COUNTRY REPORT OF THE ASEAN ASSESSMENT ON THE SOCIAL IMPACT OF THE GLOBAL FINANCIAL CRISIS: INDONESIA

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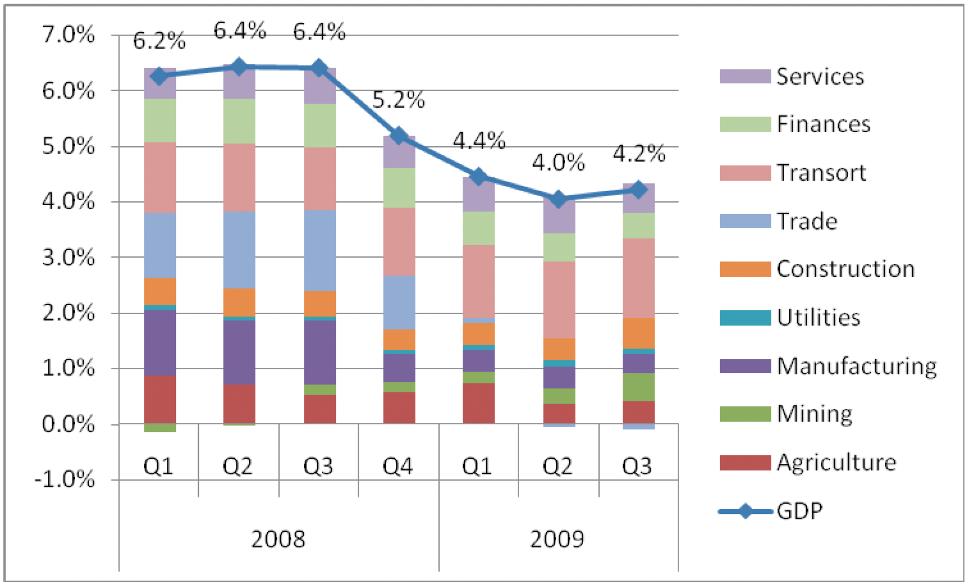
I. THE IMPACT OF THE CRISIS AND THE GOVERNMENT'S RESPONSE

Unlike the 1997/98 financial crisis when GDP in Indonesia fell by 13 percent, GDP growth during the current crisis has slowed but is still positive. While the crisis of a decade ago could be traced to domestic factors, this crisis is primarily as a result of external factors, including falling commodity prices, lower international demand for Indonesia exports, and restricted access to credit for working capital and investment. The global financial crisis led to a sharp reduction in Indonesia's commodity-based exports in the second half of 2008, but a strong domestic market prevented the negative economic growth that has been seen in much of the rest of the region. After reaching record levels in 2008, Indonesia's exports declined sharply at the start of 2009, due to the falls in both commodity prices and demand. The volume of goods exported fell by 19.1 percent in the first quarter of 2009 compared with a year earlier, while export values, affected by the fall in commodity prices, fell 29 percent. In the second quarter, however, the sharp contractions in exports were beginning to unwind, and this trend continued in the third quarter. Based on the projections by the World Bank, Indonesian exports will fall by 12 percent in value terms for the whole of 2009.[1] Recovering trade and stronger contributions from the service sector have meant that economic growth has improved in 2009 and this is expected to continue (World Bank 2009b). The year-on-year (yoy) GDP growth for the first half of 2009 was around 4 percent, about 2 percentage points lower than GDP growth in 2007,[2] and this growth rate was maintained in the third quarter. Thus, despite the impact of the food and fuel price crisis and the global financial crisis, poverty fell from 16.6 percent in March 2007 to 14.2 percent in March 2009, not only because of continued economic growth but also because of the existence of the country's social assistance programmes.

However, the moderate aggregate GDP growth masks significant sectoral variations. Overall, the domestically focused service sectors have contributed most to 2009 GDP growth to date. As seen in Figure 1, the transport, communication, and the utility sectors are leading the recovery, and the services and construction sectors are resilient. The trade, hotel, and restaurant sectors, however, contracted in the second and third quarters of 2009, and the manufacturing sector showed few signs of recovery. The agricultural sector seemed to be resilient up until the first quarter of 2009, decelerated during the second quarter, but improved slightly in the third quarter. Further disaggregation shows that growth performance also varies significantly among sub-sectors within each sector. For example, manufacturing sector growth has decelerated since the crisis, but the processed food, beverage, and tobacco industries have recovered significantly. Compared with the same period last year, the sub-sector sustained 14 and 17 percent higher growth in the first two quarters of 2009, but this leveled off to 10 percent in the third quarter. Several manufacturing sub-sectors (paper and printing, textiles, leather products and footware) show growth in the third quarter and in basic metal manufacturing, machines and tools, the rate of contraction in the third quarter is less than in the second quarter. Growth in the agricultural sector decelerated significantly in the second quarter of 2009, but slightly picked up again in the third quarter, with fisheries showing a growth rate of 6 percent over the second and third quarter (Annex Table 1).[3]

1 World Bank, (2009d)
2 World Bank, 2009a) and World Bank, (2009d)
3 CECI database.

Figure 1: GDP Growth by Sector



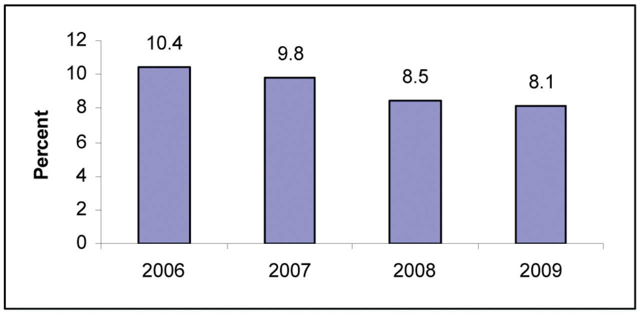
Source: Indonesia Statistics Website and CEIC database

The impact on employment thus varies by sector, implying that households will be affected differently depending on where they earn their living. While qualitative evidence suggests that unemployment has clearly increased in localities where export activities are important sources of employment, the aggregate open unemployment rate at the national level remained virtually unchanged at 8 percent between February 2008 and February 2009 (Figure 2),[4] and remained at that level in August 2009. Given Indonesia's large size and economic diversity, the stable open unemployment rates and real wages at the aggregated level mask important regional and sector differences. As lower global commodity prices are cutting profits and weakening demand, firms, mostly in the automobile, electronics, textile, and garment manufacturing industries, are reducing their investment and laying off workers. Moreover, manufacturing as well as resource export activities tend to cluster in certain localities, and it has been demonstrated that, in localities that are hubs for manufacturing export products and estate crops such as rubber and palm oil, workers are especially vulnerable. Furthermore, these sectors tend to employ workers with little education and few skills so that labor mobility among these workers is low, they tend to work in the informal sector and, therefore, have no health insurance or retirement savings.[5] Overall employment in manufacturing showed a 1.4 percent increase between February 2008 and February 2009, but its share to total employment slightly declined. Over the same period, the employment in tradable and non-tradable sectors increased by 5.6 and 1.6 percent respectively.

4 Sakernas 2008, 2009

5 World Bank, (2009a)

Figure 2: Open Unemployment at the National Level



Source: Indonesian Labor Force Survey (SAKERNAS)

At the micro level, a nation-wide first-round household survey of Crisis Monitoring and Response System (CMRS)[6] conducted in August 2009 showed that between May and July of 2009 households faced higher food prices, lower working hours and increased consumption difficulties. Nonetheless, the impact of the crisis was reasonably mild. Labor market outcomes showed a slight deterioration, with the number of working hours for the head of household falling by 1.4 hours per week during the May and July, a change which cannot be fully explained by seasonality. During the same period, household heads in rural areas experienced a slight increase in unemployment, however compared to the previous year's official figures,[7] the unemployment rate decreased. Using self assessment questions, 67 percent of households reported lower incomes in July compared to May of 2009, and, over the same period, the number of households facing difficulties in meeting consumption increased by three percent.

Household expenditure on education and health care, on the other hand, appeared stable and there was no noticeable increase of children and females in the labor force. In order to cope with the financial crisis most households surveyed relied on two mechanisms. On one hand, they appear to have substituted non-staple food items (vegetables, fish, meat etc.) with lower cost or lower quality food items. On the other hand, households in need borrowed money from friends and family in order to make ends meet.

Pilot surveys have confirmed the CMRS results in terms of impact on incomes in sectors and areas thought to be the most affected by the crisis, and on the coping mechanisms used in those communities. In February 2009, SMERU, an Indonesian independent think tank, conducted a pilot survey in one urban village in the Industrial Park of the Bekasi district (part of the Jakarta metropolitan area) and one rural village on the island of Kalimantan where rubber plantations and coal mining are the main economic activities. In the urban village that was surveyed, it was estimated that 10 percent of permanent workers had been laid off and that 40 percent of contract workers had not had their contracts renewed due to the decline in external demand for Indonesian exports. In the rural village, the sharp decline of the international rubber price resulted in a decline in farmers' incomes by around 60 to 70 percent. The multiplier effects of the shocks were also felt in these two surveyed locations. Most of workers in the urban

6 The Crisis Monitoring and Response System will be discussed in the later section.

7 The data collected for the CMRS differs from the official Sakernas LFS data because the sample size is smaller and questions are framed slightly differently. Hence the changes in unemployment are only indicative.

village were migrant laborers. When they returned to their home locations, this had a negative impact on the local businesses that had been providing services to the migrant workers. For example, one of the main livelihoods of the local people in the industrial park has been renting dormitory space to migrant workers. While the occupancy rate had normally been maintained at 100 percent prior to the crisis, it fell to 70 percent. In the rural village that was surveyed, the owners of small food stalls and vegetable sellers saw their business being reduced by 50 to 60 percent. To cope with their lower incomes and lost purchasing power, households in the two pilot survey locations reported that they substituted more expensive food items with less expensive ones and cut back on non-essential expenditures, social spending such as gifts to social events, and contributions to saving groups, as well as cut back on the expenses needed to maintain the rubber plantations. Some households had also been forced to sell their valuables and/or to borrow from money lenders, who normally require collateral.

These surveys also contributed to shed some light on potential changes in the patterns of social services use in households affected by the crisis. The SMERU study also revealed changes in the patterns of seeking medical treatment, as people started to go to public clinics for free treatment even though these clinics were further away from their homes than the private clinics that they used to attend. Also, they were using over-the-counter medications rather than seeking professional treatment. It appears that families still regard education as a priority as there is no evidence of any increases in child labor or school dropouts as a result of the crisis. However, based on the experience of the 1997/98 crisis, if the current crisis is prolonged in certain pockets and sectors of Indonesia's economy, poor and vulnerable households will eventually be forced to cut their health and education expenses as well as sell their assets. Taking such actions would have negative impact on their ability to earn income in the long term even after the crisis.

The Government's Response

In 2008, the government enacted a Rp73 trillion economic stimulus package (US$7.3 billion), but only 15 percent of the increased spending component had been disbursed as of September 2009. At 1.5 percent of GDP, it was similar in magnitude to the stimulus packages adopted in other major Southeast Asian countries. However, about 75 percent of the package was allocated to cover sectoral tax cuts,[8] which is a much larger component than in other countries (World Bank, 2009a), and the remainder was allocated to increasing government spending on infrastructure and additional community block grants (the PNPM, which will be discussed below). The total package is equivalent to 7.5 percent of total government spending, with the increased expenditure component being about 1.3 percent. The goals of the package are to support consumer purchasing power, to protect the business sector from the global downturn, and to generate employment to mitigate the impact of job losses in the private sector. Despite the establishment of a monitoring committee to oversee budgetary reform, the implementation of the infrastructure spending component has been slow. Only 15 percent had been disbursed by the end of July (World Bank, 2009b), in part because of the budgeting process is complicated and slow. In addition to the stimulus, the Asian Development Bank, the World Bank, and the Governments of Japan and Australia established a US$5.5 billion loan facility to

8 Targeted tax cuts include reduced VAT on oil and gas exploration and on low-cost household cooking oil, reduced import duties on imported raw materials and capital goods, and payroll tax breaks for firms in labor-intensive industries. Electricity tariffs for industrial users have also been reduced, along with the price of automotive diesel.

support the uninterrupted provision of government social services in case that the global financial crisis severely reduced public revenues. While the government has not needed to draw on this facility, its existence has helped to maintain lender and investor confidence in Indonesia during the crisis.

Monitoring

Indonesia maintains regular macroeconomic and household monitoring systems. Indonesia has one of the best statistical systems in Asia, in terms of both data collection and dissemination. Its data collecting systems are well developed for providing real time monthly and quarterly data on macroeconomic indicators, including monthly price and inflation surveys and trade accounting, as well as a quarterly assessment of production and national accounts. This is done on a regional basis, making it possible to observe any urban-rural differences and any differences among geographically disparate locations. For social indicators, Indonesia stands out for its quick dissemination of labor statistics on the Indonesia Statistic website. Labor market outcomes are evaluated using data from a large semi-annual household survey (known as SAKERNAS) that is representative at the provincial level and an annual version that is representative down to the district level. This survey collects data on wages, earnings, employment, underemployment, and withdrawal from the workforce by location, sector, formality, and gender. Indicators on employment by industry and by age as well as unemployment by education level are disseminated within six months of the completion of each round of SAKERNAS. Other socioeconomic data including data on household consumption and poverty, education, and health indicators (such as illness, use of health facilities, immunization, breastfeeding, and fertility and family planning), housing characteristics, and use of social protection programmes are collected by the National Household Socioeconomic Survey (known as SUSENAS). The time lapse between the survey and the dissemination is typically one year for data on consumption, poverty, and school enrollment rates.[9] These household surveys, combined with administrative education and health data, give a detailed and generally accurate overview of socioeconomic conditions in Indonesia. However, some important indicators are still not well-developed such as school dropout rates and malnutrition rates, and the most recent available data on health indicators are for 2006. Table 1 gives a brief description of available data and the remaining gaps in the data necessary for monitoring the social impact in Indonesia.

9 Based on indicators published on the BPS website: http://www.bps.go.id/ and Statistic Year Book.

Table 1: Available Indicators or Monitoring the Crisis

Indicators	Frequency	Publication/responsible agencies
Macroeconomic Indicators		
GDP growth by sector	Quarterly	BPS website
CPI by category	Monthly	BPS website
Retail food prices	Monthly	BPS
Export/import by commodity group	Monthly	BPS website
Public Spending		
Total public revenue and spending	Monthly	BPS website
Social security spending	Not available	
Labor Market		
Population and gender ratio	5-10 years	BPS website
Population by age	Annually	BPS/WB CO database
Economically active population	Biannually	BPS website
Unemployment	Biannually	BPS website
Employment by sector, # of people	Biannually	BPS website
Unemployment by education level	Biannually	BPS website
Nominal/real wage by industry	Quarterly	BPS website
Informal sector wages	Monthly	BPS/WB CO database
Rural underemployment	Not available	Can be calculated: SAKERNAS & SUSENAS
Supplementary labor force surveys*	Quarterly	BPS
Other indicators		SAKERNAS and SUSENAS
Social Indicators		
Poverty, by rural urban	Annually	BPS/WB CO database
Average household consumption patterns	Annually	BPS website
School enrollment rate by level, %	Annually	BPS website
School enrollment ratio by age, %	Annually	BPS website
Education attainment of population 10 years and older, by level, %	Annually	BPS website, more recent figures can be calculated from SUSENAS
Access to health care indicators	Annually	BPS website, more recent figures can be calculated from SUSENAS
Other indicators		SUSENAS

Sources: Staff compilation.
Note: * Not yet available. The survey is planned to go into the field in late 2009.

The existing monitoring mechanisms have been augmented by the development of a crisis monitoring and response system for the global financial crisis. While Indonesia's regular monitoring tools provide an almost complete coverage of indicators and regions, only the macroeconomic data are made available on a timely enough basis to facilitate real-time monitoring or crisis rapid response. Therefore, to meet this need, the Government of Indonesia, with the help of donor-provided aid and technical assistance, is establishing a crisis monitoring and response (CMR) system. This system is designed to gather the data necessary to understand specifically how the effects of the global financial crisis are being felt by Indonesians, what coping mechanisms households are adopting, and what the socioeconomic consequences of these developments will be. During the design of the

CMR, one important decision was whether the survey should focus on the provinces most likely to be impacted by the crisis, or whether the survey should be country-wide. A country-wide survey was preferred since this would eliminate the risk of wrongly predicting where crisis impacts would be most noticeable. The CMR draws on data both from existing sources and from a new quarterly household survey, which is an important complement to existing data as it should make it possible to carry out timely evaluations of a range of labor market and household socioeconomic indicators down to the provincial and even district level. In order to have the survey be both low-cost and timely while still providing district-level information, the CMR introduces innovative approaches to small samples for the district-level assessment not previously seen for such objective.[10]

2. SOCIAL PROTECTION STRUCTURES IN PLACE AT THE ONSET OF THE CRISES

The Government of Indonesia has been reallocating more resources to fund social assistance programmes to help poor and near-poor families to manage risks. As many as 32.5 million Indonesians continue to live below the poverty line, and half of the population remains highly vulnerable to poverty. In the absence of accessible insurance or substantial assets, these groups are largely unprotected from a range of threats including health crises, natural disasters, and economic downturns. A range of social assistance programmes have been introduced in Indonesia to protect families from such risks. These programmes are expanding; in 2005, the government began shifting resources from regressive subsidies to a new generation of social assistance programmes, such as an unconditional cash transfer programme. The government is also piloting other types of social assistance programmes, including a conditional cash transfer programme, that mitigate risks while breaking the transmission of poverty to next generations.

At the onset of the crises, ongoing social protection programmes represented around one-third of Indonesia's total public social spending.[11] The programmes were social assistance rather than social insurance in nature and were both household- and community-targeted. The main programmes included the unconditional cash transfer (BLT), the conditional cash transfer (PKH), Rice for the Poor (Beras Miskin or Raskin), Health Insurance for the Poor (Jamkesmas), Community-driven Development (PNPM), and Operational Aid to Schools (BOS). Annex Table 1 gives details of expenditures by year since 2002, while Annex Table 2 provides an overview of household-targeted programmes and Annex Table 3 of community-targeted programmes.

2.1 Household-targeted Programmes

A subsidized rice programme for the poor has existed in Indonesia in some form since the Asian crisis in 1998. Food accounts for two-thirds of poor households' consumption, with rice accounting for about half of that. In 2007, the current programme (Raskin) planned to provide 1.9 million tonnes of rice to 15.8 million poor households at a total cost of Rp.6.3 trillion, compared with a similar quantity in 2005 to 8.3 million households at a

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10 World Bank, 2009, Developing Indonesia's Crisis Monitoring and Response system, a presentation made to the Crisis Monitoring workshop in Jakarta, May 18, 2009. The World Bank is providing BAPPENAS with technical assistance for the CMR with financial support from AusAID. Data collection and data entry is conducted by BPS.

11 This accounts for only 3.2 percent of total public expenditures and 0.7 percent of GDP, which increases to 60 percent, 6.7 percent, and 1.3 percent respectively if the 2006 one-off cash transfer provided in response to the fuel price shock is included. Total public spending includes both central and local government expenditures. Total social spending is total public spending minus defense, law and order, economic affairs, and central government administrative costs.

cost of Rp.5.0 trillion. Each targeted household is meant to receive 10kg of rice per month at Rp1,000 per kg, down from 20kg per month in 2005 and 15kg in 2006. Expenditures in 2006 were Rp5.3 trillion, which was 7.6 percent of public social spending, 0.8 percent of all public spending, and 0.2 percent of GDP. The National Logistics Agency (Bulog) purchases the rice from wholesalers using a subsidy from the government. Targeting methods have varied by region and by the year of the programme. At the onset of the crisis period in 2007, households in the two poorest National Family Planning Board (BKKBN) categories for household welfare were eligible to buy subsidized rice. This classification system is a proxy indicator of poverty based on a range of variables (such as food consumption, the quality of the house's building materials, ownership of clothes, and religious practices). However, a proper statistical exercise was not used to determine the most appropriate variable set or a scoring system that could discriminate between the poor and the non-poor. Most of the indicators are not easily observable and can be manipulated, and they include non-economic criteria such as the ability to meet religious observations. They are poorly correlated with poverty as measured by expenditure, with only 43 percent of the poorest category as determined by this set of indicators being poor by consumption. In addition, the programme's rice is not always distributed to the poorest two categories at the local level as local officials sometimes choose different beneficiaries because of cultural norms of sharing or other reasons. As a result, high leakage to the non-poor remains a very significant problem; poor and near-poor households represent only 53 percent of all beneficiaries (SMERU, 2007), and the subsidy received by non-poor has been estimated to be 2.5 times that received by the poor (World Bank, 2006).

In response to increasing fuel prices in 2005, the Government of Indonesia implemented an unconditional cash transfer programme (Bantuan Langsung Tunai or BLT). Increasing international prices in 2005 put increasing fiscal pressure on the government's subsidization of fuel. This, combined with their regressive nature, led the government to sharply reduce its subsidies. In March 2005, fuel prices increased by a weighted 29 percent and by another 114 percent in October 2005, while kerosene prices tripled. To mitigate the impact of these price increases on poor and near-poor households, the government introduced three social assistance programmes – Askeskin and BOS, which will be discussed later, and the BLT. The Ministry of Social Affairs (Depsos) ran the BLT for 12 months from late 2005 to 2006. The programme provided approximately 19 million poor and near-poor households with a flat rate benefit of Rp100,000 per household per month, which is about 15 percent of the poverty line. The cost of the programme in 2006 was Rp23 trillion, or 32.8 percent of social spending, 3.5 percent of total public expenditures, or 0.7 percent of GDP. This represented about 25 percent of the savings from the subsidy reductions. The poor and near-poor were the target population, representing the bottom third of the national consumption distribution and defined respectively as households with consumption below the poverty line and 1.5 times the poverty line (district-specific poverty lines averaged Rp186,000 per person, or the cost of consuming 2,300 calories per day). A database of eligible recipients was developed using proxy-means testing (PMT), which uses a set of household indicators that are highly correlated with poverty and are easily verifiable, such as the type of floor, wall, and roofing materials used in their houses, their source of drinking water, access to electricity, and asset ownership. An evaluation of the beneficiary registry carried out by the Coordinating Ministry for People Welfare found an 8 percent inclusion error (non-poor households wrongly included on the eligibility list) and a 22 percent exclusion error (poor or near-poor households who were excluded from the list)

(Coordinating Ministry for People Welfare, 2005).Funds were disbursed directly to beneficiaries through local post offices. The programme was always intended to be a temporary one-off assistance programme during a time of inflationary pressures and ended in late 2006 as fuel prices decreased. The government revived the BLT when the food crisis hit in 2007-08 because it had proved itself to be a successful and appropriate mechanism for providing households with short-term assistance because of its broadly targeted nature and the ease with which the government was able to discontinue it once the economic conditions it was created to address had ended.

A free health programme was implemented in 2005 (Asuransi Kesehatan Masyarakat Miskin or Askeskin). The aim of this programme is to provide poor households with basic health services. Similar programmes had been available in some form since 1998. Through the Askeskin programme, 16 million households received health cards entitling them to free health care at local public health clinics, as well as in-patient treatment in third-class public hospital beds. The programme expenditure in 2006 was Rp2.9 trillion, equivalent to one-tenth of Indonesia's public health spending, 4.1 percent of public social spending, 0.4 percent of total public spending, and 0.1 percent of GDP. The health clinic component was managed by the Ministry of Health (Depkes), while PT Askes, a private provider of civil servant health insurance, was responsible for providing in-patient insurance (60 percent of funding). The programme was targeted using the same registry of the poor used by the BLT, but some local implementers questioned the accuracy of the registry's poverty data. Also, the targeting criteria were confusing as it was also possible for households to get a card if they received a letter from their village head certifying them as "poor." Moreover, evaluations found that the private insurer had been given no incentives to target the poor. Askeskin has now been renamed Jamkesmas, and Depkes has taken over the responsibility for in-patient reimbursement from PT Askes. It insures 76.4 million people, which is 70 percent of the total number of people who have health insurance in Indonesia. However, there are still some problems, including institutional arrangements that reduce incentives to operate efficiently, to reduce administrative costs, and to ensure quality of care and accountability. Also, there has been limited use of the programme by card holders and significant use of the programme by those who are not poor.

In 2007, the government introduced a pilot conditional cash transfer programme that is transferring between Rp0.2 million and Rp2.2 million annually in cash to 700,000 poor households for up to six years. The Programme Keluarga Harapan (PKH) is similar to Mexico's well-known Progresa/Opportunidades programme in that it provides poor households with cash transfers on the condition that their children attend school and that they preventative basic health and nutrition services. The programme targeted poor households with children aged 0 to 15 years or pregnant women, again using PMT methods to determine households' economic status. Unlike the BLT, which was a short-term programme intended to assist a broad number of poor and near-poor households during crises, the PKH is a long-term assistance programme, designed to provide considerable financial support to a narrowly targeted group of poor households while also encouraging households to build their human capital to lift them out of poverty in the longer term. The programme initially suffered from having a poor management information system and from operational difficulties, but these have now been overcome and the government plans to expand the PKH pilot. The total cost of the PKH in 2007 was Rp1.2 trillion, or 1.4 percent of public social spending, 0.2 percent of total public spending, and less than 0.1 percent of GDP. However, this is expected to increase significantly when the PKH is expanded.

2.2 Community-targeted Programmes

Programmes targeted to poor communities and aimed at promoting community development, whether rural or urban, have been implemented in Indonesia since the mid-1990s. The first, known as Left Behind Villages (Inpres Desa Tertinggal or IDT), ran from 1994 to 1997 under the Soeharto regime and formed a template for many of the later programmes. The central government initially identified poor villages using a score computed from the availability and quality of the infrastructure in each village and the living standards of its residents. The selected villages were then given the vaguely worded task of identifying "poor people who live in the village." The households that were identified by their own community as being poor were then considered to be eligible to apply for a loan for productive investment activities. About one-third of Indonesia's more than 60,000 villages were funded through the IDT, with total spending reaching over Rp1.2 trillion. In the selected villages, 34 percent of households received an IDT loan at least once, which represented 13 percent of all Indonesian households. The average loan amount was Rp169,408 or 3.5 times the average monthly per capita expenditure of the recipient households (Yamauchi, 2008). The rules for selecting poor villages were relatively closely followed (Alatas, 2000); as a result, districts with lower than average per capita expenditure contained a larger number of IDT villages (Daimon, 2001). The overall targeting has been found to be pro-poor (the bottom 20 percent of the household consumption distribution received 28 percent of benefits and the bottom 40 percent received 53 percent). The targeting of poor villages contributed more to this outcome than the within-village targeting (within villages, the share of benefits received by the bottom 20 percent and 40 percent fell to 24 percent and 45 percent respectively) (Yamauchi, 2008).

After the 1997-98 crisis, a series of inter-related community-targeted programmes began, including the Rural Infrastructure Programme (Infrastruktur Pedesaan or IP), the Kecamatan Development Project (KDP), and the Urban Poverty Project (UPP). The Rural Infrastructure Programme provided block grants to 12,834 villages across the country. A research institute, LP3ES, found that the implementation of the IP was rushed and that the targeting criteria were neither clear nor strictly followed. Consequently, neither the poorest villages nor those with the worst infrastructure benefitted from the programme. Under the KDP, villages within a targeted kecamatan (sub-district) can apply for funds to be used for infrastructure or for social or economic activities. Each village can submit up to three proposals, one of which must come from the village women, and one from the women's savings and loan group. The projects have been found to have high returns on investment as they are designed to address the most binding constraints on local communities (Torrens, 2005 and World Bank, 2006). They have also been found to be cost-effective, with costs that are 20 to 25 percent lower than government-funded projects of a similar quality, to have generated local employment opportunities, and to have had low levels of corruption (World Bank, 2006). Evaluations have found that KDP sub-districts were significantly poorer, more isolated, and less likely to be receiving other project aid than sub-districts that did not benefit from the programme. The KDP had high participation rates by poor people. About 50 percent of all participants in KDP planning meetings rated themselves as members of the poorest group in their village, and 70 percent of the workforce on KDP infrastructure projects came from the poorest groups (Guggenheim et al, 2004 and World Bank, 2006). However, if existing poverty maps had been used, this could have increased coverage from 30 percent of the poor to 52 percent (Alatas, 2005). The UPP runs along similar lines in urban sub-districts, although with a different mix of projects.

By 2007, all of these community development programmes had been brought together under the single umbrella of the National Programme for Community Empowerment (Programme Nasional Pemberdayaan Masyarakat or PNPM Mandiri). As shown in Annex 1 only Rp1.2 trillion was spent on the KDP and the UPP combined in 2006, 1.8 percent of public social spending, 0.2 percent of all public spending, and less than 0.1 percent of GDP. However, this figure increased to Rp3.6 trillion in 2007 and Rp13 trillion in 2008, 14.1 percent of social spending, when the PNPM became the primary instrument of the poverty reduction and community development policy of the current Yudhoyono government. Coverage of the PNPM in 2008 was nearly 4,000 sub-districts. By the end of 2009, PNPM Mandiri aims to cover all sub-districts in Indonesia through PNPM Rural (formerly KDP) and PNPM Urban (formerly UPP). The programme is supervised by the PNPM Coordination Board, with implementation by the most appropriate line ministry for the particular PNPM component (for example, the Ministry of Home Affairs for PNPN-Rural and the Ministry of Public Works for PNPM-Urban).

Indonesia also has a school assistance programme (Bantuan Operational Sekolah or BOS). This was introduced in 2005 along with Askeskin and the community development programmes to assist those negatively affected by reductions in fuel subsidies. The BOS provides block grants to almost all public and private primary and junior high schools in return for their reducing or eliminating school fees up to the amount of the grant. The grant is about Rp25,000 per student per annum for primary schools and Rp35,000 for junior high schools. Schools raising funds from parents in excess of their grant can continue charging fees but must cancel fees for poor students and reduce them for others. Schools whose income was prior to the receipt of the grant was lower than the total amount of the grant are required to cancel tuition fees for all students. The programme expanded rapidly and cost Rp12 trillion in 2006, 11.7 percent of all public spending on education, 17.1 percent of public social spending, 1.8 percent of total public spending, and 0.4 percent of GDP. Targeting to the poor is done by schools themselves. An evaluation carried out by the local poverty research institute SMERU found that the programme generally succeeded in reducing education costs but has not been implemented with sufficient emphasis on ensuring that benefits are targeted to the poor or those that need to be brought into the education system. There are several reasons for this (World Bank, 2006). The programme’s objective of providing free tuition for poor students and other forms of support such as subsidized textbooks, uniforms and transport has not been communicated well to schools. In addition, school administrators are under pressure to reduce or eliminate fees for all students, regardless of their economic status because there is a common misconception that the programme is intended to provide free education for all. The current design contains no accountability mechanism to ensure that tuition fees are lowered for poor students. Given its supply-driven design, targeting the poor at the school level is crucial for achieving the programme’s poverty alleviation outcomes. Moreover, there is a need for a complementary targeted scholarship component to be added to the programme. Currently, the programme’s design allows school administrators to provide stipends to poor students to cover their transportation and other school-related costs over and above tuition fees, but the transfer definitions are very weak and no quota exists for targeting poor students.

2.3. Social Insurance

Indonesia's social protection scheme includes several formal social insurance programmes that have been in place before and since the onset of the crises. In addition to Askeskin/Jamkesmas, which administers health cards targeted to the poor and near poor that entitle them to free health care, there are four main traditional (in other words, financed by payroll taxes) social insurance programmes in Indonesia. These are: (i) pensions and health coverage for the armed forces and police (Asabri); (ii) pensions for civil servants (Taspen); health coverage for civil servants (Askes); and old-age income support through a provident fund plan that also makes disability, survivor and health insurance available to private sector workers (Jamsostek). These plans are complemented by a voluntary private pension sector that offers a range of defined-benefit and defined-contribution products to workers through their employers. Furthermore, Indonesia's labor law requires employers to pay large lump-sum termination benefits.

However, most of Indonesia's labor force is not covered by these formal sector programmes. Traditional government-mandated social insurance does not cover the at least 60 million workers who work in the informal sector. Poorer households are particularly underserved by both public and private contributory social insurance, and many of these workers either cannot or choose not to rely on voluntary formal pension plans. A risk and vulnerability analysis has shown that payroll-tax-financed social insurance does not reach the poor or the near-poor and thus makes little impact in terms of mitigating the impact of shocks. Furthermore, some of the major concerns addressed in the National Social Security Bill (RUU Jamsosnas), such as risk factors faced by elderly populations, do not seem to be a significant source of household vulnerability in Indonesia.

3. ADJUSTMENTS TO THE SOCIAL PROTECTION FRAMEWORK IN RESPONSE TO THE CRISES

The Government's response to the global financial crisis has been limited. It has made only marginal adjustments to existing poverty alleviation programmes, mostly at the community development level. To the extent that the stimulus package generated employment, it will help to protect jobs. However, no traditional public works scheme was implemented, and the social protection response focused on targeted one-time transfers instead, whose effectiveness had been tested during previous crises. Because Indonesia has experienced the effects the three crises in quick succession – the food, fuel, and financial crises – it is not always easy to separate out the government's responses to each separate crisis.

In 2008, with food and fuel prices increasing sharply, the government responded by initiating a new round of the BLT. This resulted in two disbursements totaling Rp700,000 per household between June and December of 2008. A third disbursement was subsequently made to these households of Rp200,000 per household for the first two months of 2009. As with the first BLT in 2005-06, poor and near-poor households were the intended targets, or the bottom 30 percent of the consumption distribution. Targeting was based on a list that had been updated from the first round, resulting in 18.5 million households receiving Rp900,000 each between mid-2008 and early 2009 at a total cost of Rp.14 trillion, or 15.3 percent of public social spending, 1.4 percent of total public expenditures, and 0.3 percent of GDP. The effectiveness of the targeting will be known early in 2010 when new household survey data will become available. However, simulation work by the World Bank using data on the known BLT beneficiaries suggests that most of the fall in poverty measured in March 2009 was due to the new BLT. As with the first BLT, it has proven to be politically acceptable to stop the cash transfer programme once the underlying shock has receded.

However, the government has so far taken few concrete social protection policy steps in response to the global financial crisis. A portion of the budget for the country's primary poverty alleviation and community empowerment programme, PNPM Mandiri, was allocated for crisis response actions. Current plans are to distribute approximately Rp267 billion to the 178 districts (of 471) that have been most affected by the global financial crisis (Rp1.5 billion per district) through the PNPM, but specific targets for the funds and the mechanisms for their distribution have not yet been defined. In addition to the earmarking of additional funds for PNPM, and the activities aimed at generating employment included in the stimulus package, the government is developing a crisis monitoring and response system, as described in the first section.

There are several reasons for this tentative approach. First, the government was apprehensive about selecting groups or areas that were expected to be strongly affected by the global financial crisis because of its experience with the 1997 Asian financial crisis. During that crisis, expectations about which groups would be most affected turned to be incorrect based on data collected from key informants nationwide. Therefore, since the onset of the global financial crisis, the government has set up the CMR, which will monitor the nature and location of the impact of the crisis on an ongoing basis to provide the government with information on which to base its policy responses. The government also learned from the 1997 Asian financial crisis to give itself some flexibility to address whatever specific sectoral problems may be revealed by the data as the crisis evolves. Second, throughout 2009, the worst expectations of the negative impact that the global financial crisis was likely to have in Indonesia have been modified as GDP growth and employment projections have been revised upwards throughout the year, thus reducing the urgency of the need for a quick and strong policy response. Third, in 2009 elections for local governments, the national parliament, and the Presidency all took place between January and July. As in many countries, major policy decisions and initiatives were delayed until the new political landscape had been determined. Finally, as indicated earlier, Indonesia's budgeting process is inflexible, requiring that all expenditures be approved at specific times, typically between September and November each year. It would have been difficult, given the legal framework that is currently in place, to take any policy actions that required large budget outlays before that timeframe in 2009.

The government is planning to devise a more concrete policy response when it receives the results of the ongoing CMR, the first results of which are expected to become available in November. Once the location and nature of the impact, if any, are known, then the government will specify and put into operation mechanisms within the PNPM for delivering crisis funds to the worst hit areas and sectors. It will also consider taking further actions through other existing programmes, most likely the BLT or the BOS.

4. SOCIAL PROTECTION ISSUES TO BE FURTHER ADDRESSED

The effectiveness of current social assistance programmes is undermined by weak coordination. Currently, there are more than 15 social assistance programmes independently implemented by five different central agencies. Coordination among these programmes is weak both at the national level and at the level of local governments and service providers. At present, the agencies responsible for these programmes have a high degree of autonomy in making policy and implementing the programmes and are not required to report on how they are executing their social assistance programmes, which are rarely evaluated for impact or cost-effectiveness. The lack of coordination undermines the efficiency and effectiveness of the current social protection framework in Indonesia.

Targeting could be improved. The four main social programmes targeted to households represent about one-third of total public social spending, and this is expected to increase. Therefore, it is critical that they be targeted properly in order to maximize coverage of the poor, make the most of limited budgets, and minimize leakage to the non-poor. As discussed in this report, current targeting could be strengthened considerably. Currently, the programmes use different targeting approaches and rely on separate recipient databases, leading to duplication of efforts, inconsistency in application, and a failure to maximize the impact of these programmes. Having a unified national targeting system would make it possible to use the best practice method of targeting in all SP programmes. In addition to increasing coverage of the poor, it would also make it easier to coordinate policy across programmes, it would reduce the costs associated with the duplication of beneficiaries, and it would consolidate administrative costs.

Programmes need to be monitored and evaluated to investigate whether or not they are effective in producing their expected outcomes. First, the major existing programmes in Indonesia such as the BLT, the Jamkesmas, the Raskin, and the PKH need to be continually monitored and evaluated to improve their delivery as well as their targeting. Second, little is known about the current array of small social welfare programmes within the Ministry of Social Affairs (Depsos) that target transfers or services to especially vulnerable populations such as orphans and disadvantaged children, the elderly, people with disabilities, the homeless, drug abusers, sex workers, and people with HIV/AIDS. A second set of Depsos programmes provide assistance and social security to groups such as migrant and informal workers. At the moment, they appear small and highly fragmented, reaching only a handful of potential beneficiaries, and they need to be evaluated to determine their effectiveness. There may be scope for coordinating or rationalizing these and other social assistance programmes.

Finally, there is no ongoing crisis monitoring and response system in operation in Indonesia. The government has limited how it has responded to shocks in recent years to modifying or adding to programmes that were already in place. There is a need to create a permanent shock and vulnerability monitoring system to track key indicators such as labor, education, and health outcomes, to provide an up-to-date picture of household vulnerability, to identify needs, and to pinpoint crisis-hit regions and households. The CMR that BAPPENAS is currently developing could serve as a prototype for this monitoring system. A parallel response system is also needed through which needed assistance can be delivered to those most vulnerable to the effects of the shock, whether by the BLT, the Raskin, public works schemes, or other programmes. As has been seen during the global financial crisis, it is difficult for the Government of Indonesia to respond rapidly to shocks given the current lengthy budgeting and legal processes.

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Annex Table 1: Expenditure by Major Social Protection Program in Indonesia, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Household-targeted Expenditures							
Raskin Budgeted Expenditure	4,240	4,800	4,830	4,970	5,320	6,280	5,500
BLT Expenditure (1)					23,040	0	14,100
PKH Expenditure						1,200	1,200
Askeskin / Jamkesmas Expenditure (2)				1,300	2,900	4,500	4,600
Household-targeted Exp.	4,240	4,800	4,830	6,270	31,260	11,980	25,400
As % Public Exp. (3)	1.2	1.2	1.1	1.2	4.7	1.5	2.6
As % Public Social Exp. (4)	n.a.	n.a.	n.a.	14.0	44.5	13.7	27.6
As % GDP	0.2	0.2	0.2	0.2	0.9	0.3	0.6
Community-targeted Expenditures							
BOS Expenditure				5,137	12,017	10,436	10,594
KDP Expenditure (5)	513	513	654	698	886		
UPP Expenditure (6)	81	20	188	198	395		
PNPM Mandiri Expenditure						3,600	13,000
Community-targeted Exp.	594	533	842	6,033	13,298	14,036	23,594
As % Public Exp. (3)	0.2	0.1	0.2	1.2	2	1.8	2.4
As % Public Social Exp. (4)	n.a.	n.a.	n.a.	13.4	18.9	16.1	25.6
As % GDP	0.0	0.0	0.0	0.2	0.4	0.4	0.5

Sources: Central Bureau of Statistics, Ministry of Finance, SMERU, and World Bank

Notes: (1) BLT expenditures estimated as 19.2 million households receiving Rp100,000 per month for 12 months in 2006 and 19 million households receiving Rp100,000 per month for six months in 2008. (2) 2008 Askeskin figure is budget. (3) Total public expenditure including central and local government. (4) Total public expenditure minus defense, law and order, economic affairs, and central government costs. (5) KDP 2002-03 figures are average for the two years. (6) UPP expenditures are kelurahan and PAPG grants.

Annex Table 2: Overview of Major Household-targeted Social Protection Programs in Indonesia by 2007

	Raskin (Rice for the Poor)	BLT (Unconditional Cash Transfer)	PKH (Conditional Cash Transfer)	Askeskin / Jamkesmas (Health Insurance for the Poor)
Nature of intervention	▪ Social assistance ▪ In kind ▪ Subsidised rice	▪ Social assistance ▪ Cash ▪ Unconditional transfer	▪ Social assistance ▪ Cash ▪ Conditional transfer	▪ Social assistance ▪ In kind ▪ Free health treatment at local health centers and in-patient treatment at public third-class hospitals
Target population	▪ Poorest two categories of households as per BKKBN's classification	▪ Poorest 30% of households by consumption	▪ Poor households with children aged 0-15 or pregnant women ▪ Still in pilot phase	▪ Poorest 30% of households by consumption
Targeting methods	▪ BKKBN classifies each household's welfare level using various household characteristics ▪ Not a PMT approach or based on statistical evaluation ▪ Not easily verifiable and easily manipulated	▪ PMT survey approach from community-generated lists of poorer households ▪ Enumerator verification upon distribution of cards ▪ Updated 2008 database with improved PMT scoring and indicators as well as better sweep of poor households now available although not yet being used	▪ PMT survey approach	▪ BLT 2005 list with many community additions ▪ However, self-targeting with unclear criteria allowed through use of letter from neighborhood head stating household poor ▪ Non-acceptance of central poverty data by some local implementers ▪ Usage data suggest considerable numbers of non-poor beneficiaries
Beneficiaries and coverage	▪ Planned 8.3 million households in 2005 ▪ Estimated 57% coverage of target population ▪ Estimated poor receive 20% of total program costs, non-poor 52% and operating costs 28% ▪ Estimated 30% leakage of rice	▪ 19.2 million households in 2005/06 ▪ Estimated coverage of target population varies: 78% per government, but only 45% per World Bank ▪ Estimated poorest 10% receive 21% of transfers and poorest 20% receive 35%	▪ 700,000 households in 2007 ▪ Still in pilot phase, so no coverage estimates ▪ May expand significantly in future	▪ 16 million households in 2006 ▪ 90% of cards distributed, but true coverage estimates not known
Expenditures	▪ Rp5,320 billion in 2006 ▪ 7.6% public social exp. ▪ 0.8% total public exp. ▪ 0.2% GDP	▪ Rp23,040 billion in 2006 ▪ 32.8% public social exp. ▪ 3.5% total public exp. ▪ 0.7% GDP	▪ No expenditure in 2006, Rp1,200 billion in 2007 ▪ 1.4% public social exp. ▪ 0.2% of 2007 total public exp. ▪ 0.0% of 2007 GDP	▪ Rp2,900 billion in 2006 ▪ 5.2% public social exp. ▪ 0.4% total public exp. ▪ 0.1% GDP
Implementing agencies	▪ National Logistics Agency (Bulog) at central level	▪ Targeting by Central Statistics Bureau (BPS)	▪ Targeting by Central Statistics Bureau (BPS)	▪ Depkes at central level and locally for health centers
	▪ Village officials at local level	▪ Implemented by Ministry of Social Affairs (Depsos) ▪ Distributed locally via the post office system	▪ Implemented by Ministry of Social Affairs (Depsos)	▪ PT Askes (private insurer) initially responsible for provision of in-patient insurance, now Depkes

Sources: World Bank, Central Bureau of Statistics (BPS), SMERU, Coordinating Ministry for People's Welfare
Notes: BKKBN is the National Family Planning Board

Annex Table 3: Overview of Major Community-targeted Social Protection Programs in Indonesia by 2007

	PNPM-Rural	PNPM-Urban	BOS
Nature of intervention	▪ Social assistance ▪ Cash ▪ Funded community development proposals	▪ Social assistance ▪ Cash ▪ Funded community development proposals	▪ Social assistance ▪ Cash ▪ Operational block grants to schools to reduce or eliminate school fees
Target population	▪ All rural sub-districts	▪ All urban sub-districts	▪ All private and public primary and junior high schools ▪ Priority for fee reduction to go to poor students ▪ Poor students also eligible for additional stipend to cover transportation and other costs
Targeting methods	▪ Grant size to sub-districts made on population size ▪ Villages submit proposal for projects from eligible list to sub-district administrations for selection ▪ Labor-based employment at low wages allows self-selecting to the poor	▪ Grant size to sub-districts made on population size ▪ Villages submit proposal for projects from eligible list to sub-district administrations for selection ▪ Labor-based employment at low wages allows self-selecting to the poor	▪ Fixed grant per student ▪ Targeting of the poor done by schools themselves ▪ Evaluations have found program reduces educational costs in general but has not been targeted at the poor ▪ In practice has not been used to target poor children outside of the school system
Beneficiaries and coverage	▪ 34,200 villages in 2005 (around half of all villages) ▪ Pro-poor coverage before going national (25% incidence of poverty in KDP sub-districts in 2005, 14% outside, national average about 16% at the time) ▪ 30% of poor covered in 2005, but could be increased to 52% using existing poverty maps ▪ By 2008, covered 2,835 rural sub-districts ▪ By 2009 national coverage is intended	▪ By 2008, 955 urban sub-districts were covered ▪ By 2009 national coverage of urban sub-districts is intended	▪ All primary junior high schools are eligible ▪ Estimates of coverage of the poor within schools not available
Expenditures	▪ Rp886 billion in 2006 ▪ 1.3% public social exp. ▪ 0.1% total public exp. ▪ <0.1% GDP	▪ Rp395 billion in 2006 ▪ 0.6% public social exp. ▪ <0.1% total public exp. ▪ <0.1% GDP	▪ Rp12,000 billion in 2006 ▪ 17.1% public social exp. ▪ 1.8% total public exp. ▪ 0.4% GDP
Implementing agencies	▪ PNPM Controlling Team at central level, with Ministry of Home Affairs (Depdagri) as implementing agency ▪ Sub-district administrations at intermediate level with assistance from PNPM facilitators ▪ Village officials at local level	▪ PNPM Controlling Team at central level, with Ministry of Public Works (PU) as implementing agency ▪ Sub-district administrations at intermediate level with assistance from PNPM facilitators ▪ Village officials at local level	▪ Department of Education at central level ▪ School administration at local level

Sources: World Bank, Central Bureau of Statistics (BPS), PNPM Mandiri Oversight Team, Department of Education

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