ekonomi* (Regional Empowerment to Overcome Economic Crisis)
PDP-SE	*Penanggulangan Dampak Pengurangan Subsidi Energi* (Program to alleviate the impacts of subsidy reduction)

PK	*Padat Karya* (Public works)
PKH	*Program Keluarga Harapan* (Conditional cash transfer)
PKPP	*Prakarsa Khusus bagi Penganggur Perempuan* (Special Initiatives for Women's Employment, SIWE)
PKPS-BBM	*Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak* (Compensation program for the reduction of fuel subsidies)
PMT	Proxy-Means Testing
PMT-AS	*Pemberian Makanan Tambahan-Anak Sekolah* (Food supplement program for school children)
PMT-Balita dan Bumil	*Pemberian Makanan Tambahan - Bawah Lima Tahun dan Ibu Hamil* (Food supplement program for pregnant women and children under five years old)
PNPM	*Program Nasional Pemberdayaan Masyarakat* (Umbrella organization for all PNPM and community-driven development initiatives)
PNPM-Generasi	*PNPM Generasi Sehat dan Cerdas* (PNPM Healthy and Smart Generation Program)
PNPM-Mandiri	*Program Nasional Pemberdayaan Masyarakat Mandiri* (National Community Empowerment Program)
Posyandu	*Pos Pelayanan Terpadu* (Integrated health service post)
PP	*Peraturan Pemerintah* (National government regulation)
PPLS	*Pendataan Program Perlindungan Sosial* (Data collection for targeting social protection programs)
Propenas	*Program Pembangunan Nasional* (National Development Program)
PRSP	Poverty Reduction Strategy Paper
PT Pos	*Perseroan Terbatas Pos Indonesia* (National post office system)
Puskesmas	*Pusat Kesehatan Masyarakat* (Community health center)
Pustu	*Puskesmas Pembantu* (simple health service unit under the Puskesmas covering 2-3 villages)
Raskin	*Beras Miskin* (Program for sale of subsidized rice to the poor)
Rp	Indonesian *Rupiah*
SBG	School Based Grants *(Dana Bantuan Operasional, DBO)*
SD	*Sekolah Dasar* (Elementary school)
SGP	Scholarships and Grants Program
SMERU	SMERU Research Institute
SSN	Social Safety Net
Susenas	*Survei Sosio-Ekonomi Nasional* (National Socio-Economic Survey)
Taspen	*Tabungan dan Asuransi Pegawai Negeri* (Civil servant pension savings and insurance)
TKPK	*Tim Koordinasi Penanggulangan Kemiskinan* (Coordination team for poverty reduction)
TNP2K	*Tim Nasional Percepatan Penanggulangan Kemiskinan* (National Team for Accelerating Poverty Reduction)
UCT	Unconditional Cash Transfer
UKP3R	*Unit Kerja Presiden untuk Pengelolaan Program dan Reformasi* (Presidential work unit for the organization of reform program)
UPP	Urban Poverty Program
VIP	Village Improvement Program *(Inpres Desa Tertinggal, IDT)*
WFP	World Food Program

Introduction

Over the past 13 years, the Government of Indonesia (GOI) has moved from a set of temporary, crisis-driven social assistance initiatives towards a more permanent system of social assistance programs. This background paper aims to provide a brief history of the major developments in the GOI's household-targeted social assistance policy and programs with more limited discussion of supply-side and community social assistance initiatives. The note is organized chronologically with developments in social assistance presented together with information about the economic, political and social contexts in which these developments occurred. Further detail regarding each of the household-targeted social assistance programs is presented in the main report *Protecting Poor and Vulnerable Households in Indonesia* and the associated background chapters collected in Volume 2.



1. New Order Regime (1965 – 1997)

Indonesia's Constitution (1945) established that the rights of Indonesian citizens include: i) quality education and teaching; ii) health services and iii) employment and proper livelihood. The Constitution further stipulated that the State is obliged to care for the poor as well as provide social security/social welfare (INTEM Consulting Inc., September 2004).[1] During Suharto's "New Order Regime", the GOI's social policies focused on geographic expansion of government-funded, publicly-provided basic education and population health services. Line ministries at the national level were responsible for the development of sectoral plans and budgets with program implementation and reporting requirements distributed among provincial, district and sub-district authorities.

Real economic growth averaged 6.7 percent per year over the three decades of the New Order Regime which began roughly in 1965. This growth was associated with increasing contributions of the industrial and services sectors, increasing urbanization, and growth of the middle class.[2] The GOI developed a series of laws and regulations between 1977 and 1992 that mandated that private and public employers, as well as the military and police, provide employees with health insurance, compensation for work-related accidents, pension financing, and death benefits. The resulting social insurance systems – *Jaminan Sosial Tenaga Kerja* (Workforce social security, Jamsostek) (large private employers), *Asuransi Kesehatan* (health insurance for government employees including military and pensioners, Askes) and *Tabungan dan Asuransi Pegawai Negeri* (Civil servant pension savings and insurance, Taspen) (civil servants) and *Asuransi Sosial Angkatan Bersenjata Republik Indonesia* (Social insurance for members of the Armed Forces and civilians employed by the Ministry of Defense, ASABRI) (military and police) – provide different benefits and have different premium and coinsurance

1 In 1948, Indonesia became one of the founding members of the United Nations, thus implicitly adopting the Universal Declaration of Human Rights that was associated with the United Nations' Charter.

2 Thee Kian Wie (2010).

and copayment structures. However, these social insurance programs have historically covered less than 10 percent of the population and do not provide coverage for households employed in agriculture or the informal sector.[3] It is in these sectors where large majorities of the poor work.

Indonesia's economic growth was also associated with substantial declines in the poverty, especially among rural households. The poverty headcount fell from 54.2 million to 34.5 million Indonesians and poverty incidence fell from 41.1 to 17.7 percent.[4] While poverty reduction was not a policy objective in GOI documents until the early 1990s, the GOI's agricultural and rural development strategies and commitment to human capital investment through financing and provision of education and health services also contributed to poverty reduction. Furthermore, the GOI intervened in staple foods markets[5] for the purpose of reducing domestic price volatility and increasing food security.[6] During this era, when individuals or families employed in the informal sector required in-kind or financial assistance, they sought it from extended families, communities, or informal credit markets (see Annex Table A.4).

3 Lindenthal (2004).

4 BAPPENAS, April 4-6 (2006).

5 GOI interventions in food markets included monopolization of food imports, operation of national buffer stocks of rice and a system of seasonally adjusting rice prices (Tabor and Sawit, 2001).

6 Food Law No. 7/1996 defines food security as "a condition where food necessity is fulfilled at the household level, manifested in its availability, amount and quality, safety, equally distributed and accessible" and also indicated that the GOI was responsible for realizing food security (Hadipayitno, 2010).

2. Asian Financial Crisis (1997 – 1999)

The advent of the Asian Financial Crisis (AFC) in July 1997 and subsequent deterioration of economic conditions accelerated the decline in public confidence in the Suharto government, increased civil disorder and ultimately led to the resignation of President Suharto in May 1998.[7] Vice President Bacharuddin Jusuf Habibie was appointed interim President and he quickly acted to form a new Cabinet; release political prisoners; re-institute freedom of the press, speech and association; formed a Human Rights Commission; and re-established working relationships with the IMF and donor community.[8] Several important pieces of legislation were passed in 1999 that laid the foundation for fundamental political, governance and human rights change in Indonesia including: i) the Political Parties Law (No. 2/1999, replaced by Law 27/2002)[9], ii) the Law on Regional Administration (No. 22/1999, replaced by Law 32/2004) and iii) the Law on the Fiscal Balance between Central and Regional Governments (No. 25/1999, replaced by Law 33/2004). The latter two laws provided the legal foundation for: i) direct elections for President (effective 2004) and local executives (effective 2005), ii) reconstitution of national and local legislative bodies, iii) redistribution of power between executive and legislative branches of government, and iv) decentralization of administrative decision-making and fiscal control from the central to the district governments (effective 2001) (see Box 2).

The AFC triggered a cascade of macroeconomic problems in Indonesia marked by a rapid and steep devaluation of the rupiah[10], high inflation and increases in unemployment and poverty. An important element of the GOI's strategy to restore fiscal balance was to reduce or eliminate costly and regressive universal subsidies for food, fuel, and electricity and replace these with safety net programs (SSNs) targeted to protect the poor (GOI, July 29, 1998; GOI, January 20, 2000). In April 1998, the GOI increased the administered prices of foods, electricity and fuel resulting in widespread civil unrest. Further increases in the market prices for rice and cooking oil during the spring and summer of 1998[11] led the GOI to postpone earlier commitments to reduce food subsidies in October 1998 and to announce new measures to address food security concerns.[12] By the middle of the last quarter of 1998, the economy appeared to be stabilizing and the GOI resumed subsidy reductions (fertilizer and electricity tariffs) and in 1999 gradually eliminated subsidies for corn, fishmeal, soybean meal, sugar, wheat flour and the administered exchange rate for imported rice. During the AFC, the GOI continued to maintain subsidies for low-cost housing and farmer or rural cooperatives and introduced new subsidies for the import of generic drugs (GOI, April 10, 1998). Even with macroeconomic, fiscal and regulatory reforms, real economic growth in Indonesia contracted by 13.1 percent in 1998 and was only marginally positive in 1999 at 0.8 percent.[13]

The AFC caused a sharp increase in the number of Indonesians living in poverty. The poverty headcount more than doubled from 23 million in 1996 to just under 50 million in 1998 before declining to 38 million in 1999.[14] Urban households experienced an overall greater increase in poverty incidence, while rural households experienced a greater increase in the poverty gap.[15] Inflation resulted in substantial reductions in Indonesian households' real purchasing power in all income quintiles. Despite the fact that 85 percent of households reported receipt of food-related assistance, all households reported significantly increasing the proportion of household expenditures for food (especially rice) and

7 A number of events earlier in the 1990s were harbingers of the eventual end of Suharto's New Order including: i) growing opposition to the corruption and repressive practices of New Order Regime led by Megawati Sukarnoputri and ii) international concern related to violations of human rights in East Timor (http://en.wikipedia.org./wiki/Post-Suharto_Era; accessed on 1/10/2011).

8 The initial Standby-Agreement with the IMF (October 1997) was replaced by an Extended Fund Facility from July 1998 to November 2000. Discussion of the need for and specifics of SSNs in response to the AFC were prominent features of the GOI's Letters of Intent related to the first Standby Agreement and first Extended Fund Facility (October 1997 to December 1999) but not prominent topics in the GOI's Letters of Intent related to later Extended Fund Facilities (January 2000 to December 2003).

9 The Political Parties Law (No. 2/1999) permitted the formation of more than three political parties. As a result, 48 parties participated in peaceful general elections in June 1999 for the national, provincial and municipal/district parliaments. The newly elected national legislature elected Abdurrahman Wahid ("Gus Dur") and later Megawati Sukarnoputri as president for the 2000-2004 presidential term.

10 Despite adoption of tight monetary and fiscal policies, increasing the interest rate and floating of the rupiah early in the crisis, by January 1998 the value of the rupiah had declined by 70 percent from its value in June 1997.

11 Food price increases were due to: i) poor harvests related to El Nino droughts, ii) disruptions in distribution networks as a result of the May 1998 protests and civil conflict, iii) hoarding, and iv) export of subsidized rice

12 These measures included: i) tasking the Ministry of Industry and Trade to monitor food and fuel supplies throughout the country, ii) appointing a special team to oversee food security issues headed by the Minister of Food and Horticulture, iii) temporarily banning the export of rice and iv) delaying plans to further reduce food subsidies in October 1998.

13 Thee Kian Wie (2003).

14 Tabor and Sawit (2001). Estimates of the poverty headcount, poverty incidence and poverty gap and their change over time depend upon the definition of the poverty line as well as whether adjustments for Indonesia's significant inflation during the AFC are made from 1996 or 1999 (Suryahadi et.al., 1999).

15 Reported employment increased among men and women in both urban and rural areas – however, most of the reported change was due to the provision of unpaid family labor.

reducing the frequency and amount of beef consumption (especially the middle class).[16] Households also reduced their use of public health services, including use of preventive health services for children at *posyandus* (*Pos Pelayanan Terpadu,* Integrated health service post) (i.e. affecting anthropometric monitoring and distribution of Vitamin A). School enrollment and grade completion rates also declined – especially for poor, rural children aged 7 to 12 years old; and poor, urban children aged 13 to 19 years old. About 25 percent of households reported receiving assistance from family or friends – demonstrating the "safety net" role of family and community.[17]

During the first year of the AFC, the GOI's social assistance response was based on scaling-up existing programs. For example, during the latter half of 1997, the GOI expanded the *Inpres Desa Tertinggal* (IDT) the left behind villages program to support creation of additional rural employment and gave priority to maintaining pre-crisis budget levels for the education and health sectors (GOI, October 31, 1997). Starting in 1998, the GOI refined and scaled-up grant assistance targeted to poor rural sub-district or *kecamatans* and urban precincts or *kelurahans* based on the principles of community-driven development (CDD). Grant funds were intended to expand temporary employment generation through financing of small-scale, labor-intensive civil works[18], and provide subsidized credit to support small and medium sized enterprises (GOI, April 10, 1998).

The GOI launched a set of new social safety net programs known collectively as the Jaring Pengaman Sosial (JPS) in the summer of 1998. The impetus for creation of new social assistance programs included concern for the widespread and prolonged negative impacts of the crisis on human welfare and the realization that major economic reforms could not be adopted in Indonesia's fragile political environment without first putting compensatory programs in place. The JPS programs included:1) sale of subsidized rice to poor families (see Box 1), 2) scholarships for elementary and junior secondary students from poor families, 3) block grants to health centers and to schools (SBG) for operating expenses, 4) nutritional supplements for infants and children, 5) a set of labor-creation activities known collectively as *padat karya* (public works), and 6) a regional development scheme known as *Pemberdayaan Daerah Mengatasi Dampak Krisis Ekonomi* (PDM-DKE) that provided funds directly to village-level representative bodies (the *Lembaga Ketahanan Masyarakat Desa,* or LKMD) for use on village-level projects that would contribute to economic resiliency.[19]

Box 1: Sale of Subsidized Rice to Poor Households (OPK)

Operasi Pasar Khusus (OPK) (special market operation for rice) was established as part of the JPS initiatives during the AFC (July 1998) with the objective of increasing the food security of poor households. Households in the *Badan Koordinasi Keluarga Berencana Nasional* (BKKBN) (Family Planning Coordination Agency) pre-welfare *Keluarga Pra-Sejahtera* (KPS) and poor *Keluarga Sejahtera 1* (KS-1) categories were eligible to purchase a fixed quantity of low quality rice at prices significantly below the market price (Rp 1000/kg). Initially the allocation of rice was 10 kg/household/month but was doubled to 20 kg/household/month by December 1998. *Badan Urusan Logistik* (Bulog), the GOI's logistics agency, was tasked with the overall planning, purchasing and distribution of rice to the district level. Community leaders were responsible for delivery of the rice to their local area and for the sale to eligible households. During the first 6 months of implementation, 40 percent of Indonesia's 50 million households had purchased OPK rice, but leakage to non-poor households was high. reducing the potential for the program to increase food security and reduce malnutrition among the very poor. **(**Sumarto, S., Suryahadi, A. and Widyanti, W.; March 2001).

16 The Freidman et.al. (2006) analysis of Indonesian Family Life Survey (IFLS) data for 2000 and Susenas (Survei Sosio-Ekonomi Nasional, National Socio-Economic Survey)) data for 2001 found that stunting (low height for age) was significantly more likely for households in the poorest quintile. While this cross-sectional analysis is insufficient to determine if nutritional outcomes among the poor were significantly worse during the AFC, caloric and micronutrient deficiencies would have had long-term impacts on cognitive development and an increased the probability of chronic illness in later life.

17 Frankenberg, Thomas, and Beegle (1999).

18 This expansion included the beginning of the Kecamatan Development Projects (KDP) and Urban Poverty Projects (UPP) financed with GOI budget and World Bank loans.

19 GOI, July 29, 1998 and Suryahadi and Sumarto (2001).

The rapid increase in poverty and deterioration of human welfare required that AFC-era social assistance programs and initiatives be organized and implemented through existing GOI Ministries and agencies.[20] Many of the GOI's social assistance programs received financial and technical assistance from donors through expansion of existing education and health sector loans and grants as well as from new fast-disbursing program and project assistance.[21] To address concerns that social assistance program benefits might be poorly targeted or diverted from their intended purpose through corruption, the GOI developed a system of safeguards for the social assistance programs[22] and created a Social Monitoring Early Response Unit (SMERU) to improve monitoring and evaluation.[23] Over the next decade, many of the JPS initiatives evolved into permanent programs in the GOI's poverty reduction and social assistance strategy with program financing shifting from donors to the GOI budget.[24]

20 GOI Ministries and agencies tasked with implementation of SSN interventions appear in Annex Table A.1.

21 The GOI requested that the World Bank take a leadership role in coordinating donors' financial and technical assistance related to food security and that the Asian Development Bank and World Bank take joint leadership for coordinating financial and technical assistance for social assistance/safety net initiatives (GOI, September 11, 1998; October 19, 1998 and November 13, 1998).

22 Safeguarding mechanisms that were put into place included: i) reporting of key indicators, ii) independent verification of performance reports, iii) provision of more information about social assistance programs to beneficiaries and citizens, iv) establishment of a complaints resolution mechanism and v) greater use of civil society groups as independent monitors (GOI, May 14, 1999).

23 The effectiveness and targeting efficiency of the AFC safety net programs have been extensively studied: for example, in Augustina et.al. (2010), Cameron (2002), Somanathan (2008), and Sparrow (2008). The findings of these evaluations are not reviewed here.

24 The evolution of Indonesia's social assistance programs has often followed the pattern established during AFC, i.e. the GOI adapts existing programs to address emerging challenges, evaluates results of new efforts and subsequently utilizes that experience and information for purposes of program re-design and scaling-up. Some programs have moved through this cycle of policy and program development more than once. See Appendix Tables A.1, A.2a and A.2b for charts showing the evolution of Indonesian social assistance programs from 1998 to 2010.

3. Social Assistance – Financial and Legal Foundations (2000-2004)

The first half of the 2000s was distinguished by the development and passage of a large number of domestic laws, as well as ratification of international conventions, related to human rights and social protection. The Second Amendment of the Constitution, Article 28 (August 18, 2000) reaffirmed and expanded on the rights of Indonesian citizens including (among others): 1) entitlement to education, 2) right to employment opportunities with just and reasonable compensation, 3) right to a place to reside, 4) right to medical care, and 5) right to social security guarantees. Other Laws and Decrees followed that further delineated obligations to ensure human rights included the: 1) Law on Child Protection (No. 23/2002); 2) Law on National Education (No. 20/2003) entitling education for children from 7 to 15 years of age, including provision of scholarships for the poor and special education for those with physical and mental handicaps; and 3) Law on National Social Security System (No. 4/2004) that was to rationalize existing Social Security programs into a national system and extend health and other insurance coverage to all Indonesians by 2014.[25] In addition, the GOI began rapidly incorporating international human and labor rights instruments into Indonesian Law. [26]

Successive administrations developed a National Development Program, *Program Pembangunan Nasional* **(Propenas) detailing strategies for fostering macroeconomic stability and generating a return to sustainable growth** (GOI, 2001). Though poverty reduction was not an explicit goal of these first Propenas, many of the five broadly written objectives had elements that would benefit all households. For example, objectives 1, 2, and 4 ("ensuring national cohesion and social stability", "achieving good governance and the rule of law", and"continued development of the social sectors and human welfare programs" respectively) include real benefits for poor as well as nonpoor households. Over the course of the Propenas period, the Indonesian economy recorded positive real annual growth rates ranging from 4.8 to 5.1 percent. The GOI budget deficit and government debt declined significantly and annual inflation declined to under 10 percent.

Energy subsidies, including fuel and electricity – which in the end were regressive and constrained the GOI's ability to meet its fiscal and public investment objectives – were then, and remain now, an outsize element in the GOI's system of transfers. Attempts to reduce costly subsidies in 1998 and 1999 were postponed because of strong public opposition.[27] Greater political stability, positive economic growth and provision of social assistance programs facilitated the GOI's reduction of fuel subsidies (other than for kerosene) in October 2000, June 2001 and January 2002.[28] However, GOI efforts to move towards linking domestic fuel prices to world prices by the end of 2003 were suspended when world fuel prices increased with the start of the Iraq war in 2003. Fuel subsidies' claim on the GOI budget increased from 5 percent in 2003 to 23 percent in 2004 and to 32 percent by 2008 (see Figure 1). Along with the Raskin subsidized rice program (originally called OPK; see below), energy subsidies constitute the overwhelming majority of total current public expenditures on transfers from government to households.

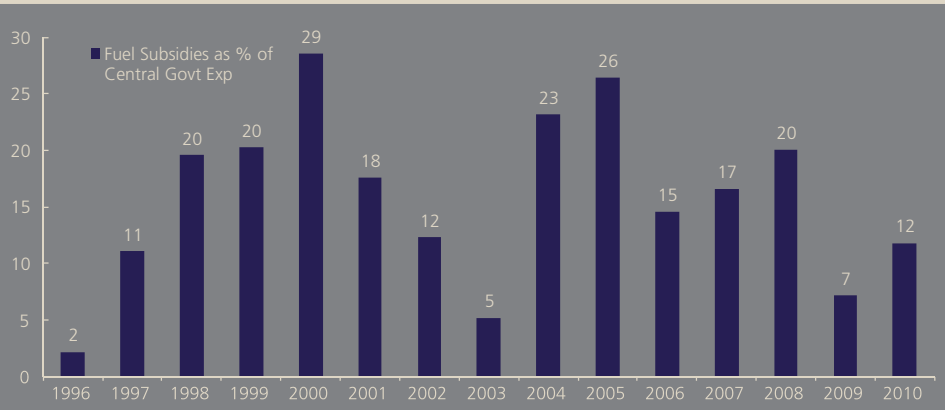
25 Insurance to be extended to all Indonesians included: i) health insurance, ii) workers' compensation, iii) disability insurance, iv) retirement benefits and v) life insurance (RTI International, January 2010).

26 Prior to 2000, Indonesia ratified two UN Conventions (Eldridge, 2002) and between 1998 and 2002, Indonesia ratified 5 additional ILO labor conventions becoming the first country in the Asian region to have ratified all 8 of the ILO Core Conventions (Nurjaya, 2010).

27 Implementation of plans to reduce fuel subsidies in 1998 and 1999 were postponed due to concerns that the fuel subsidy reductions might trigger demonstrations and riots like those of April 1998 that had contributed to Suharto's resignation.

28 Fuel subsidy reductions resulted in fuel price increases of 12 percent in 2000, 30 percent in 2001 and 22 percent in 2002. These numbers are based on select information in the GOI's IMF Letters of Intent and Memorandum of Economic and Financial Policies between 2000 and 2002.

Figure 1: Fuel Subsidies as a Percent of Central Government Expenditure, Indonesia, 1995-2010



Source: World Bank, based on Kemenkeu (Kementerian Keuangan, Ministry of Finance) publications.

Poverty incidence declined from a high of 24.2 percent in 1998 to 19.1 percent by 2000 and to 16.7 percent in 2004, but did not return to pre-crisis levels.[29] Evidence of continued economic uncertainty included an increase in unemployment rates in the formal sector, especially among youth aged 15 to 24 years: youth unemployment increased from 20 to 30 percent between 2000 and 2005.[30] The GOI continued to support social assistance initiatives during the 2000 to 2004 period to demonstrate a continued commitment to address the needs of those who had become poor during the AFC as well as to compensate those who were negatively impacted by the on-going economic reform program.[31] Many of the social assistance initiatives were similar to those started under the JPS; specifically: 1) sale of subsidized rice to poor families, 2) provision of fee waivers for preventive and curative health care provided to the poor by public sector providers, 3) scholarship assistance for students from poor households and 4) block grants to schools for operational expenses and for school renovation. The GOI also introduced new social assistance initiatives, specifically: 1) unconditional cash transfers (UCTs) targeted to poor households,[32] 2) subsidies for public transportation operators, 3) clean water for poor villages; 4) low interest loans for small enterprises and 5) funds for poor fishing communities.[33]

The evolution of temporary, crisis-motivated stop-gaps into permanent social assistance initiatives began as financing shifted from donor sources to the regular budget. For example, financing for the sale of subsidized rice for the poor program was shifted into the regular budget (*Anggaran Pendapatan dan Belanja Negara,* APBN). In addition, the GOI decided to utilize a portion of the "fiscal space" created from reductions of the fuel subsidies to finance social assistance and other compensatory initiatives.[34] Donor financing continued, albeit at lower levels than during the AFC, for education and health social assistance initiatives while CDD programs targeted to poor rural *kecamatans* and urban *kelurahans* were expanded.[35] Design and implementation issues that had not yet been addressed by the end of this period included: 1) lack of current information for purposes of targeting households, 2) lack of methods and information to reduce leakage of program benefits to the non-poor and 3) lack of clarity regarding the responsibility of local governments regarding social assistance initiatives following decentralization (see Box 2). This lack of oversight is partially traceable to the genesis of most permanent initiatives in crisis conditions when there is no time to delay benefits for vulnerable households while the finer details of design and implementation are debated, tested, and revised for maximum efficiency and effectiveness.

29 Estimates of the poverty headcount, poverty incidence and poverty gap and their change over time depend upon definition of the poverty line as well as whether adjustments for Indonesia's significant inflation during the AFC are made from 1996 or 1999 (Suryahadi et al., 1999). Studies of longer-term impacts of the AFC found i) an increased vulnerability to poverty among higher income groups (Suryahadi, A. and Sumarto, S., 2001) and ii) a significant increase in the likelihood of being poor in 2002 among those who had fallen into poverty during the AFC (Ravaillon and Lokshin, 2005).

30 World Bank, June 2, 2004

31 The GOI received IMF assistance through Extended Fund Facilities through December 31, 2003.

32 Households classified as KPS or KS-1 according to BKKBN criteria were eligible to receive the BLT/UCTs. The BLTs/UCTs were provided each year that an increase in the administered prices of fuels occurred (i.e. 2000, 2001, 2002).

33 RTI International (2010).

34 While the budget "savings" due to the difference between the budged fuel subsidies and their actual costs were called the "Fuel Subsidy Compensation Fund"(Program Kompensasi Pengurangan Subsidi Bahan Bakar) or PKPS-BBM, there was no formal linkage between the actual amount "saved" from specific subsidy reductions in a given year and the total amount allocated for the social assistance/compensation programs.

35 The CDD approaches developed during the AFC for poor rural and urban areas in Indonesia were adopted as one approach for post-tsunami reconstruction efforts in North Sumatra in late December 2004.

Box 2: Decentralization and Social Assistance in Indonesia: 2000 – 2004

Education and Health Sectors: Indonesia's decentralization laws explicitly assigned responsibilities for planning, providing and financing local education and health services to district governments. The bulk of financing for these transferred responsibilities came from the central government in the form of a general block grant (*Dana Alokasi Umum,* DAU). Adoption of this form of decentralization and fiscal federalism left line ministries at the central level with significantly less influence on the size and program-specific assignment of districts' recurrent budgets for the social sectors (World Bank, June 2003). Further, line Ministry efforts to conduct program monitoring and evaluation were hampered by the lack of regulations and incentives requiring local governments to provide regular reports on program inputs, outputs and outcomes. Most of the elements of this situation persist today see – *Protecting Poor and Vulnerable Households in Indonesia* (World Bank, 2012b), particularly Section 5 and Boxes 4 and 5 (and the references therein).

Social Assistance Initiatives: Indonesia's decentralization laws did not provide guidance on the level of government responsible for social assistance initiatives. This lack of clarity in the laws may have been due to the fact that the social assistance initiatives were viewed as temporary measures needed during the AFC and early 2000s to support consumption by the poor. Over-arching decisions regarding the design, planning and budget allocations for social assistance programs were taken by Central Government Ministries under the overall co-ordination of *Kementrian Koordinator Kesejahteraan Rakyat* (Kemenkokesra, Coordinating Ministry for Social Welfare) and *Badan Perencanaan dan Pembangunan Nasional* (Bappenas, National Development Planning Agency). Financing for social assistance bypassed local government budgets and was provided directly to households (e.g. UCTs and scholarships via PT Pos (National post office), to service providers (e.g. school block grants via school committees) or community leaders (e.g. Raskin and CDD for *kecamatans* or *kelurahans).* By-passing local governments had unintended consequences: for example, provision of school grants by Kemdikbud (Kementrian Pendidikan dan Kebudayaan, Ministry of Education and Culture)/Kemenag (*Kementerian Agama*, Ministry of Religious Affairs) resulted in the reduction or elimination of local government budgetary allocations for non-salary school expenses.

4. Social Assistance – Permanence in Development Strategy (2005-2010)

In the Fall of 2004, Susilo Bambang Yudhoyono and Jusuf Kalla won direct elections for President and Vice President of Indonesia with approximately 60 percent of the popular vote. The administration's Medium-Term Development Plan (for 2005 to 2009) outlined a macroeconomic framework and development-financing plan to support objectives in three broad areas: 1) peace and security, 2) democratic and just governance and 3) enhanced welfare for all Indonesians. The Plan included a specific objective to reduce the poverty headcount rate to 8.2 percent (or lower) by 2009. To achieve this objective, the Plan proposed a multi-sectoral strategy to: 1) foster economic growth, 2) address conditions that increased the likelihood that an individual or household was impoverished,[36] 3) ensure that social sector expenditures were pro-poor, 4) enhance access to social assistance, and 5) enhance the social resilience of individuals, households and communities based on the social and cultural values of Indonesia.[37] The plan also included objectives for institutionalizing social assistance and improving program efficacy and efficiency. Specific areas for social assistance development included: 1) formulation of a national social security system,[38] 2) improving consistency among social assistance policies, and 3) improving quality in management of social assistance services (see the discussion of PNPM below).

The Yudhoyono administration continued to ratify human- and labor-rights- related International Conventions and pass important domestic social assistance legislation. By February 2006, Indonesia had ratified six international human rights covenants and declarations – more than any other country in ASEAN. In May 2006, Indonesia was elected to be one of 46 nations on the Human Rights Council of the General Assembly of the United Nations[39] and in October 2006, was elected to serve for a two year period as a non-permanent member of the United Nations Security Council.[40] The GOI passed a Law on Social Welfare (No. 11/2009) that formally acknowledged the rights of vulnerable and disabled Indonesians and the GOI's responsibility to finance programs of social rehabilitation, social empowerment, social security and social protection to respond to their needs.

Indonesia's economic reforms from 1998 to 2004 had re-established real growth and re-built Indonesia's global credibility, but costly fuel subsidies continued to worry international observors. The GOI's failure to tighten monetary policy and reduce fuel subsidies in 2004 and early 2005 contributed to depreciation of the rupiah, a rise in the inflation rate, and an increase in the fuel subsidy's claim on the government budget to 19 percent by 2005. In September and October 2005, President Yudhoyono announced a set of economic policies to respond to the currency crisis including: 1) monetary tightening, 2) fiscal "prudence" including a reduction in the subsidy for fuels, 3) provision of a set of compensatory programs for the poor and 4) acceleration of investment reforms.[41] The GOI increased the administered prices of fuels by 144 percent in October 2005 resulting in an immediate increase in the overall CPI from 7 percent to 18 percent.[42]

Savings from the 2005 fuel subsidy reduction was used to finance social assistance initiatives at a much expanded scale. Specifically, 19.1 million poor and near-poor households received quarterly UCTs of Rp 300,000 (per household) starting in October 2005 and continuing for one year.[43] Other programs included a Village Infrastructure Program (PKPS-BBM IP) that involved a one-time transfer of Rp 250 million to select poor villages for construction of infrastructure with either local labor or third parties. Scale-up in some AFC-era social assistance initiatives (that had become permanent following passage of Laws No. 20/2003 and No. 4/2004) were also financed through implied subsidy savings. The school grants program became a permanent block grant (called *Bantuan Operational Sekolah* or BOS) for all primary and junior secondary schools; the size of the grant was based on the number of students.[44] Likewise, the old

36 A World Bank study (November 2006) concluded that the risk of being or becoming poor was higher for households : i) headed by a family member with low levels of education, ii) whose primary occupation was in the informal agricultural sector, and iii) located in rural areas with lower access to basic infrastructure and social services. Conditions associated with increased risk of being or becoming poor included: i) perinatal events, ii) being disabled, iii) being old and iv) death, especially of an adult.

37 Segments of the poverty reduction strategies of the Five Year Plan likely drew upon Indonesia's interim and full Poverty Reduction Strategy Papers (PRSPs) written between 2002 and 2004 as well as background papers for the World Bank (November 2006).

38 Steps identified as essential for formulation of the National Social Security System included: i) development of regulations in response to Law No. 4/2004, ii) development/refinement of institutional models for services delivery, and iii) identification of sustainable sources of domestic financing.

39 http://www.indonesia.matters.com/396/indonesias-role-in-un-human-rights-council; accessed on 10/11/2010/

40 http://157.150.195.10/apps/news/story.asp?NewsID=20270&Cr=security&Cr1=council; accessed on 10/12/2010.

41 World Bank (2005).

42 World Bank (2005).

43 In 2005, the year-long UCT was called Bantuan Langsung Tunai (BLT). UCTs during 2000, 2001 and 2002 had consisted of quarterly cash transfers of Rp 100,000/household.

44 While the primary objective of the SBG had been to reduce school fees that might discriminate against poor students, the primary objectives of the BOS were to ensure access to 9 years of basic education (in compliance w/Law 20/2003) and to improve school quality.

Kartu Sehat (Health cards for the poor) program was made into a health fee waiver for the poor called (Askeskin *(Asuransi Kesehatan Masyarakat Miskin,* Health insurance for the poor)) and health coverage for the poor rapidly expanded from 8.3 million in 2005 to 15.0 million by 2006 (World Bank, July 2008).[45] By 2010, the Askeskin program had become (*Jaminan Kesehatan Masyarakat)* Jamkesmas and provided health fee waivers for most preventive, curative, and catastrophic outpatient and inpatient services to over 70 million poor Indonesians.

The number of Indonesians in poverty rose from 35.1 million in 2005 to 39.3 million in 2006 (Bappenas, 2010) despite the PKPS-BBM interventions. One study concluded that the main cause for the increase in poverty was the 33 percent increase in rice prices between February 2005 and March 2006 (due to Indonesia's ban on rice imports) rather than due to the increase in fuel prices related to the reductions in fuel subsidies that started in 2005 (World Bank, 2006). During the same period, while the number of households buying GOI-subsidized rice (Raskin) increased, the total allocation of Raskin did not increase commensurately, resulting in the average amount of Raskin rice received (per household) being substantially lower in 2005 and 2006 than in 2004 (Figure 2).[46] After 2007, the total number of poor Indonesians declined over the remainder of the decade to 31.0 million in 2010.

Figure 2: Targeted and Actual Kilograms of Rice/Household/ Month, Raskin, Indonesia, 2002-2006



Source: Based on SMERU (February 2008).

Box 3: Community-Driven Development as Social Assistance

From 1994 to 1998, the GOI led a poverty-reduction initiative called *Inpres Desa Tertinggal* (IDT, Program for Left-Behind Villages) that provided grants to support village-level economic initiatives and technical assistance from NGOs to facilitate community empowerment via a "bottom up" planning approach.

During the AFC, village-based community-driven development efforts were not considered to be of sufficient scale for labor creation purposes. Thus, IDT was re-designed to be implemented in poor rural *kecamatans* and poor urban *kelurahans* with larger block grants to finance community-selected activities within the broad categories of 1) small scale civil works, 2) provision of micro-finance and 3) provision of financial assistance to households in the community. From 1998 to 2007 these CDD programs (and others) were implemented in 2,363 sub-districts. However, efforts were divided among 60 different projects under 18 GOI Ministries and agencies.

One of the objectives of PNPM (at launch) was to integrate all these CDD efforts under PNPM-Mandiri. Essential objectives of this integration include: using "best practices" for the development of "community empowerment" and strengthening of local government capacity and provision of training and database systems to improve project management and monitoring and evaluation. In addition, coverage of PNPM-Mandiri expanded to 4,000 subdistricts by 2008 and to all subdistricts by 2009. Elements of targeting the poor were retained by basing the size of the block grants on measures of sub-district poverty incidence. Further, the expansion of the program to a national level is perceived as ideal for purposes of putting in place a system that can narrowly or more broadly channel a fiscal stimulus during any future systemic economic shock.

45 Askeskin would later become Jaminan Kesehatan Masyarakat (Jamkesmas) and Kementerian Kesehatan (Ministry of Health) would take over the responsibility for overall program administration and budget and local health departments were tasked with contracting with public and private health providers and with claims management.

46 Higher allocations of Raskin alone may not have entirely offset increases in poverty due to increases in rice prices, but such findings reinforce the importance of considering whether the provision of targeted assistance will meet all of the consumption needs of poor households in situations of multiple contemporaneous shocks. For example, intra-household decision-making regarding the use of cash transfers may not result in an increased purchase of rice and other foods.

In August 2006, the GOI launched *Program Nasional Pemberdayaan Masyarakat* (PNPM) which was further in the evolution from temporary, crisis-motivated stop-gap transfers toward permanent social assistance and a broad-based poverty reduction strategy. The PNPM (or National Program for Community Empowerment) framework was a strategic organizing principle through which the GOI could achieve poverty reduction objectives by: 1) stabilizing prices of basic commodities used by the poor; 2) promoting pro-poor growth (including through support to small and medium enterprises), 3) increasing access of the poor to basic education, health and water supply and sanitation, 4) developing Conditional Cash Transfer (CCTs) for poor households *and* communities and 5) consolidating and expanding labor-intensive initiatives including community-driven development programs (see Box 3). PNPM also outlined measures to increase program efficiency and improve effectiveness through increasing coordination, consolidation, and standardizing systems of monitoring and evaluation. Policy guidance and program oversight were to be provided by Kemenkokesra and Bappenas was designated as the responsible Ministry for development of the technical guidelines, budget, timeframe and implementing regulations for PNPM. [47]

The GOI in 2007 introduced two conditional cash transfer pilot projects with the dual objectives of reducing short-term poverty and interrupting the inter-generational transmission of poverty. *Program Keluarga Harapan* (PKH or Hopeful Families Program) is a traditional household-targeted CCT where payment of benefits is conditional on use of education and health services. PKH is implemented by the Ministry of Social Affairs (*Kementerian Sosial,* Kemensos) and financed entirely by the GOI. Indonesia's unique community CCT, PNPM *Generasi Sehat dan Cerdas* (PNPM Generasi), provides block grants to poor communities conditional on their collective achievement of education and health targets (similar to those in PKH). PNPM Generasi was motivated by communities where households lack access to decent-quality education and health services (which is likely to reduce the effectiveness of a traditional household CCT). PNPM-Generasi is implemented by the Ministry of Home Affairs (*Kementerian dalam Negeri,* Kemdagri) with technical input from the Ministry of Health *(Kementerian Kesehatan*, Kemenkes) and the Ministry of National Education *(Kementerian Pendidikan Nasional*, Kemdiknas) and financed from a multi-donor trust fund.

The effects of the recent global food, fuel price, and financial crises were mildly negative for Indonesian households and the GOI initiated a planned rapid response. The global rise in fuel prices led the GOI to reduce the fuel subsidy in 2008 and re-introduce a one-year BLT in of 2008. While BLT has been popular with beneficiaries, there was increased opposition by Parliament and some ministries in 2008.[48] The advent of the global financial crisis (2008 and 2009) raised concerns about possible impacts on employment and poverty, so the GOI launched a National Crisis Monitoring and Response System (CMRS) to provide rapid assessments of different population groups and geographic areas. The GOI also identified international funds that could be rapidly mobilized to finance a rapid scaling-up of social assistance programs. However, the CMRS survey of May and July 2009 found that that the Global Financial Crisis (GFC) did not result in widespread or severe problems[49] and the GOI decided to maintain existing social assistance programs at existing coverage and benefit levels.[50]

47 The profile of the PNPM was further elevated in 2007 when President Yudhoyono added poverty and social assistance concerns to the responsibilities of Unit Kerja Presiden untuk Pengelolaan Program dan Reformasi, the Presidential Work Unit for the Organization of Reform Program (UKP3R) (http://en.wikipedia.org/wiki/Susilo-Bambang/Yudhoyono; accessed on 10/15/2010).

48 Opposition to 2008's BLT centered on arguments that such transfers create "dependency" on "hand-outs" as well as the perception that this BLT was timed to influence the outcome of the upcoming elections.

49 Indonesian households affected by the global financial crisis reported facing higher food prices, difficulties maintaining consumption levels, working slightly fewer hours per week, and adopting similar coping mechanisms (e.g. consumption shifting) to those utilized during the AFC (Purnamasari, Wai-Poi and Voss, 2009).

50 SMERU, July 2010.

5. Future Challenges

In his second term, Susilo Bambang Yudhoyono has pursued the rationalization and institutionalization of social assistance programs that contribute to Indonesia's poverty reduction and alleviation efforts. The Administration's second (2010 to 2014) Medium-Term Development Plan's objective for Poverty Alleviation is to reduce "…the absolute poverty rate from 14.1 percent in 2009 to 8-10 percent in 2014 and to improve income distribution." GOI strategies and programs to achieve this objective are grouped under three "clusters": 1) family-based social assistance and social protection, 2) community empowerment approaches and grants, and 3) expansion of economic opportunities of low-income households (e.g. micro and small enterprise development). "Poverty Alleviation Teams", composed of GOI and civil society stakeholders from all involved sectors, are to be established at national, provincial and local government levels to oversee implementation of programs under each of the poverty alleviation clusters. A "National Team for the Acceleration of Poverty Reduction" (*Tim Nasional Percepatan Penanggulangan Kemiskinan,* TNP2K), chaired by the Vice President, provides overall direction and reports directly to the President.[51]

The Administration faces a number of challenges in terms of further development of social assistance policy as well as in achieving its poverty alleviation goals. These challenges include: 1) improving the quality of implementation and coordination among existing social assistance and social protection programs, 2) development of responses to demographic and economic trends that will affect the profile of the poor and the nature of their vulnerabilities, and 3) aligning social assistance policy, programs and financing with Indonesia's evolving decentralization framework and its implementation.

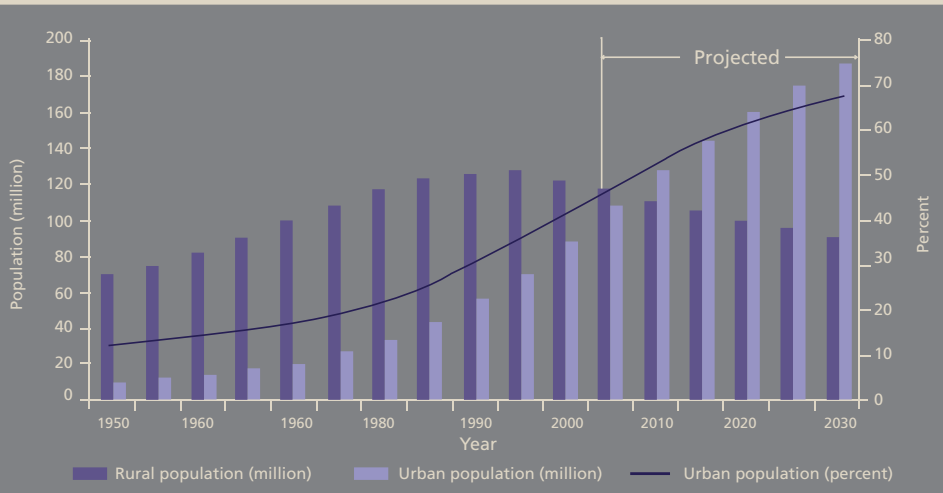
Rapid scale-up of a large number of programs has been achieved in part at the expense of careful development and refinement of the management systems needed for efficient, effective and sustainable program implementation. The establishment of social assistance programs in Indonesia since the AFC has resulted in a set of programs that contribute to poverty reduction. However, rapidly developed crisis responses were later institutionalized as permanent programs, which may have resulted in a number of operational weaknesses. Areas needing strengthening include: 1) improvement of targeting to reduce errors of inclusion and exclusion; 2) development of uniform management, financial and monitoring and evaluation systems and use of the information produced to improve program implementation; and 3) provision of sufficient "socialization" of the population and local governments, especially during the launch of new programs.

The level, quality, and frequency of coordination of social assistance efforts across agencies and clusters are weak and planning for the eventual national social insurance system needs to be jumpstarted. TNP2K was established in order to coordinate what has become a multitude of poverty reduction and social assistance initiatives delivered by a growing number of agencies. They have had some initial success by linking PKH households and implementation units to the Scholarship for the Poor program and in securing the agreement of major social assistance providers to adopt and use for allocation the latest nationwide registry of poor households (*Pendataan Program Perlindungan Sosial,* PPLS11) instead of the unique and proprietary lists that were previously developed program by program. However, much work remains before an integrated and effective social assistance system emerges. For example, social assistance agencies and providers may need help developing and agreeing to minimum service standards, a common monitoring and evaluation framework, an evaluation and policy-reform plan that identifies a program or agency's place (and impacts) in the broader system, and a common and consolidated information dissemination process (possibly through the use of common social assistance facilitators) that households can access and learn from at low cost. In addition, synergies, overlaps, and complementarities between the GOI's Cluster 1 (household), Cluster 2 (community), and Cluster 3 (enterprise) initiatives have not yet been identified or operationalized. Likewise, conceptual and operational links to the future universal social insurance system should also be developed for each major program and for the social assistance sector.

51 The Deputy Secretary for People's Welfare will lead a Cabinet-level Secretariat staff for the National Team for Poverty Alleviation. The Coordinating Ministry for People's Welfare (Kemenkokesra) and the Coordinating Ministry for the Economy (Kemenkoekoin) will serve as co-Vice Leaders. Bappenas is to coordinate the planning and financing for implementation of the poverty alleviation programs. Kemdagri is to set out guidance on human resources and financing for the provincial and city/district poverty teams, Tim Koordinasi Penanggulangan Kemiskinan, (TKPK). TKPK leaders will be the Vice Governor (or Mayor/Vice District Head) and the TKPK secretariat will be the Provincial (or city/district) Bappeda head (Presidential Declaration on Accelerating Poverty Alleviation, PERPRES No.*/2010).

Demographic change in Indonesia is changing the profile of the poor, the sources of their vulnerability and the types and duration of social assistance needed. Indonesians of working age (15 to 59 years old) now comprise the largest number and share of the total population.[52] Furthermore, Indonesia's population has become increasingly urban and this is projected to increase from 50 percent to 69 percent of the total population by 2030 (see Figure 3). However, the increased supply of educated labor in urban areas has not been matched by an increased demand for labor. Rather, the share of employment in the informal sector - with low wages, poor benefits and poor job security - has increased, with unemployment levels for youth two to three times higher than for other age groups. Low wages and high levels of employment insecurity and unemployment explain, in part, why Indonesia's urban poor comprise 32 percent of all poor Indonesians. [53]

Figure 3: Trends in Urban and Rural Population, Indonesia, 1950-2030



Source: Sarosa, W. (2006).

To address the vulnerabilities of an increasing number of urban poor and near poor,[54] the GOI will need to adapt employment and social assistance and protection strategies. Indonesia's approaches for targeting social assistance benefits to the urban poor will need to address characteristics of the urban poor such as their lower probability of: 1) being enumerated due to lack of formal employment or an established residence, or 2) being linked into community and neighborhood networks through which CDD assistance is organized. Further, urban CCD programs have not in the past provided sufficiently large grants to support the scale of civil works that would provide significant levels of new employment and do not provide long-term employment once the CDD-financed civil works are completed. Finally, models to develop sustainable micro and small business enterprises in Indonesia need further development.

Decentralization and its impact on local government capacity creates difficulties for the design, implementation and financing of social assistance programs. In social assistance, local governments have in the past been either formally or informally involved in a) the identification of eligible households (for BLT, Raskin, and Jamkesmas benefits at least), b) socialization and some monitoring activities, c) co-funding through the allocation of some staff and potentially local revenues top-ups, and d) some investment in CDD initiatives. Local governments are not otherwise involved formally in design, implementation, or financing of centrally-mandated social assistance initiatives. Over the past decade, clarification of the framework for decentralization, strengthening of the capacity of local governments, and evolution of some social assistance initiatives into entitlements (e.g. BOS and Jamkesmas) have increased local governments' involvement in social assistance provision and financial management (see Box 2 and Appendix Table A.4). Remaining challenges include: 1) revisiting the DAU allocation formula to achieve greater equity in the distribution of

52 The overall aging of the population will also result in a larger number of elderly Indonesians who will be more likely to have chronic health problems that, on average, have higher per person health financing requirements than those of children, adolescents and younger adults. Financing health care for the elderly will thus compete for the fiscal space available for Jamkesmas coverage for the poor.

53 The urban "near poor" are especially vulnerable to falling into poverty through high rates of inflation for food and other basic needs (http://sitesources.worldbank.org/INTEAPREGTOPURBDEV/Resources/Indonesia-Urbanisation.pdf, accessed on 10/31/2010).

54 It is unclear whether the development strategies utilized during the New Order Regime and 2000s (e.g. export of natural resources, increasing agricultural productivity and development of export-oriented industries) will be sufficient to create economic growth with adequate (urban) job creation in the 21st century. For example, Indonesia is facing increasing regional competition in labor-intensive exporting industries (Comola and de Mello, 2010). While Indonesia appears to have weathered the GFC through creation of domestic demand for Indonesian goods, it remains to be established whether this is the "new engine" for longer-term, sustainable growth.

central government revenue to local governments, 2) improving the clarity of the decentralization laws and implementing regulations regarding the responsibilities of different levels of government, 3) develoing Minimum Service Standards (MSS) as benchmarks to which local governments can be held accountable for provision of "obligatory functions" in the social sectors, 4) strengthening of positive and negative incentives to encourage local governments to provide adequate access to high-quality education and health services and 5) the development of necessary capacity building and training approaches to support local governments in the implementation of centrally-designed and financed social assistance or social protection initiatives. Furthermore, Indonesia may benefit from a "lessons learned and best practices" roadshow, with information from other decentralized countries that finance or provide social assistance; see Box 4, which is based on findings from Rodden (2010).

Box 4: Decentralization and Social Assistance: International Experience

Early social assistance programs in Latin American demonstrated that program benefits were often perceived to be distributed for political ends. In response, Latin American social assistance programs have increasingly become "rule-based" and automatic, existing outside political developments and the fortunes of any one political party or leader. For example, rules on eligibility determination and benefit size are codified as technical details so as to reduce the influence of politicians on the identities of beneficiaries and the allocation of larger benefits to favored constituents. Eastern European countries that wholly decentralized financing for social assistance programs found that this resulted in greater inequality in the distribution of benefits as poorer areas were less able to generate (and equitably allocate) revenue for social assistance. Experience in India has shown that financing for social assistance, when included in general or specific inter-governmental transfers, is fungible and is often diverted to other programs. Development and use of auditing systems and involvement of non-governmental organizations for program monitoring has in some cases mitigated the leakage of social assistance funding to other programs

Indonesia has made significant progress moving from AFC-motivated social assistance efforts to a permanent system of social assistance. Indonesians are more confident that their social assistance system contributes to poverty reduction and also poverty alleviation efforts by addressing vulnerabilities that arise in response to a variety of shocks. Developments have occurred as political and economic realities have permitted, with GOI actors playing key roles in the establishment of the legal framework defining the State's responsibilities regarding provision and financing of social sector and social assistance benefits. No country in the world can claim to have completed the development of a perfectly automatic and contingent social assistance system, so perhaps the most promising outcome in Indonesia so far has been the strengthening of domestic capacity to design programs, evaluate implementation and incorporate findings into future efforts.

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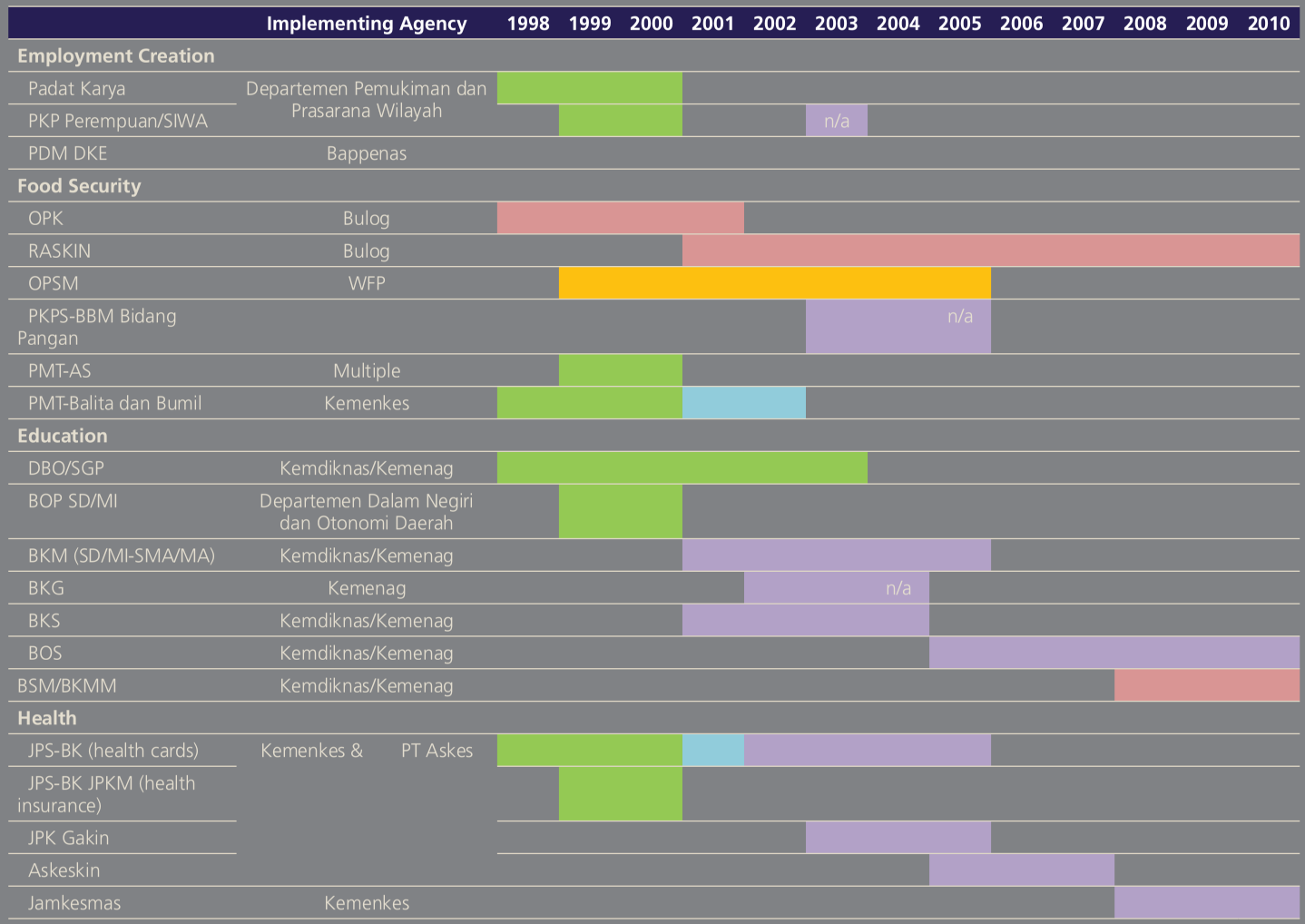
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Annexes



Table A.1: Evolution of Social Assistance Programs by Year and Source of Financing, Indonesia, 1998-2010



Cash Transfers		
BLT (household UCT)	Multiple	
PNPM-PKH (household CCT)	Kemensos	
PNPM-Generasi (comm. CCT)	Kemenkes	
Community "Empowerment"		
IDT/VIP	Bappenas w/others	
CDD (KDP/UPP)	Multiple	
PNPM-Mandiri	Multiple	
Others *	Multiple	n/a n/a n/a n/a
Subsidies (Universal)		
Rice/Other Foods		P^ P^
Fuels		P^ P^ P^ P^ P^ P^ P^

Source: World Bank (June 21, 2001), SMERU (September 21, 2005), GOI Letters of Intent and Memorandum of Economic and Financial Policy to the IMF (10/31/1998 to 7/22/1999 inclusive).
Notes: * Other PKPS-BBM initiatives included subsidies for: i) importation of generic drugs, ii) operators of public transport, and iii) credit to SMEs; and in addition included programs to improve water quality and safety in poor villages and to empower fishing communities.
Key: GOI APBN budget, PDP SE, PKPS-BBM, GOI plus donor (development budget), Donor funding only, P^ - subsidy reduction/price increase.

Table A.2: Evolution of Major Household Targeted Social Assistance Programs in Indonesia

	Pre-AFC	AFC	2000-2004	2005-2009	2010-2014
HOUSEHOLD TARGETED					
Cash Transfers – UCT	**None**	**None**	**BLT/UCT (3x)**	**BLT/UCT (2x)**	**None (to date)**
Description (Rp/household/yr)	n.a.	n.a.	Cash transfers to eligible poor households		n.a.
Coverage (# households)	n.a.	n.a.	n/a	19 million (2x)	n.a.
Benefit (Rp/household/yr)	n.a.	n.a.	n/a	Rp 1.2 m/household/ year	n.a.
Cash Transfers – CCT	**None**	**None**	**None**	**PNPM-PKH Pilots**	
Description	n.a.	n.a.	n.a.	Cash transfers to eligible poor households conditional on their consumption of primary education & health services	
Coverage (# households)	n.a.	n.a.	n.a.	0.5-4.0 million	6.5 million
Benefit (Rp/household/yr)				Rp 0.6-2.2 m/household/year	
Food Security	**Universal Subsidies**	**OPK/RASKIN**			
Description	Rice & Other Foods	Sale of Subsidized Rice Poor Households			
Coverage (# households)	n.a.	2.0 m	7.5-9.8 m	8.3-19.1 m	
Benefit (kg/household/month)	n.a.	20	20	10-15	
Education	**Scholarships**				
Description	Primary, jr. secondary, sr. secondary students from poor households				
Coverage (% of total students by primary; jr. secondary; sr. secondary levels)		4.0; 8.4%; 8.4%	7%; 10%; 6%	2%, 3%, 2% (2006) w/ increases in coverage for sr. secondary & university students (2008/9)	
Benefit - budgeted (Rpstudent/yr) Benefit – actual (Rp/student/yr)		Rp 120,000, Rp 240,000, Rp 300,000	Rp 295,337, Rp 539,798, Rp 773,243	Rp 300,000, Rp 442,500, Rp 300,000	
Health Cards/Insurance	Kartu Sehat			ASKESKIN>JAMKESMAS	JAMKESMAS
Description	Entitlement of poor households to a defined package of health services provided by public providers w/o fees			Expansion of benefits and ability to seek care from both registered public and private providers	
Coverage (# households, actual)		3.9m(1998/9) – 4.8m (2000)	6.9m (2002)-7.8m (2004)	8.3 m (2005)-18.9 m (2008)	

Source: WB.IND.SAPER.SSN_Program_Data.1998_2010.111210.xlxs file.
Note: Coverage and benefit information is regarding program targets (unless otherwise noted)

Table A.3: Evolution of Major Community-Targeted Social Assistance Programs, Indonesia

	Pre-AFC	AFC	2000-2004	2005-2009	2010-2014
COMMUNITY-TARGETED					
Cash Transfers		**None**		**PNPM-Generasi**	**PNPM-Generasi**
Description		n.a.		Grant payment to selected kecamatans that had previously received KDP grants conditioned on community achievement of aggregate education and health behaviors	
Coverage(# communities)		n.a.		130	
Benefit		n.a.			
Community Empowerment	**IDT/VIP**	**CDD (e.g. KDP/UPP)**		**CDD>PNPM-Mandiri**	**PNPM-Mandiri**
Description		Community Grants for Small Scale Infrastructure, Microfinance, etc.			
Coverage		KDP and UPP increasing # of Kecamatans and Kelurahans respectively		All by end 2009	
Benefit					
School Grants		**DBO/SGP**		**BOS**	
Program Description				Block grants to all primary and jr. secondary schools (calculated by fixed amount/student times # of students)	
Coverage				Universal	
Benefit					
Health Grants	**None**	**JPS-BK**		**None**	**BOK**
Program Description	n.a.	Block grants provided to puskesmas and pustu		n.a.	
Coverage	n.a.			n.a.	
Benefit	n.a.			n.a.	

Source: WB.IND.SAPER.SSN_Program_Data.1998_2010.111210.xlxs file.
Note: Coverage and benefit information is based on program targets (unless otherwise noted as actuals).

Table A.4: Social Assistance by Functional Classification, Risk Management Strategy, Sources of Financing/ Services, Indonesia, 1997-2010

Functional Classification	Source of		Risk Management Strategies: Risk Prevention/Lowering Exposure		Risk Mitigation		Risk Coping	
	Risk *	Finance/ Provision	Public	Private	Public	Private	Public	Private
Aging	1	Public	Investments in pre-natal & early childhood health. Encourage life-long maintenance of mental, physical and social activities.					
		Private					Family support	
Food Security	1, 2, 4	Public			Bulog Food Stocks		OPK/Raskin, JPS-BK nutrition, PMT-AS (primary school feeding)	
		Private	Adapt/adopt inputs/technology to increase agricultural productivity, crop resiliency					Household reduction of food quality & quantity
Basic Education	2	Public	Primary/jr. secondary education services including BOS				School Grants Program, Scholarships	
		Private						
Basic Health/ Sickness	2 3b	Public	*Posyandu, pustu* and *puskesmas* services		ASABRI Askes Askeskin		JPS-BK EPI/FP/ MCH/basic drugs	Household reduced use of modern providers vs. drugs or self-care
		Private			Jamkesmas	Jamsostek		
Environmental/ Natural Disasters	1, 3a	Public			Early warning systems		Humanitarian Relief, *CDD*	
		Private						Humanitarian Relief
Survivors	3a, 3b	Public			ASABRI Taspen			
		Private				Jamsostek		
Unemployment	1, 3a, 4	Public		Labor regulations, e.g. minimum wage			*Padat Karya* CDD	
		Private				Household savings Migration		Household dissaving & reduction in consumption

Source: Adapted from Heitzmann, K., Canagarajah, R.S. and Holtzmann, R. (August 2001).
*Key: Objectives of programs related to risks; 1: poverty reduction, 2: human capital formation, 3a: response to systemic shock (economic or natural disaster), 3b: response to idiosyncratic shock, 4: provide compensation to those affected by macroeconomic policy change.

Table A.5: Decentralization and Social Assistance, Indonesia, 1997 - 2010

AFC	Decentralization: Not applicable. Social Assistance: Over-arching decisions regarding the design, planning and budget allocations for social assistance programs were taken by Central Government line ministries under the overall co-ordination of Kemenkokesra and Bappenas. Financing for social assistance were provided directly to households (e.g. UCTs and scholarships via PtPOS), service providers (e.g. school block grants via school committees) or community leaders (e.g. OPK and CDD sub-districts).
2000 – 2004	**Decentralization:** Laws (No. 22/1999 and No. 25/1999) required decentralization of administrative decision-making and fiscal control from the central to the local governments (LGs) effective 2001 (laws amended in 2004, Law No. 32/2004 and No. 33/2004). The decentralization laws defined 3 types of functions: i) "retained" (by central government), ii) "obligatory" (transferred to LGs) and iii) "voluntary" (LGs may opt to leave with the central government or take over control). Most education and health services are among the "obligatory" functions.[55] **Household-Targeted Programs:** Continued use of BKKBN criteria for targeting. Little change from AFC administrative and financing arrangements. **Community-Targeted Programs:** CDD: Second-generation CDD initiatives encouraged development of synergies between CDD sub-district development and local government (LG) planning. "Tim Koordinasi", made up of sub-district leaders, LG officials and DPRD members, were organized. LG participation was "incentivized" by provision of additional block grant funds equal to LG contributions to the project-selected sub-districts. Further, if a LG wished to expand to additional sub-districts entirely with its own funds, then training and technical assistance were provided without cost (World Bank, August 11, 2008).
2005 – 2009	**Decentralization:** Reforms continued to evolve in Indonesia, e.g. financial transfers from the Central to the LGs were increased in 2006 and 2007 and efforts to clarify the responsibilities of different levels of government were outlined in 2007 (World Bank, November 2009). **Household-Targeted Programs:** Targeting: The GOI developed a new asset-based measure for determining household eligibility. Using the proposed list, LG officials forwarded lists of households they judged eligible for social assistance (e.g. UCTs and Askeskin). However, LG could certify additional households to receive benefits by issuing the household with a letter of indigency (Sumarto, Suryadarma and Suryahadi, 2006). PNPM-PKH: Pilot test of a household-targeted CCT with LG education and health facilities involved in verification of required utilization of services by eligible households. Jamkesmas: Kemenkes has involved LG health departments in contracting with public and private health providers and processing of claims. Jamkesda: Some LGs have organized health insurance for residents not eligible for Jamkesmas. Community-Targeted Programs: CDD: Little change in approach from 2000-2004. Increase in the number of project sub-districts as well as the contribution rate and level of LGs.[56] PNPM-Generasi: Pilot test of community-targeted CCTs with LGs tasked to achieve education and health results similar to those expected for PNPM-PKH. Expectation that provision of financial incentive to community may provide financing needed to address supply-side constraints. BOS: Adoption of the BOS resulted in an unintended consequence when some LGs did not provide budget for the operating expenses of schools.

55 Financing for "obligatory" functions comes from: i) balancing funds, ii) LG own revenues, iii) other. Balancing funds consist of the: i) DAU (general block grant), ii) DAK (sector and activity-specific block grants) and iii) shared revenues (e.g. income and land taxes and natural resource royalties). In addition, the central government could provide "deconcentrated (decon)" budget and/or "assistance task" budget (RTI, January 2010).

56 From 2002 to 2007, forty (40%) of the total participating rural districts provided matching funds for subproject block grants and this has established a precedent whereby districts provide sub-districts with transfers or matching grants for CDD efforts.

2010 -	**Decentralization**: Focus on improvements of general framework and implementation including: i) elaboration of the functions of different government levels, ii) development of a system of benchmarks whereby the performance of LGs can be evaluated, iii) rationalization of the tax bases of central vs. LGs, and iv) development of a legal framework whereby LGs (especially urban) are permitted to issue bonds and other financial instruments for purposes of increasing infrastructure investment. Additional changes needed to bring fiscal decentralization in line with equity and poverty reduction/social assistance objectives. Specifically the allocation of the DAU could be more equitable. Further, as social assistance funding is shifted from Central Ministries deconcentrated budgets into LGs' DAK budgets mechanisms need to be found to ensure continuation of non-governmental participation in decision-making (World Bank, November 2009). **Community-Targeted Programs:** BOS: GOI considering shift of BOS budget from MONE/MORA to DAK budgets of LGs.[57]

57 Were the BOS shifted into local governments' DAK this change would have implications for how any similar future transfer for the operating expenses of public sector health facilities (i.e. Bantuan Operasional Kesehatan (BOK)) would be handled under Indonesia's decentralized fiscal framework.

Indonesia Social Assistance Program and Public Expenditure Reviews are policy notes summarizing current issues in the Government of Indonesia's major household-targeted social assistance programs. Design, implementation, coverage, impacts, budgetary demands, cost effectiveness, stakeholder perceptions, and program history will be examined through qualitative and quantitative analysis for each program: conditional and unconditional cash transfers, subsidized rice distribution, a health fee waiver, cash scholarships, and cash transfers for the neglected elderly, disabled, and at-risk youth. Evidence-based appraisal can assist policymakers in evaluating programs and deciding whether and how they are achieving Indonesia's social protection goals. Reviews 1 through 8 together comprise a companion volume to the "Protecting Poor and Vulnerable Households in Indonesia" report. "Protecting Poor and Vulnerable Households in Indonesia" provides a public expenditure review of the wider social assistance sector, summarizes results from Reviews 1 through 8, explores gaps in both population coverage and risk coverage of current social assistance programming, and offers recommendations and suggested reforms for achieving an integrated and coordinated household-based social assistance system.



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