



OECD Development Pathways

Social Protection System Review of Indonesia



INDONESIA

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Foreword

Social protection in Indonesia has evolved as fast as the country itself over the past two decades. Today, the Government of Indonesia (GoI) recognises social protection as being central to its economic, political and social development as well as its ambition of becoming one of the world's ten largest economies by 2030. Social protection is at the core of the 2015-19 Medium Term Development Plan (RPJMN), which articulates a vision for inclusive economic growth that promotes equality of income and opportunity as a precondition for escaping the middle-income trap and fulfilling the country's potential.

This *Social Protection System Review of Indonesia* (SPSR) is produced by the European Union Social Protection Systems Programme (EU-SPS) in close collaboration with the Ministry of National Development Planning (BAPPENAS) and with the broader support of the GoI as well as development partners. The *SPSR* intends to inform next Indonesia's RPJMN for the period 2020-24 as well as related policy processes.

The *SPSR* examines how social protection has evolved since the Asian Financial Crisis. It maps social protection provision and analyses the impact of key programmes. It also examines the financing of social protection and the challenges of harmonising programme implementation and poverty-targeting across Indonesia's vast geographical area.

The *SPSR* also focuses on the GoI's progress in closing gaps in social protection provision and achieving greater coherence and co-ordination amongst different programmes, institutions and levels of government in order to create a social protection system. This is essential for reducing poverty and high levels of inequality as well as optimising financial resources. New challenges, such as shifting demographics, climate change and the fourth industrial revolution, heighten the urgency of strengthening the social protection system.

Numerous stakeholders in the GoI, development partners involved with social protection, and representatives from academia and broader civil society worked together to develop the recommendations in this report. These address challenges such as enhancing the impact of social assistance on poverty, expanding social insurance coverage, optimising the institutional and information architecture for social protection, and mitigating gender imbalances. We hope this review will contribute to further enhancing social protection in Indonesia, maximising its potential to promote inclusive growth and thus underpin the country's progress towards achieving prosperity for all Indonesians.

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Abbreviations and acronyms

AIDS	Acquired Immune Deficiency Syndrome
BAPPENAS	Kementerian Negara Perencanaan Pembangunan, Ministry for Planning and Development
BDT	Basis Data Terpadu, see also UDB
Bidikmisi	Student Special Assistance
BPJS	Badan Pengelola Jaminan Sosial, National Social Security Administering Body
DJSN	National Social Security Council
FAO	Food and Agricultural Organization
GDP	Gross domestic product
GoI	Government of Indonesia
HIV	Human Immunodeficiency Virus
IDR	Indonesian rupiah
IFLS	Indonesian Family Life Survey
ILO	International Labour Organization
IMF	International Monetary Fund
JKN	Program Jaminan Kesehatan Nasional, Public Health Insurance
KIS	Kartu Indonesia Sehat, Healthy Indonesia Card
KUBE	Kelompok Usaha Bersama, Co-operative Business Groups
MoEC	Ministry of Education and Culture
MoEMR	Ministry of Energy and Mineral Resources
MoF	Ministry of Finance
MoPWPH	Ministry of Public Works and Public Housing
MoRA	Ministry of Religious Affairs
MoRTHE	Ministry of Research, Technology and Higher Education
MoSA	Ministry of Social Affairs
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OPHI	Oxford Poverty Development Initiative

PBI	Penerima Bantuan Iuran, Non-contributory health programme
PBPU	Non-wage or informal workers
PEKKA	Perempuan Kepala Keluarga, Female-Headed Household Empowerment Program
PIP	Indonesian smart card
PKH	Program Keluarga Harapan, Family of Hope conditional cash transfer programme
PODES	Potensi Desa
PPLS 2011	Pendataan Program Perlindungan Sosial or Data Collection on Social Protection Programmes for 2011
PPP	Purchasing power parity
PT ASABRI	Asuransi Sosial Angkatan Bersenjata, Social insurance for the Armed Forces
PT TASPEN	Tabungan dan Asuransi Pensiun, Civil Servants Insurance Savings
RPJMN	National Medium Term Development Plan, Indonesia
SJSN	Sistem Jaminan Sosial Nasional, National Social Security System
SUSENAS	Survei Sosial Ekonomi Nasional, National Socioeconomic Survey
TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan, National Team for Accelerating Poverty Reduction
UDB	Unified Database for Targeting, see also BDT
USAID	US Agency for International Development
UN	United Nations
UNDP	UN Development Programme
UNICEF	UN Children's Fund
USD	United States dollar

Executive summary

The Asian Financial Crisis of 1997-98 caused massive economic, political and social upheaval in Indonesia. Two decades later, the country has set its sights on becoming one of the ten largest economies in the world. Social protection has proven a key component of Indonesia's economic recovery, its transition to democracy and progress towards a more cohesive society. The Government of Indonesia (GoI) considers social protection as a critical means of reducing inequalities of wealth and opportunity that represent a critical constraint to the country's economic and social ambitions.

Since the Asian Financial Crisis, Indonesia has made great progress towards establishing a social protection system that cover a wide range of risks. Successive governments have replaced the country's traditional approach to poverty relief with developmental social assistance programmes and reformed the social insurance system by implementing a new administrative and legislative architecture, expanding coverage and improving benefits. The extraordinary progress towards universal health coverage is emblematic of Indonesia's achievements. As of October 2018, 203 million people, or three quarters of the population, were covered by Jaminan Kesehatan Nasional (JKN, national health insurance). Driving the growth in coverage is the GoI's policy to subsidise fully or in-part the contributions of individuals who might otherwise be excluded from health provision.

Yet social protection is not yet operating at its full potential. Poor households with children are entitled to a number of complementary social protection programmes to promote their sustainable exit from poverty but only a minority of beneficiaries receive the full range of benefits. The largest programmes, in particular the rice subsidy for the poor, have historically been the least well targeted. At the same time, a new pension system is struggling to increase coverage amongst Indonesia's large informal sector, while the growth of JKN is raising concerns around its long-term sustainability. Labour market policies to promote economic participation and productive employment amongst vulnerable groups are underdeveloped.

Social protection confronts major challenges. First, it must help address Indonesia's last-mile problem. The GoI has targeted a national poverty rate of around 8% since 2004; the rate fell below double-figures for the first time in 2018. Income poverty is concentrated among children and the elderly. It also varies greatly by region: the poverty rate in Jakarta is below 5% but exceeds 30% in a number of eastern provinces. In addition to the poor population, some 30% of Indonesians are considered vulnerable.

Social protection can do more to improve livelihoods and income security among this group, particularly individuals (typically in informal employment) who are not eligible for social assistance but are also unable or unwilling to register for social insurance, sometimes referred to as the missing middle. Strengthening mechanisms to protect and promote this cohort – and the informal workforce as a whole – is a key means of growing the middle class, which currently accounts for some 20% of the population and is key to Indonesia's future economic prospects. Major gender imbalances also exist. Women are

poorer across the life cycle and face disadvantages at school and, especially, in employment.

Looking ahead, Indonesia's demographics will become less benign as the population starts to age rapidly. Poverty amongst elderly Indonesians has not declined at the same rate as for other groups (notably children), in part because their access to social protection is extremely low. The productivity of the next generations of workers will be crucial in determining whether the Fourth Industrial Revolution is an opportunity or a threat. Other threats also loom in Indonesia's future, such as the impact of climate change and increased frequency of natural disasters.

To meet these challenges, GoI should press ahead with its commitment to establish a social protection system based on two overarching priorities. First, it must address gaps in social assistance and social insurance provision to achieve comprehensive coverage across the lifecycle. Secondly, greater co-ordination and coherence between programmes is needed, as well as between the institutions that implement them and the information and targeting systems they use. Lack of co-ordination between central and sub-national government, between which responsibility for social protection provision is shared, is a further structural challenge to the implementation of national social protection strategies.

Social protection also faces significant financing constraints. To achieve long-term reductions in poverty and meet the risks identified here, higher allocations to social protection are required and resources must be optimised. However, Indonesia's low levels of domestic resource mobilisation, as well as a large number of competing government priorities, are likely to limit the fiscal resources available to social protection. Formalisation policies will be important both for generating higher taxes, generating better jobs and expanding social insurance coverage.

In spite of these challenges, Indonesia possesses important foundations for a social protection system. Strong programmes have emerged, such as the Program Keluarga Harapan (PKH), a conditional cash transfer that has proven effective not only in reducing poverty but also improving beneficiaries' health and education outcomes. Eligibility for PKH is determined by the Unified Database (UDB), a common targeting instrument for all social assistance programmes that links beneficiaries to complementary interventions, thereby maximising their chances of escaping from poverty.

This review proposes a number of recommendations for strengthening the social protection system that were developed jointly with the GoI, development partners and other social protection stakeholders. The review identifies scope to consolidate social protection programmes, to improve co-ordination between national and sub-national government, and to enhance the information architecture for social protection, for instance the UDB, as well as monitoring and evaluation systems. It also emphasises the importance of strengthening the social workforce and examines to what degree social protection might enhance gender equality and provide long-term income security to the elderly.

Assessment and recommendations

Indonesia's recovery from the Asian Financial Crisis and the economic, political and social upheaval it caused has led to an impressive reduction in poverty and a significant improvement in living standards. However, the growing prosperity has not been shared by the entire population; inequality has risen strongly over the past two decades. The Government of Indonesia (GoI) has recognised this uneven development as a key constraint on its ambition to become one of the world's ten largest economies and it has placed social protection at the centre of its inclusive growth strategy.

The GoI is committed to establishing a social protection system that provides comprehensive coverage for the entire population and achieves coherence and co-ordination between the various institutions involved in social protection. Such a system will be able to address a number of structural challenges, including a last-mile problem confronting strategies to reduce poverty, extensive vulnerability among individuals who have emerged from poverty but have not yet joined the middle class, and long-term demographic change, particularly population ageing.

This report identifies mechanisms for strengthening the social protection system. It is intended for social protection stakeholders both within Indonesia and outside. Amid increasing global emphasis on establishing social protection systems, Indonesia's policy response to rising inequality, disparities in territorial development, demographic change and information challenges can make a significant contribution to best practice in social protection internationally.

Indonesia's economic development has not benefited the entire population

Indonesia faces a last-mile problem. The national poverty rate fell from 24.2% in 1998 (at the height of the Asian Financial Crisis) to 9.7% in 2018. However, the decline slowed significantly after 2010. Meanwhile, inequality has increased: the Gini coefficient increased from 0.30 points in 2004 to 0.41 points in 2014, one of the fastest increases in the region. It started to decline in 2017, falling to 0.38 in September 2018.

Poverty is concentrated among children and the elderly, with women more likely to be poor than men at almost all ages. The GoI classifies almost two-fifths of the population as poor or vulnerable, although the proportion fell from 42.6% to 38.2% between 2011 and 2016. There has been considerable movement of individuals between income levels and in and out of poverty over the past decade.

Poverty also has a clear spatial dimension. The five poorest provinces are in the east, and their poverty rates in 2016 were, on average, 18 percentage points higher than the average for the five least-poor provinces. Rural areas are significantly poorer than urban areas. In order to address these disparities, a recent reform to the Village Funds has resulted in villages across the entire country receiving a large increase in funding from the central government and gaining significantly greater autonomy. Concerns as to the extent to which the Village Funds are achieving sustainable declines in poverty have prompted the

GoI both to revise the formula by which the size of the transfers to different villages is determined and to emphasise the importance of the allocations being used to build basic infrastructure and for the economic empowerment of disadvantaged groups.

Indonesians face a range of risks along the life cycle despite a marked improvement in many human development indicators since 2000. Maternal and infant mortality have fallen significantly, although they remain high by regional standards. However, stunting remains a major problem: in 2013, 37.2% of children under age 5 suffered from stunting, up from 36.8% in 2007. Enrolment in early childhood education and learning facilities has improved but the majority of children still do not access these services.

Children from poor and vulnerable households are far less likely to benefit from improvements in public services than their wealthier peers, meaning they are deprived during a crucial period of cognitive and physical development. There are also major regional disparities: only 40.4% of children Aceh and Papua under age 5 are fully immunised, for example. The long-term consequences for inter-generational transmission of poverty and the development of Indonesia's human capital are grave, especially in a context where the country's demographics are becoming less favourable.

Indonesia has experienced a rapid demographic transition. Birth rates increased rapidly following independence in 1945, resulting in a baby boom evident in the size of today's working-age population. With birth rates subsequently declining, Indonesia has benefited from a demographic dividend, with a large economically active population supporting a relatively small number of young or old dependants. Over the coming decades, today's working-age individuals will reach old age, resulting in a rapid ageing of the population. From the mid 2020s onwards, the dependency ratio will begin a rapid ascent.

These trends require that Indonesia's workforce becomes more productive. Education reforms since 2000 have significantly improved access to education at all age groups and financing for the sector is protected by a Constitutional requirement that it receive 20% of the budget. However, the quality of education has seen less improvement. A reform in 2016 increasing the duration of compulsory education from 9 to 12 years will expand access but it will also reduce the finances available per student for much-needed quality improvements. Productivity is also a function of the health of the workforce, meaning the public health system has an important role to play.

Some 23.2% of the youth (aged 15-24) were not in education, employment or training (NEET) in 2016, a 6.4 percentage point decrease from 2008. The percentage of female youth NEET is considerably higher than for males, although the gap appears to be shrinking. This disparity between male and female labour outcomes persists across the working age: average labour force participation rates for men and women between 2000 and 2015 were 79.7% and 47.1% respectively, and there has been little evidence of convergence. The gender salary gap for full-time workers in 2014 exceeded 30%.

The national unemployment rate fell from 10.3% in 2006 to 5.3% in 2018. However, some 30% of workers are under-employed and many workers confront long working hours and low pay. Informal employment remains the norm for most workers, despite declining: between 2006 and 2016, the rate of informal workers (defined by Statistics Indonesia as own-account workers, temporary or casual employees and unpaid family workers) fell from 68.9% to 57.6%. Informality and poverty are closely correlated.

Individuals in informal employment (and their families) are unlikely to be covered by social protection, which in turn renders them more exposed to ill-health and other shocks. The GoI is making a particular effort to expand contributory arrangements into the

informal sector. Informal workers often find themselves in the “missing middle” of social protection coverage, whereby they are ineligible for poverty-targeted social assistance but excluded from employment-based contributory arrangements.

Indonesia’s elderly population is relatively small but it is the age group most prone to poverty. In 2016, 14.7% of individuals over age 65 had incomes below the poverty line, versus 14.9% in 2010. The prevalence of informality means that less than 10% of the elderly receive a pension, with coverage among women especially low. As a consequence, they rely on family for income support rather than public social protection arrangements. Close to half the population aged 65 or over has some form of disability, making it very hard for them to remain economically active and support themselves.

Indonesia’s demographic and societal changes are accompanied by an epidemiological transition. Non-communicable diseases are becoming a more significant burden on health than communicable diseases (although there has been a notable increase in the prevalence of HIV/AIDS). The proportion of total deaths attributable to non-communicable diseases rose from 63% in 2010 to 77% in 2014. The proportion of the population that is obese more than doubled between 2007 and 2018, from 10.5% to 21.8% (Ministry of Health, 2018^[1]). The high prevalence of smoking, especially among men, is also a major health concern.

The costs and accessibility of healthcare have a major impact on individuals’ response to ill health or injury. A majority of Indonesians suffering a health issue choose self-treatment instead of visiting health facilities or medical professionals, although this trend is decreasing: in 2014, 61% treated themselves, compared with 68.4% in 2009.

Around 8.6% of the population over the age of two have some type of disability and half (48.5%) report multiple disabilities. Rates are higher for females than for males and for rural residents than for urban residents. Individuals with disabilities face more risks and vulnerabilities than the general population, and access to social protection is extremely low, with about 1% of people with disabilities accessing the principal social assistance mechanism covering this risk.

Looking ahead, Indonesia’s economic prospects are positive, although labour productivity is a concern. The Fourth Industrial Revolution holds major potential for the Indonesian economy but could also be a threat if the workforce lacks the skills to harness it. Social protection will need to be part of the policy response as the GoI prepares for Industry 4.0. Climate change is also likely to have adverse consequences for the economy and the workforce over the longer term through its impact on the agricultural sector.

Social assistance has evolved rapidly and expanded recently

Indonesia’s recovery from the far-reaching economic, political and social consequences of the Asian Financial Crisis of 1997-98 is an international success story. Although recognised as a basic human right by Indonesia’s constitution, social protection was poorly developed prior to the Crisis but emerged as an important part of the response and has since played an ever-larger role in Indonesia’s development.

Three presidents have charted the evolution of social protection in Indonesia: Megawati Sukarnoputri (2001-04), Susilo Bambang Yudhoyono (2004-14) and Joko Widodo (2014-present). Their respective administrations took responsibility for scaling up social assistance and for reforming social insurance, although the degree of continuity between governments has varied.

Social assistance reforms have not occurred in a particularly strategic manner. Each administration has prioritised different programmes over others, experimenting with new programmes and rejecting or reforming programmes based on their impact. The development of social insurance has followed a more linear trajectory.

Over the past two decades, the GoI's perception of social protection has evolved relatively swiftly. Having fulfilled a traditional relief-response function in the wake of the Asian Financial Crisis, it subsequently came to the fore as a mechanism for mitigating the impact of reductions in energy subsidies. Nowadays, the GoI recognises its importance from a longer-term developmental perspective. The National Medium-Term Development Plan (RPJMN) for 2015-19 recognises social protection as being central to its objective of reducing inequality between income groups and between regions to achieve stronger economic growth and shared prosperity.

Social assistance consists of multiple programmes implemented by a number of different line ministries, including the Ministry of Social Affairs (MoSA), the Ministry of Education and Culture, the Ministry of Religious Affairs and the Ministry of Health. It encompasses programmes covering a wide variety of risks, from conditional cash transfers (CCTs) to food subsidies and student scholarships. However, eligibility for these programmes is determined by a single mechanism: the Unified Database (UDB), which has been developed since 2005 as a common targeting mechanism for social assistance.

The largest social assistance programmes are Rastra, which provides subsidised rice for the poor; Programme Indonesia Pintar (PIP, Assistance for Poor Students) and Program Keluarga Harapan (PKH). Rastra is being integrated with an electronic food voucher system, Bantuan Pangan Non Tunai (BPNT). The GoI (through the Ministry of Health) also fully subsidises the health insurance contributions of poor and vulnerable households. Beneficiary households are known as Penerima Bayaran Iuran (PBI) members of JKN.

This review analyses how these programmes differ significantly in terms of their coverage, cost and impact. All the programmes succeed in reducing poverty but the efficiency with which they do so varies widely. Rastra was accessed by 45% of the population in 2016, demonstrating significant errors of inclusion that dilute the efficiency with which it reduces poverty. PIP has scaled up significantly and currently covers around 20 million beneficiaries; it is more efficient than Rastra in eliminating poverty but there is still extensive leakage to the non-poor, which has been attributed to beneficiaries being selected by schools or local government rather than with reference to the UDB.

PBI has also scaled up strongly in recent years, covering 92.4 million beneficiaries in 2018 (102 million if local schemes are included). Although PBI has been criticised for its poor targeting performance (reflecting both errors of inclusion and exclusion) it is slightly more efficient at reducing poverty than Rastra. However, supply-side barriers prevent the programme from increasing access to health services among beneficiaries to the full extent.

PKH is shown to be the most effective programme at reducing poverty and is scaling up rapidly to cover more geographical areas and a larger portion of the poor population. Coverage has increased to 10 million households in 2018, up from 6 million in 2016, reflecting PKH's effectiveness at reaching poor households. The benefit modalities are currently being revised by the GoI with a view to increasing benefit values and re-establishing variable benefit levels prior to a further expansion of coverage. The programme has been shown to have not only a short-term impact in reducing poverty but

also longer-term benefits in human capital development, notably a reduction in stunting rates among beneficiaries.

An important point to bear in mind is that social assistance programmes are intended to be complementary. With eligibility underpinned by the UDB, individuals who access one programme should typically access the others, since each covers a particular risk. However, significant progress is required in this regard: in 2014 (before UDB was as widely used across social assistance programmes as it is today), less than 30% of families in the poorest decile that were receiving PKH also benefited from PIP and Rastra and were registered as PBI. This lack of coherence is a major constraint on the individual programmes' capacity to achieve lasting reductions in poverty and inequality.

Tax-financed active labour market policies are an important mechanism for promoting the skills and productivity of poor and vulnerable workers. While such programmes exist in Indonesia, they are not implemented at a significant scale, although infrastructure projects financed by the Village Funds often employ poor and unemployed individuals, meaning they share some features with public works programmes.

The most important labour-market policies are minimum wages and severance pay. Both instruments are well established but risk being distortive. Severance pay is considered a constraint to hiring and firing workers while minimum wages are high relative to the median wage. Both instruments are poorly implemented: minimum wages often do not hold and only a small minority of workers receive full severance pay when they lose their jobs.

At present, Indonesia does not have an unemployment insurance arrangement. Combined with the uneven functioning of severance pay, this not only leaves workers vulnerable to a sharp reduction in welfare if they lose their job but also means that Indonesia lacks an effective counter-cyclical social protection mechanism.

Indonesia is making rapid progress towards universal health coverage but pension coverage remains low

In what has been described as a big bang approach to social insurance, two key pieces of social insurance legislation were passed within the space of a decade. The first, in 2004, created the policy framework for social insurance: the Sistem Jaminan Sosial Nasional (SJSN; National Social Security System). The second, in 2011 created the institutional framework by establishing the Badan Jaminan Sosial Nasional (BJPS; National Social Security Administering Body).

BJPS Kesehatan (henceforth BPJS Health), which began operations in January 2014, took effect was made responsible for Jaminan Kesehatan Nasional (JKN; Public Health Insurance with the aim of achieving universal health coverage. BPJS Ketenagakerjaan (henceforth BPJS Labour), which began operations in July 2015, is responsible for employment-related social security. The SJSN reforms recognised a need to establish a social insurance system with much greater coverage than previous arrangements had achieved. BPJS Health has been much more effective than BPJS Labour in this regard.

Since July 2015, BPJS Labour has implemented all social security programmes for employees and non-wage or informal workers. Before 2015, JAMSOSTEK administered benefits for private sector workers. TASPEN remains the administrator of benefits for civil servants while ASABRI administers those for armed forces personnel.

A new pension programme, the Jaminan Pensiun (JP), has been introduced as part of a broader reform of retirement arrangements. The JP is run on a defined benefit basis for formal-sector workers, funded by a contribution rate of 3% of salary, with a retirement age of 56 and a vesting period of 15 years. The retirement age and contribution rate will both rise gradually, with the latter expected to reach 8% (although no clear timetable exists). The JP is intended to sit alongside the existing provident fund (Jaminan Hari Tua, JHT), to which workers in the formal and informal sector alike are expected to contribute. Civil servants and other state employees are meant to transition to this new arrangement by 2029.

Some 30 million workers were active members of BPJS Labour at the end of 2018. Coverage outside formal enterprises remains very low. Efforts to attract informal workers to enrol by offering low contribution rates are hampered by the stipulation that they must also contribute to employment injury insurance. Some form of contribution subsidy might be required to address this issue, and it is a concern that current social assistance arrangements for the elderly are so small, leaving large groups of elderly (particularly women) without any formal income support.

Low coverage levels of the JP might have implications for the long-term solvency of the fund, as would a failure to increase the contribution rate or increase the retirement age. Achieving a balance between these parameters will be critical. The integration of the public sector is likely to be difficult if the programme is not well established and solvent.

BPJS Health has expanded coverage of JKN, the national health insurance system, at a much faster rate. In 2011, the GoI targeted achieving universal health coverage (UHC) by 2019. As of October 2018, it covered 205.1 million individuals (78% of the population), up from 111.6 million in January 2014. However, the effective usage of JKN enrolees is a concern, with not all of them accessing the medical services to which they should be entitled, a consequence of a range of supply- and demand-side barriers.

Its success has important lessons for BPJS Labour regarding contributions mechanisms. A high proportion of those covered by JKN are subsidised by the GoI, partly or in-full according to income. It also underlines a failure to co-ordinate between the two agencies, such as that increased enrolment in JKN generates greater coverage of BPJS Labour.

There are two main categories of JKN enrolee: PBI and non-PBI (contributory). Non-PBI members comprise various sub-categories, whose premiums reflect differing capacity to contribute. These include workers in the informal sector, who can choose between three different premium levels entitling them to different levels of service. A missing middle of JKN coverage has been identified, with only 52% of individuals aged 20 to 35 years in the middle-income groups enrolled.

Notwithstanding the overall progress towards UHC, high enrolment brings financial challenges. The flexibility for informal workers to make irregular contributions is resulting in individuals gaming the system by registering when they (or their household) have a health problem. The majority of informal workers also opt for the lowest premium. The overall effect has been to drive the claims ratio above 100%, which in turn is driving a sharp increase in JKN's deficit. Unless these structural issues are addressed, JKN risks becoming an ever-larger strain on public finances as coverage grows.

Social protection spending is constrained by low domestic resource mobilisation

Social assistance spending has risen significantly in absolute terms since 2012 but, at 0.7% of GDP in 2016, is low for a country at Indonesia's income level. Low allocations on social assistance reduce its capacity to reduce poverty and inequality, especially when divided across a large number of institutions. This heightens the need to improve coherence between programmes and improve targeting. Social insurance spending has typically been larger than social assistance but the gap has shrunk significantly in recent years. According to World Bank calculations, social insurance expenditure was IDR 99.6 trillion in 2016, versus IDR 78.3 trillion on social assistance.

Total social protection spending was 1.4% of GDP in 2016, up from 1% of GDP in 2007. However, it is notable that social protection spending was 15.4% of total central spending in 2016, up from 10.7% in 2012, underlining that social protection is growing as a budgetary priority. In 2019, increases in PKH benefits and PBI spending are expected to be a major driver of overall public expenditure.

Indonesia's Achilles Heel is its low level of domestic resource mobilisation. In 2016, the tax-to-GDP ratio was 11.6%, one of the lowest in the region and a major constraint on the country's fiscal capacity, in particular its redistributive potential. Reductions in energy subsidies have enabled an expansion of social assistance, although not all the fiscal space created by these structural reforms has been absorbed by social assistance. Social protection faces competition from a number of other priority areas of public spending, including infrastructure; higher tax revenues are critical if social protection is to grow significantly.

Efforts to increase social insurance coverage can ease the direct burden on public finances. However, they must work in tandem with policies to increase tax revenues through broader formalisation policies. If these function coherently, a virtuous circle is achievable whereby a larger proportion of the population is formally employed and contributing to social security arrangements at the same time as paying more in taxes, with the consequence that workers' livelihoods are protected and the government can afford to spend more on tax-financed social protection for individuals who are unable to work. Of course, taxes and social security contributions can also militate *against* formalisation by increasing the cost of employment; careful policy design and implementation is critical.

At the same time, it is important that higher taxation does not have an adverse impact on the poor. Fiscal incidence analysis of the major direct transfer programmes in this report indicates that the combined impact of taxes and transfers is to reduce income inequality but increase poverty, although the impact on poverty is reversed when other social spending is included, particularly subsidies and in-kind health and education benefits.

A systems approach is reducing fragmentation of social protection

Social protection is characterised by extensive fragmentation. Roles and responsibilities are divided across various line ministries and administrative bodies, without one central co-ordinating body. Indonesia has made progress towards developing the information infrastructure to underpin a social protection system through the development of the UDB, a single targeting mechanism for social assistance programmes. However, this is not used by all stakeholders in the social protection system. To improve its targeting performance and build greater confidence in the UDB, it is necessary to strengthen

updating and verification mechanisms. Recent progress in developing single-window services and on-demand application should be maintained to reduce exclusion errors.

Indonesia does not have an integrated management information system, although MoSA is currently developing one for PKH. The absence of an MIS constrains the GoI's capacity to monitor and evaluate the functioning of social assistance programmes and to ensure that beneficiaries are receiving all the benefits to which they are eligible. The rapid scale-up of certain social protection programmes in recent years has magnified the challenge of establishing and maintaining information systems.

Under the decentralised system of government, central and sub-national government in Indonesia share responsibility for social protection provision. Sub-national governments can implement their own social protection programmes, although few do. Co-ordination in social protection provision across different levels of government is inadequate, and the flows of information and resources between them uneven. As a result, national programmes might not receive the buy-in they need from sub-national government and the implementation of centrally-led reforms might differ from what was intended. This makes it difficult to establish a national system of social protection and raises the importance of the Ministry of Home Affairs as the link between national and sub-national government.

Social workers, known as facilitators in Indonesia, have a critical role to play in the social protection system. However, this role has in the past not been universally recognised and there are shortcomings in the training social workers receive. Progress has been made towards addressing these challenges but the potential of social workers to support the implementation of a social protection system is under-utilised.

Ensuring that the 23 million children currently on the UDB access the full range of social assistance programmes to which they are eligible is critical for improving their developmental outcomes and reducing poverty. Merging PIP with PKH might reduce gaps in coverage amongst this group while ensuring that a higher proportion of social assistance expenditure reaches the intended beneficiaries. In so doing, it would enable beneficiaries to graduate from PKH sooner.

As the population ages, demand for improved social protection for the elderly is likely to intensify. In a context of slow increases in coverage of contributory social insurance arrangements, particularly among women, a clear strategy for social assistance for the elderly should be developed.

The policy response to ensuring higher pension coverage amongst the missing middle might also include dual approaches to enrolling own-account workers and those in small and medium-sized enterprises respectively. Increasing social insurance coverage (and enhancing formalisation) will also require a broader restructuring of employment legislation, in particular severance pay. At the same time, the policy response to population ageing should extend beyond income replacement and consider the broader welfare needs of elderly individuals.

The political context for social protection in Indonesia – and therefore for the reforms proposed in this review – appears highly favourable. Strong political commitment at the presidential level is reflected in policy frameworks, and this is likely to continue with the RJPMN being developed for the period 2020-24. This lessens social protection's vulnerability to the electoral cycle.

At the same time, there is strong commitment from the international community to support the development of social protection in Indonesia. This is reflected by a recent World Bank loan to support the development of systems that will underpin the scale-up of PKH as well as by the many other institutions supporting Indonesia to develop the architecture for a social protection system. Indonesia's rapid progress towards UHC is generating strong interest amongst donors and other developing countries, making Indonesia a champion both in this area and in the global push towards universal social protection.

Recommendations

Consolidate child grants and strengthen social assistance for the elderly to address the last-mile problem (short-to-long term)

- Complete the scaling-up of the PKH, ensuring that households covered by the intervention belong to the target group.
- Ensure PKH benefits keep pace with inflation to maintain purchasing power.
- Integrate PIP with PKH to improve social assistance coverage amongst children in the UDB.
- Gradually scale up social assistance for the elderly.

Strengthen the information architecture for social protection (short-to-medium term)

- Continue to develop and co-ordinate mechanisms for updating and verification of the UDB.
- Institutionalise capacity within Ministry of Social Affairs to maintain the UDB in collaboration with other institutions involved in its development.
- Include vulnerable populations in disaster-prone regions within UDB to facilitate adaptive social protection programmes and integration of social protection within disaster risk management strategies.
- Improve the reach of civil registration services to increase the proportion of individuals (especially in remote areas) with identification documents and a National Identity Number.
- Consider the feasibility of using the MIS currently being developed for PKH to cover other social assistance programmes.

Regularise and strengthen social services (short-to-medium term)

- Implement the legislative framework for the provision of social services.
- Identify staffing needs and the competencies required by social workers to deliver social services across Indonesia.
- Improve the employment conditions of social workers and enable them to work across social programmes.
- Prioritise provision of early childhood development infrastructure and services, including family visits by social workers to PKH recipients.

Strengthen social insurance coverage among the missing middle (short term)

- Adopt a dual approach to improving social insurance coverage amongst (respectively) employees and own-account workers in the informal sector.
- Subsidise social security contributions of informal workers by covering the cost of employment injury insurance.
- Leverage JKN enrolment and awareness-raising to increase coverage by BPJS Labour.
- Revise contribution requirements to safeguard the financial sustainability of JKN without undermining the quality of services.

Reconfigure labour market interventions to meet the needs of Indonesia today (medium term)

- Review severance pay arrangements while enforcing pension contributions, especially among SMEs.
- Consider establishing an unemployment insurance arrangement.
- Invest in active labour market policies to promote productivity amongst vulnerable workers.

Revise decentralisation for coherence between national and sub-national government (medium term)

- Led by the Ministry of Home Affairs, promote coherence between national and sub-national government, for example by revising local minimum service standards to support social assistance programme implementation.
- Clarify and formalise financing responsibilities between national and sub-national government for social assistance provision.
- Strengthen engagement between MoSA and the Ministry of Villages, Disadvantaged Regions and Transmigration to embed social protection objectives and mechanisms within Village Fund projects.

Consolidate the institutional framework for social protection (medium term)

- Establish or empower a single institution with oversight of all social protection.
- Rationalise the number of ministries involved in social protection policy at national level, with MoSA playing a lead role.

Leverage social protection to offset gender disparities (medium term)

- Design specific active labour market policies for women not in education, employment or training.
- Consider incorporating care credits within the pension system.
- Consider including an earlier eligibility age for women in social assistance programmes for the elderly.

Chapter 1. A forward-looking assessment of social protection needs

Thanks to a prolonged period of robust economic growth, combined with political and social stability, Indonesia has achieved a dramatic reduction in poverty and major improvements in living standards for the majority of its population over the past two decades. However, there remain structural barriers to the inclusive growth that the government has identified as key to its economic ambitions and sustained social cohesion – barriers that social protection can overcome. This chapter examines the context for social protection, assessing the trajectories of poverty and inequality and analysing the risks individuals face along the life cycle, including pervasive informality. Finally, it maps the threats and opportunities that lie in store for Indonesia, its population and its economy in the future.

Indonesia has achieved great political and economic progress since the watershed of the Asian Financial Crisis in 1997-98. Having achieved average annual growth in gross domestic product (GDP) of 5.3% since 2000, it has set its sights on becoming an upper middle income country and one the world's top ten economies by 2030 (Ministry of Industry, n.d.^[1]).

However, Indonesia's ambitions face significant obstacles which, if not addressed, threaten to leave it in a middle-income trap (World Bank, 2014^[2]). Chief among these is the failure of Indonesia's economic development to benefit the whole population, leaving large groups in poverty and vulnerability, without the skills or opportunities to contribute to economic progress.

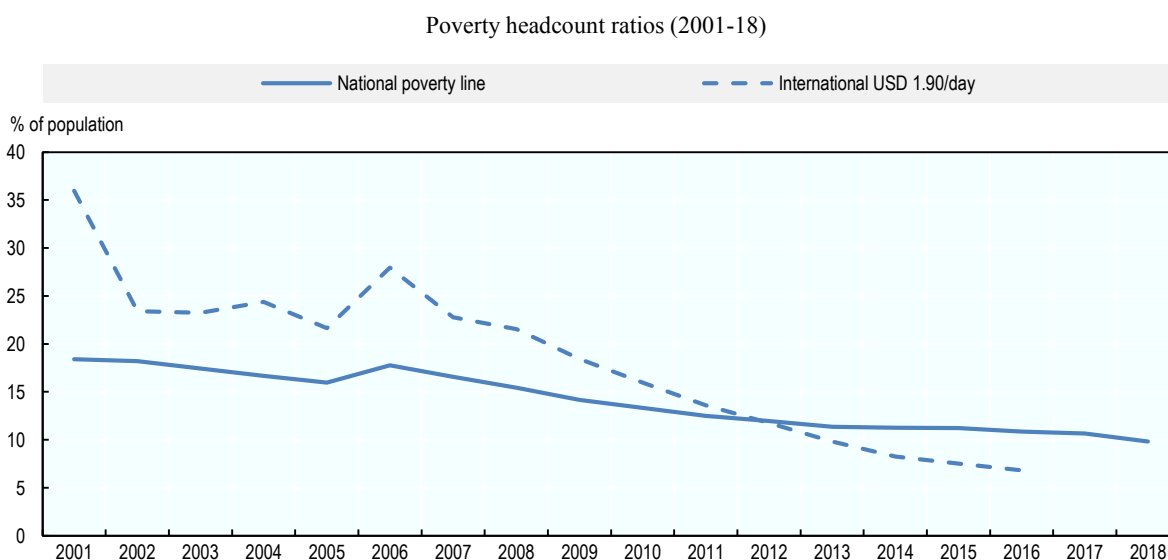
Achieving more inclusive growth is critical for ensuring that prosperity is shared, yet Indonesia represents an extraordinary challenge to this objective. It is the world's fourth most populous country, with a population approaching 270 million in 2018, and consists of 17 000 islands. An estimated 700 languages are spoken by some 300 ethnic groups.

The Government of Indonesia (GoI) has placed social protection at the heart of its inclusive growth strategy. As such, social protection holds the key to Indonesia's economic future if it can address unevenness in the country's growth trajectory identified in this chapter.

Indonesia confronts a last-mile problem in reducing poverty

Indonesia's robust economic performance over the past two decades has driven significant progress in reducing poverty. However, the decline in poverty stalled after 2010, with a large proportion of the population remaining poor or vulnerable. At the same time, inequality has risen. This section examines the dynamics and determinants of poverty and vulnerability, at both an aggregate and individual level.

Figure 1.1. The decline in national poverty has slowed



Source: Statistics Indonesia (2019^[3]), Poverty and Inequality: Basic Statistics, bps.go.id/subject/23/kemiskinan-dan-ketimpangan.html#subjekViewTab3; Statistics Indonesia (2016^[4]), SUSENAS, microdata.bps.go.id/mikrodata/index.php/catalog/769; World Bank (2018^[5]), *World Development Indicators*, data.worldbank.org/products/wdi.

Indonesia's national poverty rate fell from 24.2% in 1998 (at the height of the Asian Financial Crisis) to 9.66% in 2018 (Statistics Indonesia, 2019^[3]). However, the decline has slowed significantly since 2010 and bringing the poverty rate below 10% has taken longer than expected despite robust economic growth over this period. The National Medium Term Development Plans (Rencana Pembangunan Jangka Menengah Nasional, RPJMN) for the period 2004-09 envisaged the national poverty rate falling to 8.2% and its successor for 2010-14 targeted a decline to 8% (BAPPENAS, 2014^[6]).

In a context where economic growth alone has proven unable to eliminate poverty, the GoI recognises social protection as a direct means of reducing poverty, preventing vulnerable households from falling into poverty and reducing inequality both in the short term (though fiscal redistribution) and the long term (by ensuring equality of opportunity for younger generations through access to mechanisms for enhancing human capital).

Box 1.1. National and international poverty measures and terms used in this Review

Monetary or income poverty: Poverty status based on either household consumption or household income as a welfare metric. The national statistical office, *Badan Pusat Statistik* (BPS) of the Government of Indonesia (GoI), has defined poverty as the “economic inability to fulfil basic food and non-food needs measured by expenditure” (Statistics Indonesia, 2018^[7]).

- **National (monetary) poverty line (national; GoI):** the minimum amount needed to afford a specific basket of food and non-food basic needs, defined by the food poverty line and the non-food poverty line, respectively. BPS calculates the poverty line twice a year (in March and September), as well as separately for urban and rural areas. Data from the Consumption and Expenditure Module of the nationally representative socio-economic survey, the *Survei Sosial Ekonomi Nasional* (SUSENAS), are used to assess average expenditure and the appropriate consumption threshold for poverty. In September 2016, the rural poverty line was set at IDR 350 420 per month per capita (USD 27.00 [United States dollars] in current prices), and the urban poverty line at IDR 372 114 per month per capita (USD 28.86 in current prices). In September 2018, the rural poverty line was set at IDR 392 154 per month per capita (USD 27.15 in current prices), and the urban poverty line at IDR 425 770 per month per capita (USD 29.48 in current prices). BPS also calculates provincial poverty lines.
- **Extreme poverty line (national):** This threshold is set at 0.8 times the poverty line.
- **Vulnerability line (national):** The vulnerability line is equal to 1.5 times the national poverty line.
- **Food poverty line (national; GoI):** The food poverty line is set at the amount necessary to afford a basket of food equivalent to 2 100 kilocalories per capita per day. The food basket comprises 52 types of commodities (grains, tubers, fish, meat, eggs and milk, vegetables, nuts, fruits, oils and fats, etc.). The September 2016 national monthly food poverty line was equivalent to about USD 20 per capita in both urban and rural areas (current USD). The September 2018 national monthly food poverty line was equivalent to about USD 21 per capita in both urban and rural areas (current USD).

- **Global poverty lines (international):** Poverty lines defined by the World Bank based on the 15 poorest countries in 2005. The International USD 1.90 per day per capita poverty line currently acts as the baseline for action on Sustainable Development Goal (SDG) 1, to end poverty in all its forms everywhere. As of September 2015, the Intl. USD 3.10 lower and middle-income poverty line and Intl. USD 5.20 upper and middle-income poverty line have been updated to reflect changes in inflation and purchasing power parity (PPP), and are now set at Intl. USD 3.20 and Intl. USD 5.50 per day per capita, respectively. The Intl. USD 1.90 lower income poverty line remains unchanged.
- **Poverty rate (GoI):** The proportion of the population that lives below a specified poverty line. Based on the 2016 SUSENAS, the national poverty rate in September 2016 was measured at 10.70%. In September 2018, BPS estimated the national poverty rate at 9.66%.
- **Poverty gap:** How far (on average) poor households are below the poverty line, expressed as a percentage of the level at which the poverty line is set.

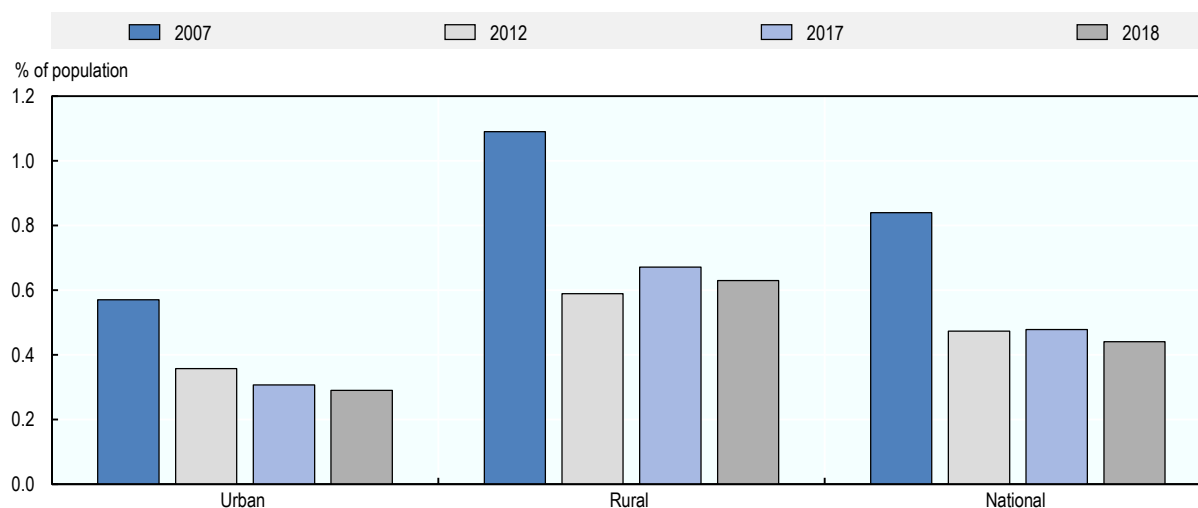
Multi-dimensional or non-income poverty: Poverty status based on deprivations of a household in areas beyond monetary poverty.

- The **Oxford Poverty and Human Development Initiative (OPHI) Multidimensional Poverty Index (MPI)** covers three areas: education, health and standard of living through ten indicators: years of schooling, school attendance, child mortality, nutrition, electricity, sanitation, access to or cleanliness of water, conditions of the floor of their shelter, type of cooking fuel used, and assets. The indicators are weighted to create a deprivation score: a score of 33.3% indicates multi-dimensional poverty, a score of 50% or more indicates severe multi-dimensional poverty, and a score between 20-33.3% indicates near multi-dimensional poverty.
- The **United Nations Development Programme (UNDP) Human Development Index (HDI)** covers three areas: health, education and standard of living. It is a summary measure based on the geometric mean of normalised indices for each dimension (life expectancy at birth, average and expected years of schooling and gross national income per capita).

The poverty rate calculated according to the World Bank's International USD 1.90/day poverty line [International United States dollar] has fallen consistently since 2006, dropping to 8.3% in 2014. This implies the national poverty line is set higher than the World Bank's extreme poverty line. The poverty gap followed similar trends, declining from 3.0% in 2007 to 1.8% in 2017. The latter figure is only slightly down from 1.9% in 2012. Indeed, the poverty gap increased in rural areas between 2012 and 2017, while it decreased in urban areas (Figure 1.2).

Figure 1.2. Poverty fell in rural and urban areas in 2018

Urban, rural and national poverty rates (2007, 2012, 2017, 2018)



Source: Statistics Indonesia (2019^[31]), Poverty and Inequality: Basic Statistics, bps.go.id/subject/23/kemiskinan-dan-ketimpangan.html#subjekViewTab3.

Box 1.2. The poor population is relatively homogenous

Organisation for Economic Co-operation and Development (OECD) experts conducted a Latent Class Analysis (LCA) for this report, based on the 2016 Survei Sosial Ekonomi Nasional (SUSENAS; National Socio-Economic Survey), to understand better the profile of poor households (Statistics Indonesia, 2016^[41]). This technique clusters poor households based on several characteristics, including household composition (presence of children or the elderly), employment status of the household head (in particular, informal employment) and extreme poverty (based on the food poverty line). Additional characteristics are then evaluated across groups, including more detailed household composition, household head gender and age, and household location. Chapter 3 discusses receipt of social protection benefits.

Figure 1.3 displays household clusters according to socio-economic and demographic composition. There is notable homogeneity among clusters, which (in theory) makes it easier to design social protection policies to alleviate poverty. The two largest clusters, 1 and 2, account for 68% of the poor population and have very similar characteristics, with the exception that households in cluster 2 are slightly larger, and a significantly higher proportion of them fall under the food poverty line (40% vs. 25% in cluster 1). As discussed in Chapter 5, these two clusters also differ according to their access to social protection.

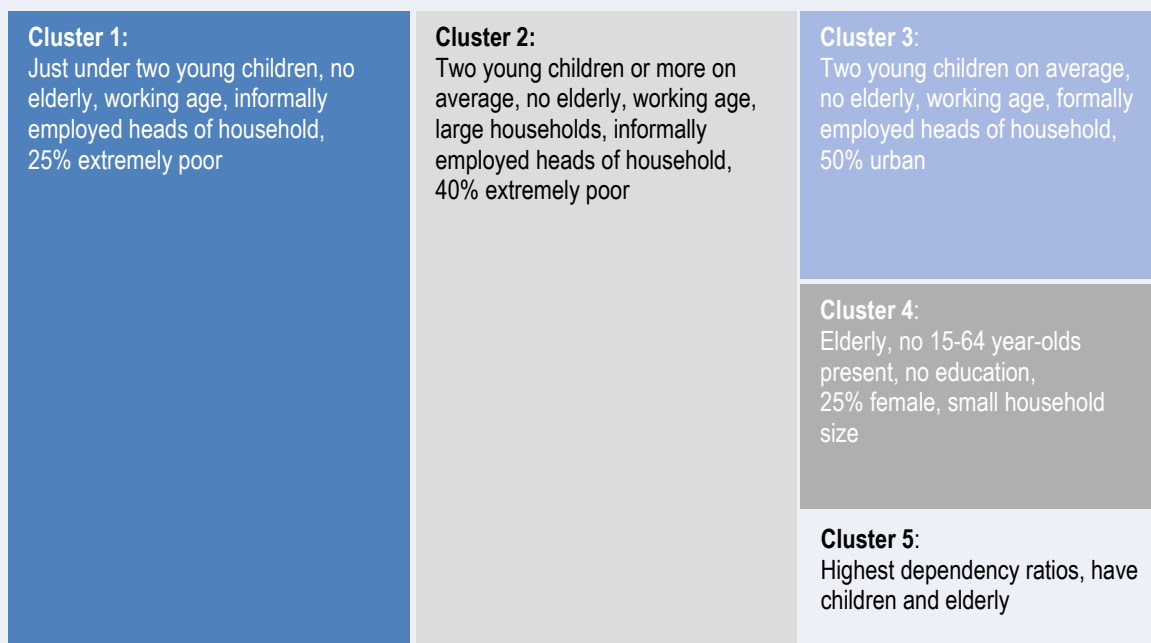
The presence of children in a household is a common feature across poor households. Households in all clusters except cluster 4 contain children under age 16, with the number of children under age 5 particularly high in clusters 1, 2 and 3. These clusters represent large households without elderly individuals (defined as over age 60) in which the dependency ratio between children and working-age individuals is about 1. Cluster 3 households differ due to the formal employment of household heads vs. their informal employment in clusters 1 and 2.

Households in cluster 4 tend to be the smallest (2.8 individuals on average) and typically lack children. The household head is often elderly, one-third of them lack working-age individuals, and some 20% of household heads are female, who often show low educational attainment relative to household heads in other clusters.

Households in cluster 5 typically contain both elderly members and children. As a result, they have the highest dependency ratio: 44% have a ratio of two dependants to one working-age individual.

Figure 1.3. Indonesia's poor population is relatively homogenous

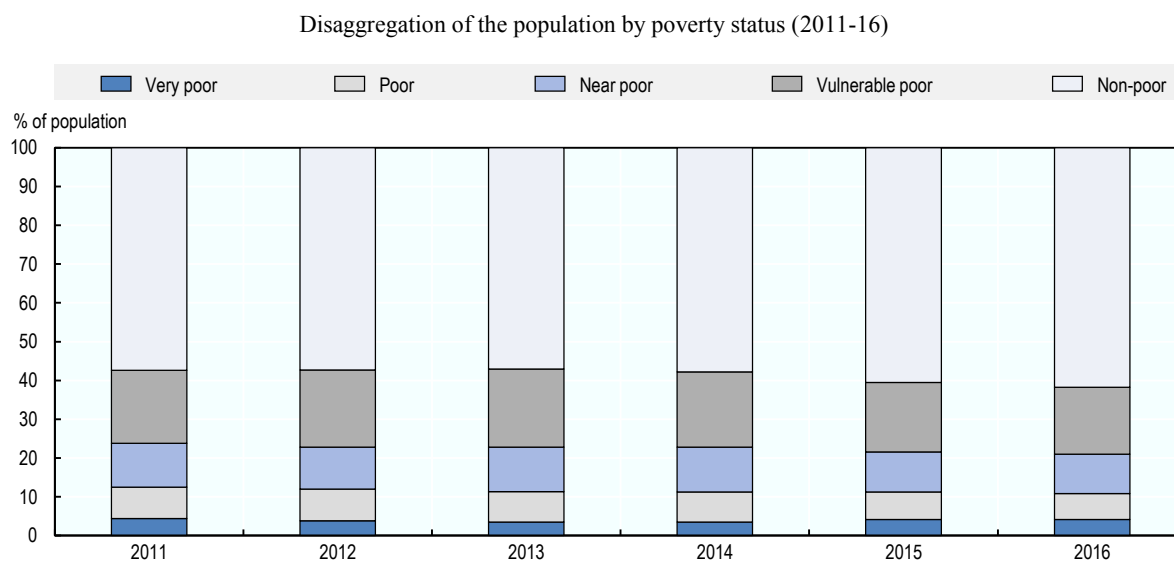
LCA clusters for Indonesia's poor population (2016)



Note: DR = dependency ratio. Extreme poor = food poor. Informal/formal HHH = Informally/formally employed household head. U5 = Under age 5.

Source: Statistics Indonesia (2016₍₄₎), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

A large proportion of the population is vulnerable to falling into poverty in the event of a household-level or macroeconomic shock (Figure 1.4). Between 2011 and 2016, the proportion of the population with an income between the poverty line and 1.2 times the poverty line (classified as near poor) fluctuated within a narrow band, averaging 10.9%. The proportion with incomes between 1.2 times and 1.6 times the poverty line (the vulnerable poor) also fluctuated over this period, averaging 18.9%. Overall, the proportion classified as poor or vulnerable fell from 42.6% to 38.2% between 2011 and 2016.

Figure 1.4. Around 40% of the population is poor or vulnerable

Source: Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Poverty status in Indonesia is dynamic. Although large numbers of individuals have emerged from poverty, a smaller (but still significant) number have moved in the other direction. According to data from the Indonesia Family Life Survey (IFLS), shown in Figure 1.5, 75.8% of the population that was poor in 2007 had emerged from poverty by 2014. Meanwhile 63.7% of the population with an income between the poverty line and 1.5 times the poverty line (the definition of vulnerable typically used by the *Social Protection System Review*) were neither poor nor vulnerable by 2014 (OECD, 2018_[8]). However, 4.8% of individuals who were neither poor nor vulnerable fell below the poverty line in 2014, while 12.9% of those classified as vulnerable did likewise.

While poverty has fallen over the past two decades, inequality has risen. The Gini coefficient increased from 0.30 points in 2004 to 0.41 points in 2014, one of the fastest increases in the region. Estimates based on the 2016 SUSENAS put the Gini coefficient at 0.39 nationally, up slightly from 2010 but down from 2013. Inequality is higher in urban than in rural areas (Figure 1.6).

Inequality has been on a downwards trajectory since 2017. According to the BPS, the national Gini coefficient was 0.384 in September 2018, just below the GoI's target for the year, of 0.385. BPS publishes inequality data twice a year, at the same as it publishes poverty data.

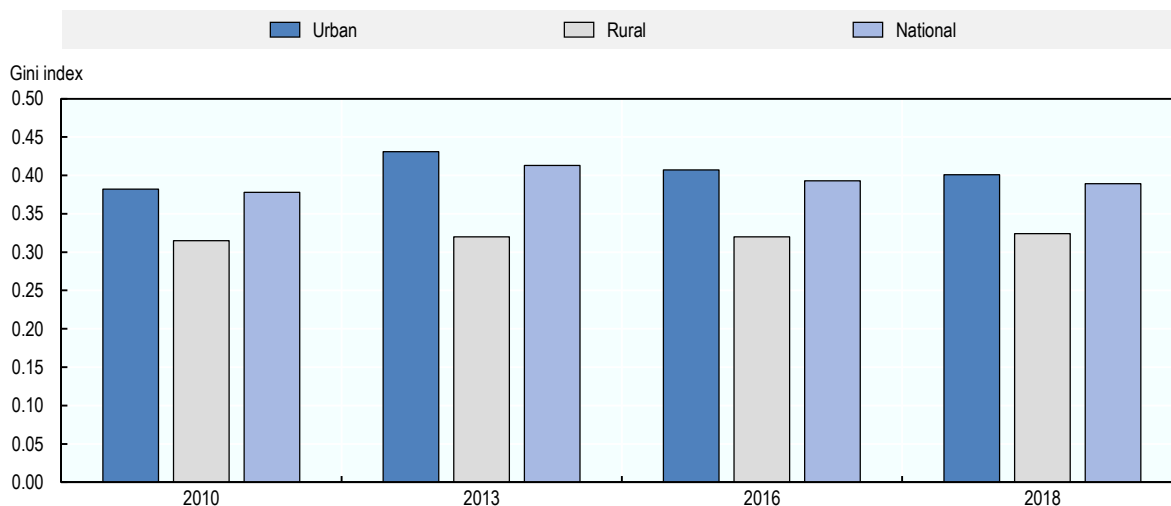
Figure 1.5. Many individuals have emerged from poverty but some are becoming poor



Source: RAND Institute (2007^[9]; 2015^[10]), Indonesian Family Life Survey, www.rand.org/well-being/social-and-behavioral-policy/data/FLS/IFLS.html.

Figure 1.6. Urban inequality is higher than rural

Urban, rural and national Gini coefficients (2010, 2013, 2016, 2018)

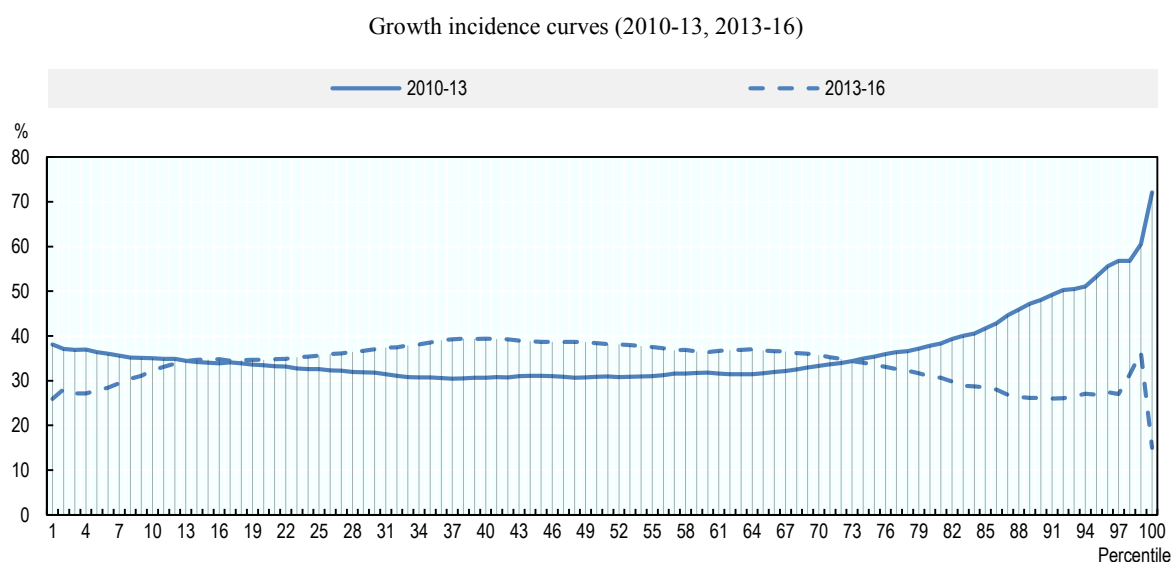


Source: Statistics Indonesia (2016^[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Growth incidence curves show that the poor have not benefited as much as other income groups from the growth of the economy since 2010 (Figure 1.7). Economic growth between 2010 and 2013 primarily benefited households in the top quintile. The lowest decile also benefited more than average, but this was associated with the weakest consumption increases for households in the third to the seventh deciles. This trend was reversed in 2013-16: consumption increased by the lowest amount for the bottom and top three deciles. Individuals in the middle of the income distribution benefited more than other groups (TNP2K, 2018_[11]).

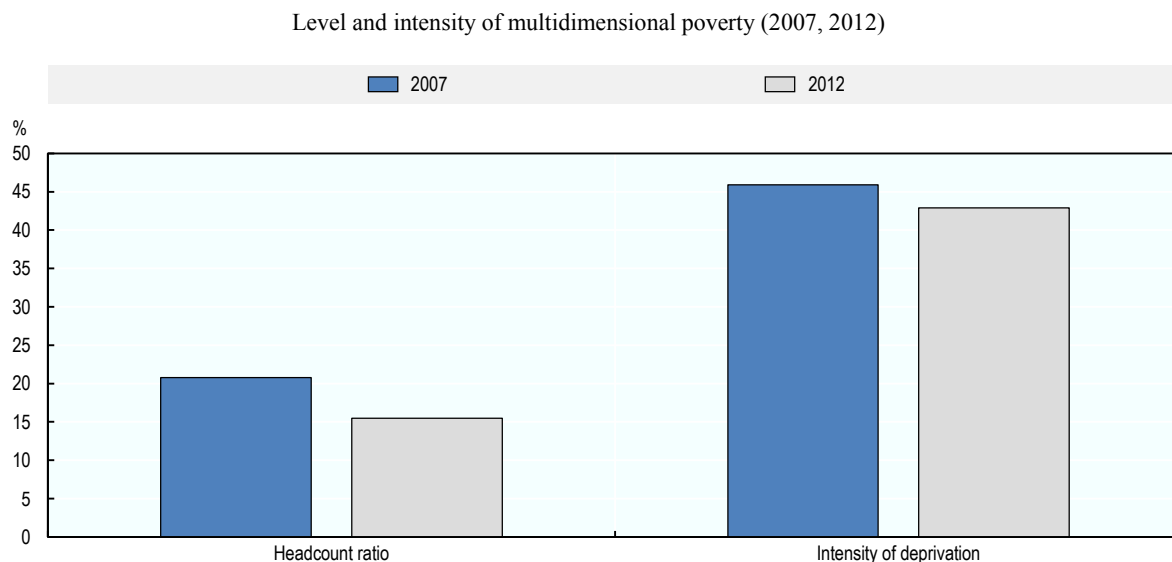
The middle of the income distribution is not analogous to a middle class. According to the World Bank, Indonesia's middle class has grown significantly, from 7% of the population in 2002 to 20% in 2016, but this is still low by regional standards. Indonesia's National Team for the Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan, TNP2K) has calculated the middle class to be smaller still, with only the top 13.6% of the income distribution qualifying as secure middle class and rich in 2017 (TNP2K, 2018_[11]). Expanding the middle class is critical to the country's long-term prosperity, both as a driver of consumption growth and by expanding the tax base, thereby improving low levels of domestic resource mobilisation (World Bank, 2018_[12]).

Figure 1.7. Recent growth has benefited individuals in the middle of the income distribution



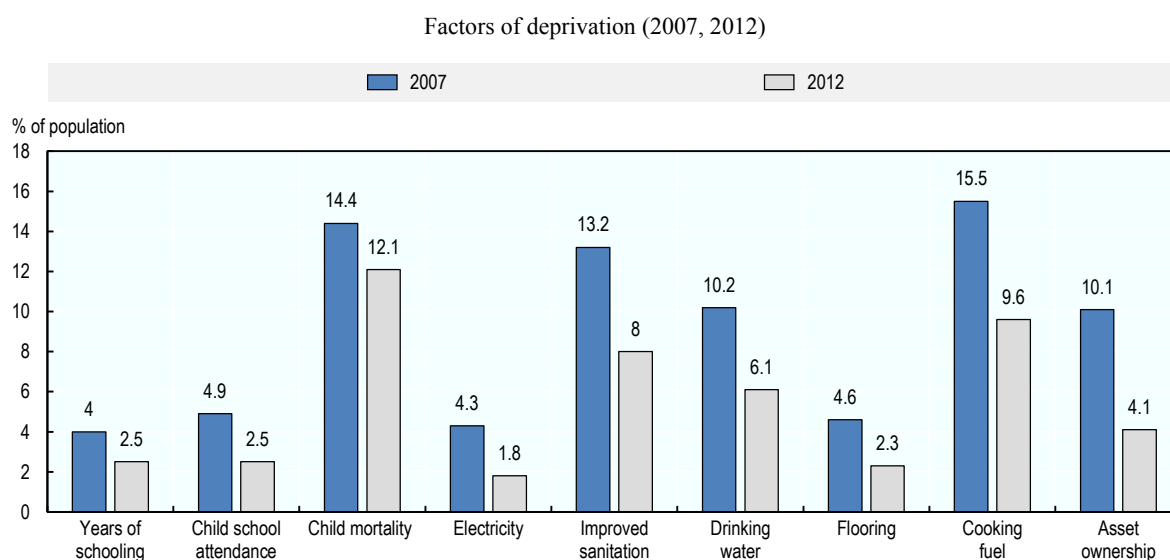
Source: Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Broader measures of deprivation, or multi-dimensional poverty, affect a higher proportion of Indonesia's population than monetary poverty, indicating gaps in provision of basic services such as health, education and infrastructure. According to Oxford Policy and Human Development Initiative's Multidimensional Poverty Index (MPI), the multi-dimensional poverty rate fell from 20.8% in 2007 to 15.5% in 2012. However, the intensity of deprivation remained high over this period (Figure 1.8).

Figure 1.8. Prevalence and intensity of multi-dimensional poverty are declining slowly

Source: OPHI (2017_[13]), “OPHI Country Briefing 2017: Indonesia”, Oxford Poverty and Human Development Initiative (OPHI), Oxford.

A decomposition of the MPI shows that child mortality was the dimension with the highest prevalence in 2012, affecting 12.1% of the population, down from 14.4% in 2007. Lack of access to improved sanitation and drinking water were also relatively prevalent factors contributing to the MPI rate, although in both cases, the proportion of the population deprived in these areas declined significantly between 2007 and 2012 (Figure 1.9).

Figure 1.9. Child mortality is among the leading dimensions of deprivation

Source: OPHI (2017_[13]), “OPHI Country Briefing 2017: Indonesia”, Oxford Poverty and Human Development Initiative (OPHI), Oxford.

Indonesia's score on the Human Development Index (HDI) has increased steadily in recent decades (up 30.5% from 1990 to 0.689 in 2015). Life expectancy at birth rose from 63.3 years in 1990 to 69.1 years in 2015, while mean years of schooling more than doubled, from 3.3 years to 7.9 years, and gross national income per capita increased by 135.4% to USD 10 053. Yet, its 2015 score was below the East Asia and the Pacific average, placing Indonesia 113th out of 188 countries and territories included (UNDP, 2016^[14]).

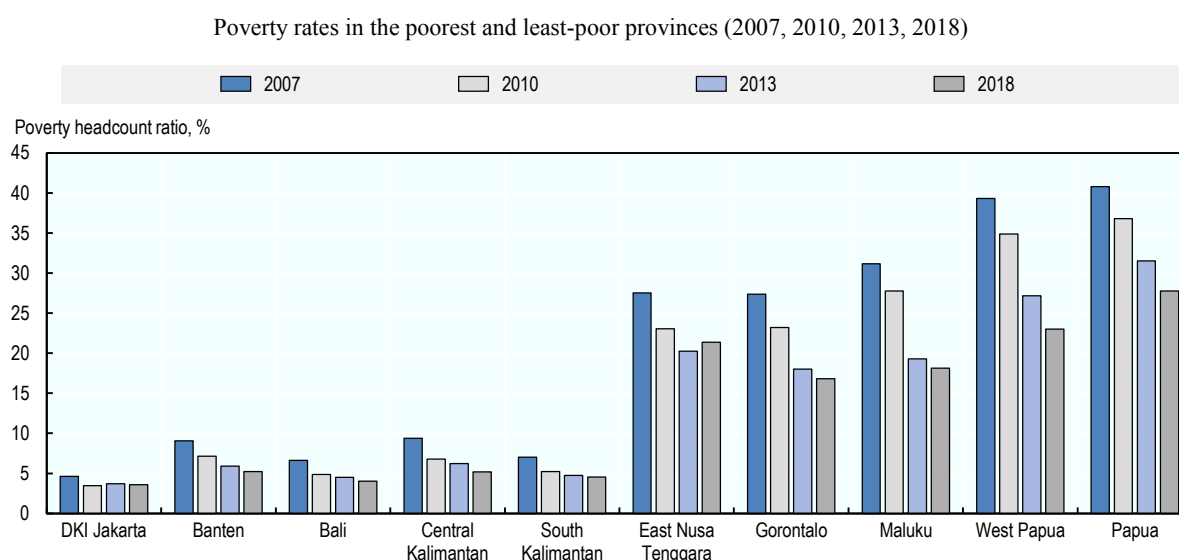
Regional differences

There is a strong spatial dimension to poverty and inequality in Indonesia. Differences exist both between urban and rural areas and between different regions; the east of the country is significantly more deprived than other areas. This phenomenon has prompted successive administrations to adopt a dual approach to poverty reduction that combines social protection with efforts to stimulate local economic development through community infrastructure initiatives financed by large-scale fiscal transfers.

In 2007, the official poverty headcount ratio in urban areas was 12.5%, compared with 20.4% in rural areas. By 2016, the poverty headcount had fallen to 7.7% in urban areas and 14.0% in rural areas. As a consequence of sustained and rapid urbanisation, the urban population exceeded the rural population in 2011, having accounted for just 30.5% in 1990. As a result, rural poverty's weight on the national poverty rate is declining and will continue to do so: two-thirds of the population is expected to live in urban areas by 2050.

Poverty rates in eastern provinces are typically much higher than those in western or central areas, although these areas are also much less populated, which limits their weighting in national poverty figures. The five poorest provinces are in the east, and their poverty rates in 2018 were, on average, 18 percentage points higher than the average for the five least-poor provinces (Figure 1.10). The gap between Jakarta and Papua (the least-poor and poorest provinces) in 2018 was close to 25 percentage points.

Figure 1.10. Poverty rates vary greatly by province



Note: DKI = Daerah Khusus Ibukota.

Source: Statistics Indonesia (2016^[4]),

<https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

SUSENAS,

A 2014 reform to increase the autonomy and the resources available for villages' economic and social development is a critical component of the GoI's current efforts to address regional disparities (Box 1.3). The so-called Village Funds represent an important mechanism for reducing poverty that is not considered as social protection but which nonetheless has numerous potential overlaps with social protection.

Box 1.3. Reaching marginalised areas and people through the Village Funds

In 2014, the GoI enacted a new Village Law (Law No. 6/2014), which significantly increased the autonomy and financial resources of Indonesia's 74 091 villages. This reform of the country's decentralised system of governance is intended to promote economic development in areas that have so far not benefited from Indonesia's economic growth to the same extent and to promote the inclusion of marginalised individuals and groups. The reform therefore tackles inequality at regional and individual levels.

Some 89% of Village Funds expenditure was allocated to infrastructure development in 2015, the first year of operation. Around 6% of spending was allocated to building construction and 2.5% to capacity building and empowerment, respectively. Lack of infrastructure in many rural areas is a key constraint on communities' livelihoods and welfare. Infrastructure was a priority of existing village development plans, which, to a large extent, drove allocation of the funds in the early years. There is an emphasis on road construction, but projects to improve drainage and sanitation have also been implemented.

The full economic impact of the Village Funds will take time to emerge as new and better roads gradually enhance villages' access to markets and other opportunities. The evaluation shows that villages are as keen to generate non-agricultural activities as they are to boost the productivity of local farmers; funds are invested in village-owned enterprises, and individuals (especially women) are provided with training in a range of skills considered valuable to the local economy.

At present, the direct economic benefits – largely in the form of participant wages and purchase of building materials – tend to stay in the villages, but the meso-level benefits associated with greater connection among villages could be significant. As these emerge, it will be important that national infrastructure, rural development and labour policies are cognisant of, and aligned with, the impact of Village Funds (Gama, Saget and Elsheikhi, 2018_[15]).

The GoI is currently undertaking efforts to ensure Village Funds benefit the poorest individuals. At a national level, it has revised the formula by which resources are allocated to ensure that the least developed villages receive proportionally greater funding. At the same time, it is pushing projects to rebalance towards building basic infrastructure and economic empowerment of disadvantaged groups.

Women, children and the elderly are most exposed to risks across the life cycle

Indonesians face clear risks at different points in the lifecycle and are especially vulnerable in early childhood and old age. Women are poorer at almost all ages than men and the disadvantages they face relative to men are compounded over the course of the lifecycle. For the majority of Indonesia's working-age population, informal employment is a critical source of income but is also associated with heightened poverty and vulnerability.

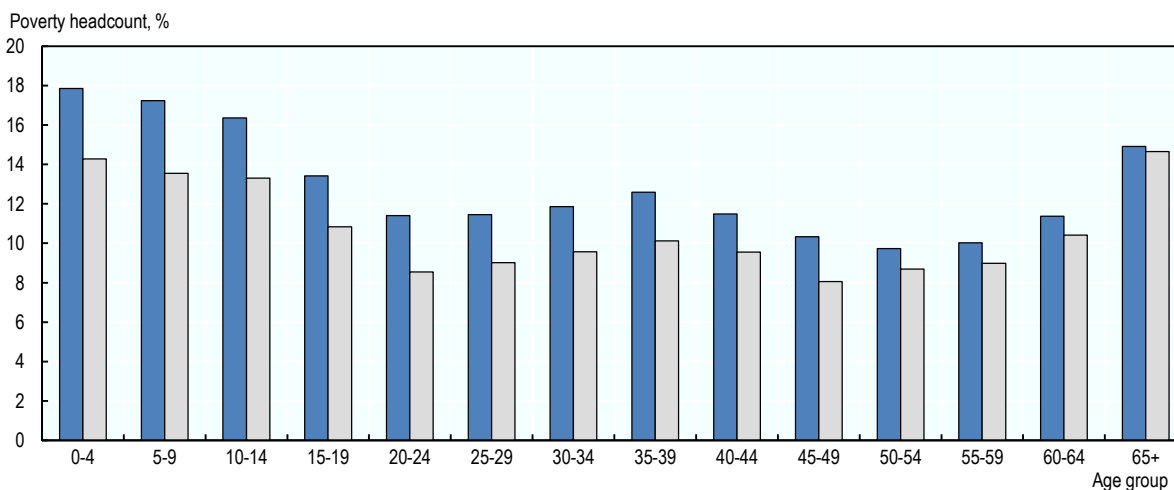
This section analyses the different risks confronting different age groups with a view to understanding where greatest demand for different types of social protection intervention might be required. It starts by examining the age structure of Indonesia's population and how this is expected to change over the 21st Century, thereby providing insights into future dynamics of demand for social protection,

Age profile

Poverty in Indonesia has a clear age profile (Figure 1.11). Poverty rates are highest amongst children (especially the very young) and amongst the elderly. Although poverty rates declined across all age groups between 2010 and 2016, the decline was negligible for individuals aged over 65, an age group which currently has little access either to social assistance or social insurance. Recent analysis by TNP2K demonstrates that poverty is higher amongst women than men at nearly every age (TNP2K, 2018_[11]).

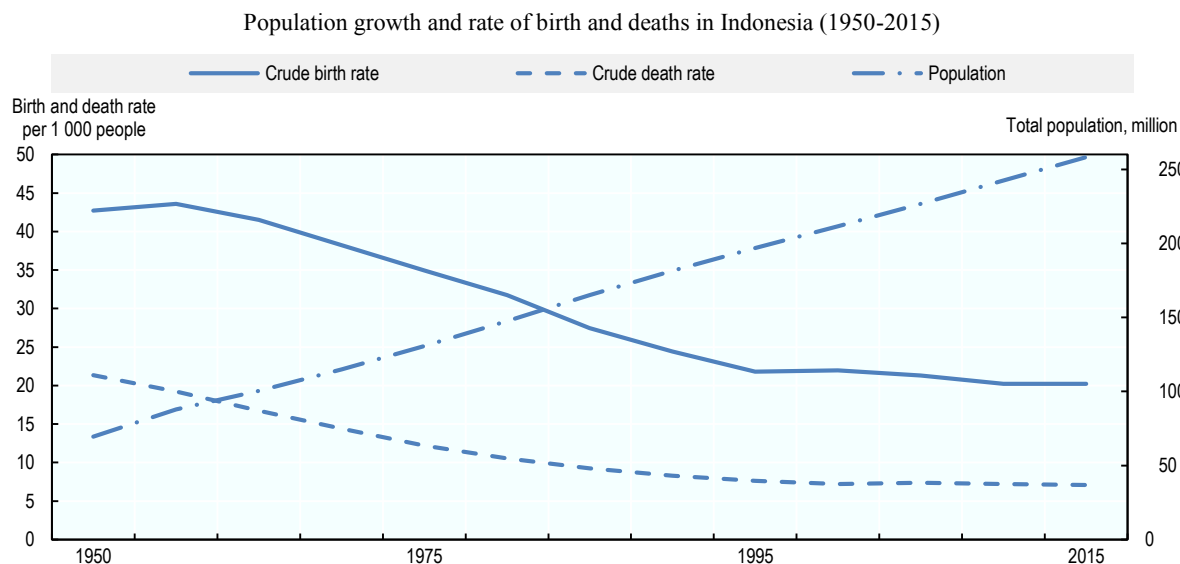
Figure 1.11. Poverty is concentrated among children and the elderly

Poverty by five-year age cohort, 2010 and 2016



Source: Statistics Indonesia (2016_[4]; 2010_[16]), *Survei Sosial Ekonomi Nasional (SUSENAS)*, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Indonesia experienced a rapid demographic transition in the last 65 years (Figure 1.12). Birth rates increased rapidly following independence in 1945, resulting in a baby boom evident in the size of today's working-age population. Birth rates have since declined, associated in part with a successful birth control programme introduced in the 1970s. The total fertility rate declined from 5.7 children per woman in the early 1960s to 2.4 in 2015. Mortality more than halved over the same period.

Figure 1.12. Indonesia has made a rapid demographic transition

Source: UNDESA (2017_[17]), *World Population Prospects: The 2017 Revision*, un.org/en/development/desa/population/publications.

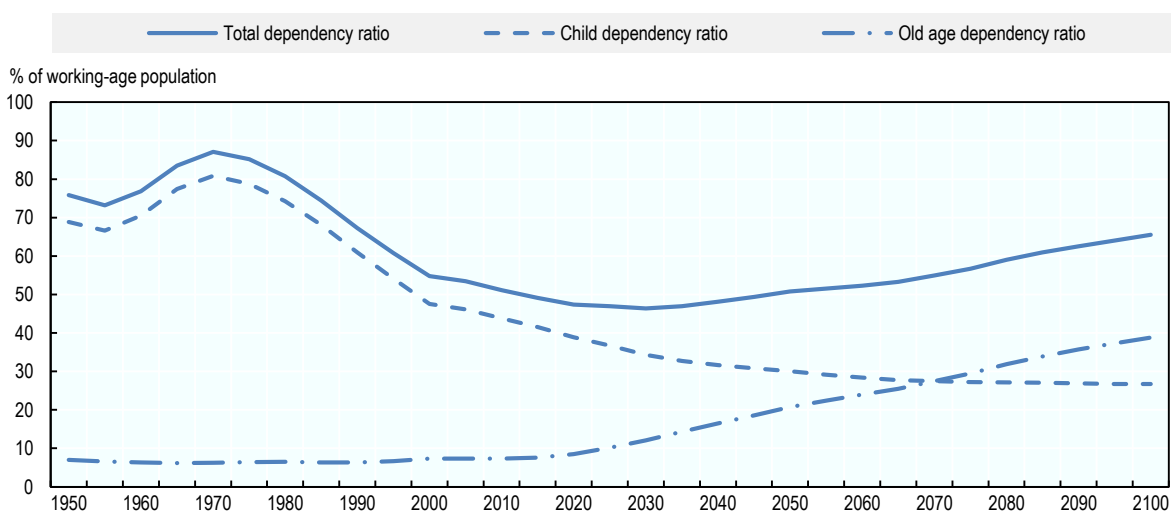
The large size of the working-age population and the declining fertility rate are driving a decline in Indonesia's dependency ratio, which measures the number of children up to age 15 and adults over age 65 as a proportion of the population between these ages. Elsewhere in Asia, declines in the dependency ratio have been a key driver of economic growth (Bloom and Williamson, 1998_[18]).

Indonesia's dependency ratio declined from 67.3 to 49.2 between 1990 and 2015 and is projected to keep falling until it reaches 46.4 in 2030 (UNDESA, 2017_[17]). However, even at the present time, the ageing of the baby boom generation is causing a rapid increase in the old-age dependency ratio. From 2030, this will offset a continued decline in the child dependency ratio to reverse the decline in the total dependency ratio.

The child dependency ratio was 41.6 in 2015 and is projected to decline to 29.2 by 2055. By contrast, the old-age dependency ratio was 7.6 in 2015 and will nearly triple to 22.4 by 2055. As the population ages, the proportion age 24 or under will fall, from 45% in 2015 to 33% in 2055 (Figure 1.13). In 2015, 20% of the population was younger than age 10, a proportion projected to fall to 12% in 2055.

Figure 1.13. The old-age dependency ratio is about to start a rapid ascent

Indonesia's child, old age and total dependency ratios (1950-2100)



Note: Dependency ratio is defined as the proportion of the child and/or old population as a proportion of the working age population (age 15-65).

Source: UNDESA (2017^[17]), *World Population Prospects: The 2017 Revision*, un.org/en/development/desa/population/publications.

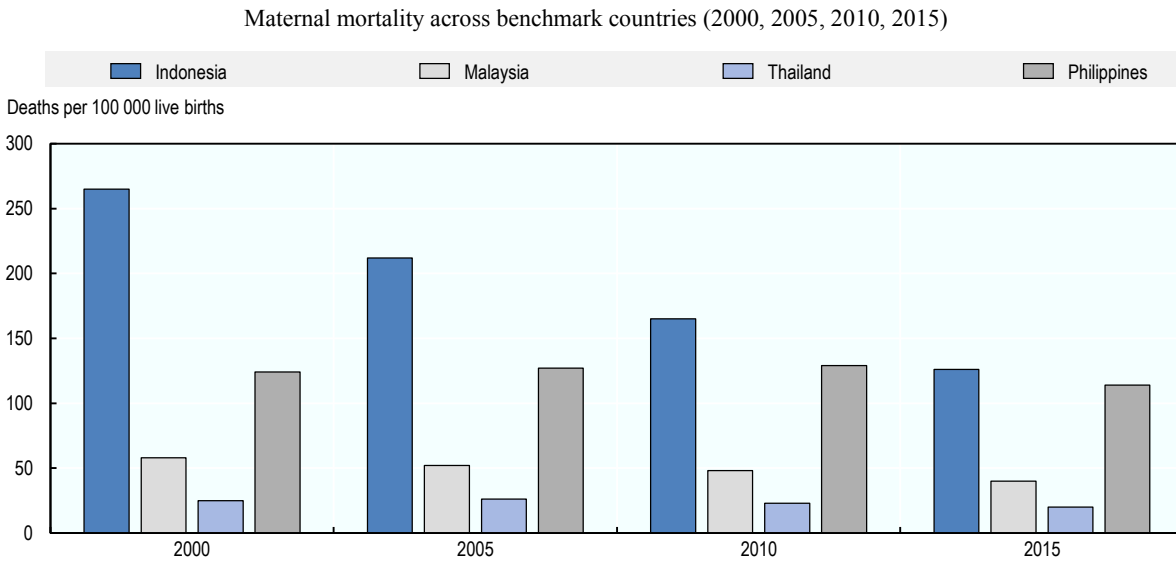
Changes in the age structure of the population will affect demand for public services, including social protection. The current focus on alleviating child poverty and promoting early childhood development will shift over time to programmes for older people, who are currently reliant on family members for income support in the absence of a large-scale public pension arrangement. Increasing coverage of contributory pensions is a policy priority of the GoI but this objective will be difficult to achieve, especially for individuals closer to retirement today.

Maternal mortality

Indicators related to the early lifecycle stages have improved significantly since 2000, but more progress is needed to achieve parity with other countries in South-East Asia. The potential of social protection to increase beneficiaries' access to basic services, in particular health and education, gives it a critical role in further enhancing these outcomes.

Indonesia's maternal mortality ratio declined from 265 to 126 deaths per 100 000 live births between 2000 and 2015 (Figure 1.14). Although a significant reduction, it fell short of the 2015 target set by the United Nations Millennium Development Goals (MDGs), and the indicator remains high relative to Malaysia, the Philippines and Thailand, although convergence is evident.

Figure 1.14. Maternal mortality has more than halved since 2000

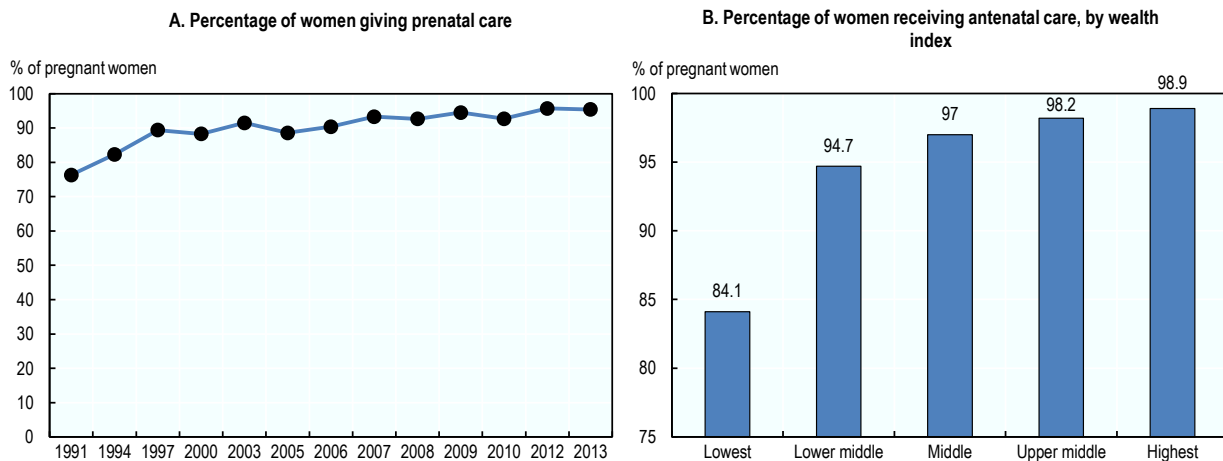


Source: World Bank (2018_[5]), *World Development Indicators* (database), data.worldbank.org/products/wdi.

The decline in maternal mortality is partly attributable to the increased proportion of women accessing antenatal care: access has steadily increased since the early 1990s, from 76.3% in 1991 to 95.5% in 2013 (Figure 1.15A). However, antenatal care is correlated with income and education (Figure 1.15B): 99.0% of pregnant higher education graduates received antenatal care vs. 76.6% of those with no education (MoH, 2013_[19]).

Figure 1.15. Access to medical services before and at birth is close to universal

Access to ante-natal care (1991-2013) and proportion of births attended by skilled medical personnel (2013)



Source: World Bank (2018_[5]), *World Development Indicators* (database), data.worldbank.org/products/wdi; MoH (2013_[19]), *Basic Health Research*, Ministry of Health, Government of Indonesia.

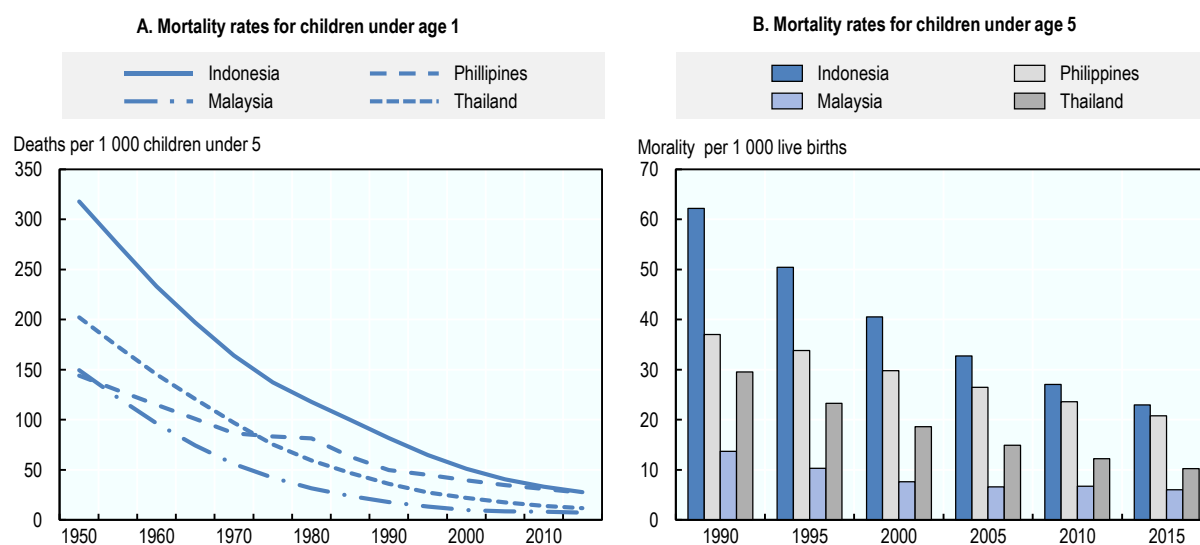
Infant and child mortality

Indonesia's infant mortality ratio has also fallen significantly, from 40.5 to 23.0 deaths of children under age 1 per 1 000 live births between 2000 and 2015 (Figure 1.16A). As with maternal mortality, this indicator is higher in Indonesia than in the other benchmark countries but the gap has decreased significantly.

Indonesia achieved more significant reduction in child mortality, which declined from 81.9 to 27.8 deaths of children under age 5 per 1 000 between 1990 and 2015 (Figure 1.16B). This 66% decrease means Indonesia achieved MDG target of reducing child mortality by two-thirds. It has also reduced this indicator faster than neighbouring countries. As part of its agenda for achieving the succeeding United Nations Sustainable Development Goals, the GoI aims to reduce child mortality to 25 deaths per 1 000 children by 2030.

Figure 1.16. Mortality under age 5 has fallen since the 1990s

Mortality rates among children under age 1 and mortality under age 5 against benchmark countries (1990-2015)



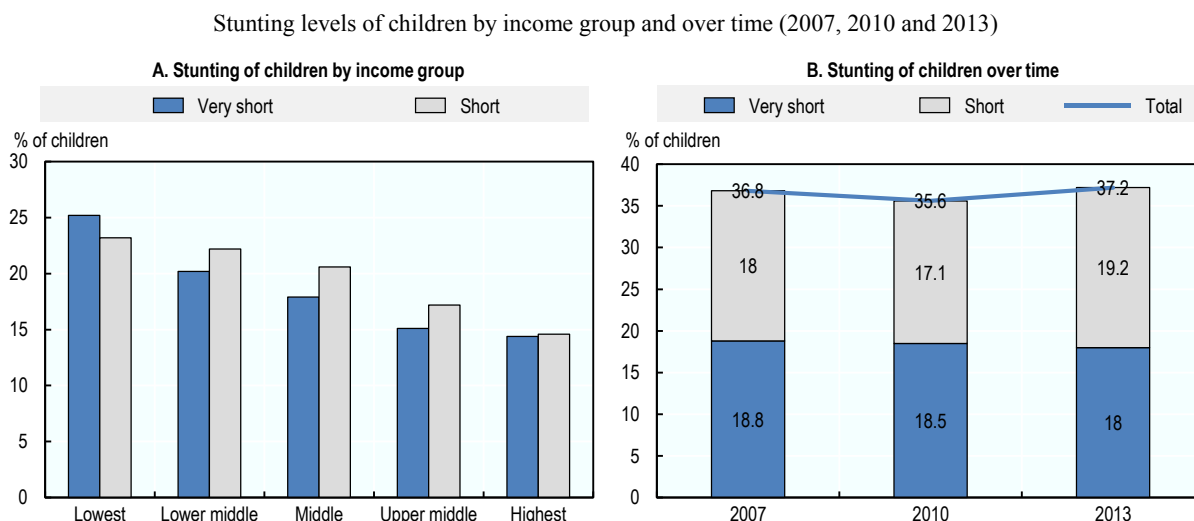
Source: World Bank (2018_[5]), *World Development Indicators* (database), data.worldbank.org/products/wdi.

Vaccination rates have increased significantly in the past two decades but fall far short of 100%. Tuberculosis and polio vaccinations are most common, with 90% of children under age 5 immunised. Rates are lower for measles and diphtheria, pertussis and tetanus. The proportion of children under age 5 fully immunised is 60.0%: 56.7% in rural areas and 63.2% in urban areas. Aceh and Papua have the lowest immunisation rates, with 40.4% of children under age 5 fully immunised in 2016 (Statistics Indonesia, 2016_[20]).

Stunting, or low height-for-age, affects a significant proportion of children, although the prevalence has declined recently.¹ In 2018, 30.8% of children under age 5 suffered from stunting, down from 37.2% in 2013. Between 2007 and 2013, the stunting rate had increased (Figure 1.17B) (Statistics Indonesia, 2016_[20]). Further declines in stunting can be expected after the GoI launched the National Strategy to Accelerate Stunting Prevention (StraNas Stunting) 2017-2021, which is based on a multi-sectoral approach (Rokx, Subandoro and Gallagher, 2018_[21]).

Ministry of Health (MoH) data indicate that the prevalence of stunting is higher amongst poor households, with a 10.8 percentage point gap between households in the bottom and top wealth quintiles in rates of severe stunting (MoH, 2013_[19]) (Figure 1.17A). A recent World Bank study showed that 49% of children under age 5 in the lowest two quintiles were stunted, up from 43% in 2007 (World Bank, 2017_[22]). The stunting rate also varied by province in 2018, from 17.7% in DKI Jakarta to 42.6% in Nusa Tenggara Timur.

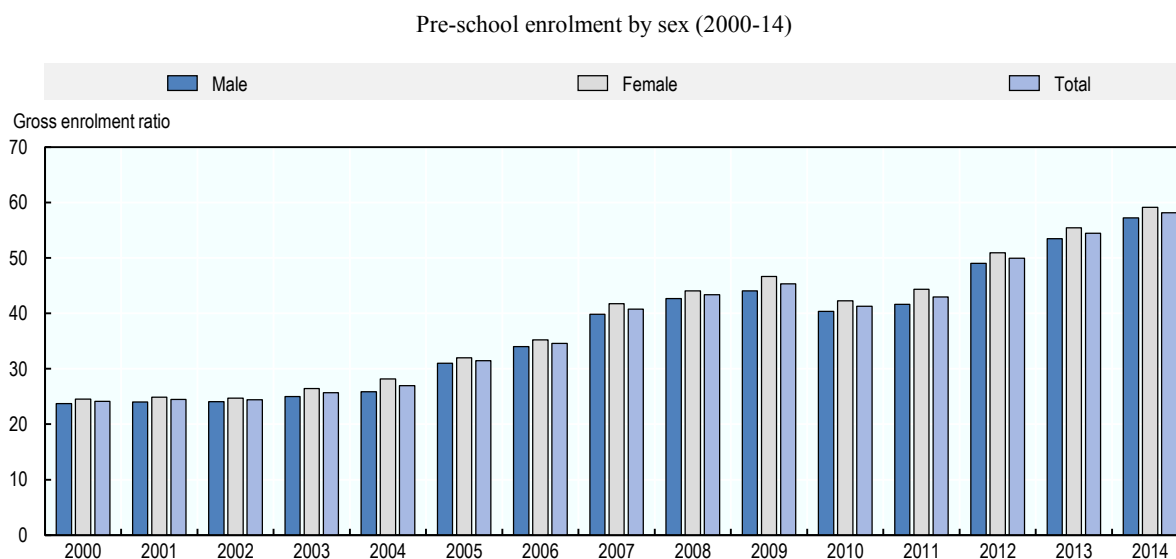
Figure 1.17. Stunting remains a significant problem



Source: UNESCO (2017_[23]), *UIS.Stat* (database), data.uis.unesco.org.

Stunting in the first two years, part of the “critical window of opportunity” spanning the first 1 000 days from conception, can lead to long-term adverse effects on an individual’s physical and cognitive development. Undernourished children are more likely to have reduced adult height, decreased school attendance, lower wages in adulthood and give birth to smaller infants. Considerable evidence also shows a strong correlation between stunting and lowered cognitive ability (Victora et al., 2008_[24]; Grantham-McGregor et al., 2007_[25]; Hoddinott et al., 2013_[26]).

Access to education at an early age is an important means of promoting cognitive development. Although Indonesia has made strides in improving access to pre-primary education in recent years, further progress is needed, especially in rural areas. UNESCO data indicate that the gross enrolment ratio for pre-primary education more than doubled in a decade, from 27.0% in 2004 to 58.2% in 2014 (Figure 1.18). However, once again, access improves with income: according to Jung and Hasan (2016_[27]), a four-year-old from the poorest quintile has a 16% likelihood of accessing early childhood education and development services versus 40% from the richest 20% of households (2016_[27]).

Figure 1.18. Enrolment in pre-school education has increased

Source: UNESCO (2017_[23]), *UIS.Stat* (database), data.uis.unesco.org.

Despite high rates of stunting and low enrolment of children from low-income households, there is evidence that public interventions are succeeding in addressing these challenges. The Posyandu village health facilities provided an integrated health and nutrition programme in the 1990s, while more recently, a community-driven development programme, *Generasi*, contributed to reducing rates of stunting.

Social protection is a critical policy component in improving developmental outcomes, thus enhancing the likelihood of escaping poverty. The *Pendidikan Anak Usia Dini* (Early Childhood Education and Development) programme has driven improvements in both pre-school enrolment and duration of enrolment of poor children in implementing communities. Program *Keluarga Harapan* (PKH; Family of Hope Programme), the GoI's conditional cash transfer discussed in Chapter 2, is associated with reduced severe stunting, higher school enrolment and improved use of health care services.

The GoI has the instruments to address persistently high rates of stunting and continued wealth-based inequalities in access to health, nutrition and education services more broadly. However, as the World Bank (2017_[22]) states, these programmes are “neither integrated nor implemented at scale” in Indonesia.

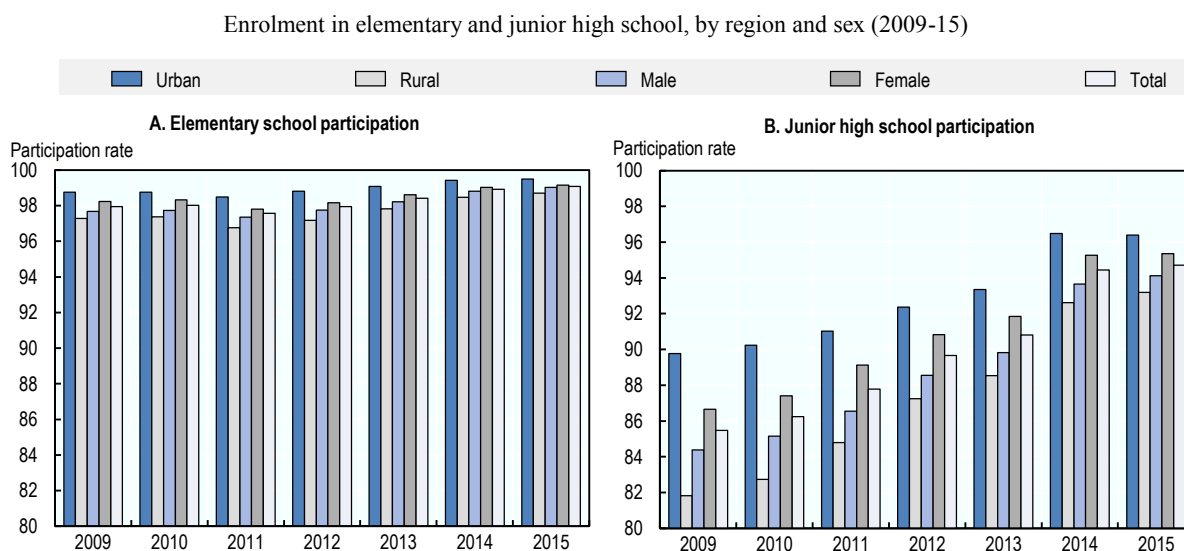
Education

In 2016, Indonesia increased the duration of compulsory education from 9 to 12 years to maximise the long-term economic potential of its large youth population. The change is likely to increase the number of children who complete high school and demand for tertiary education. The reform will impose significant capacity and financial burdens on the state, since it is obliged to meet basic education costs. The GoI currently provides scholarships to poor children to encourage attendance (see Chapter 2); coverage of this intervention will need to match growth in enrolment if children from lower-income groups are to benefit.

Elementary (primary) school and junior high (lower secondary) school are free, and coverage is almost universal (Figure 1.19). Junior high enrolment has increased

significantly in recent years, from 85.5% in 2009 to 94.7% in 2015. Rural enrolment remains lower than urban enrolment but the gap shrunk, from 8.0 percentage points in 2009 to 3.2 in 2015. Female enrolment is slightly higher than for males for both elementary and junior high school.

Figure 1.19. School enrolment is high and rising



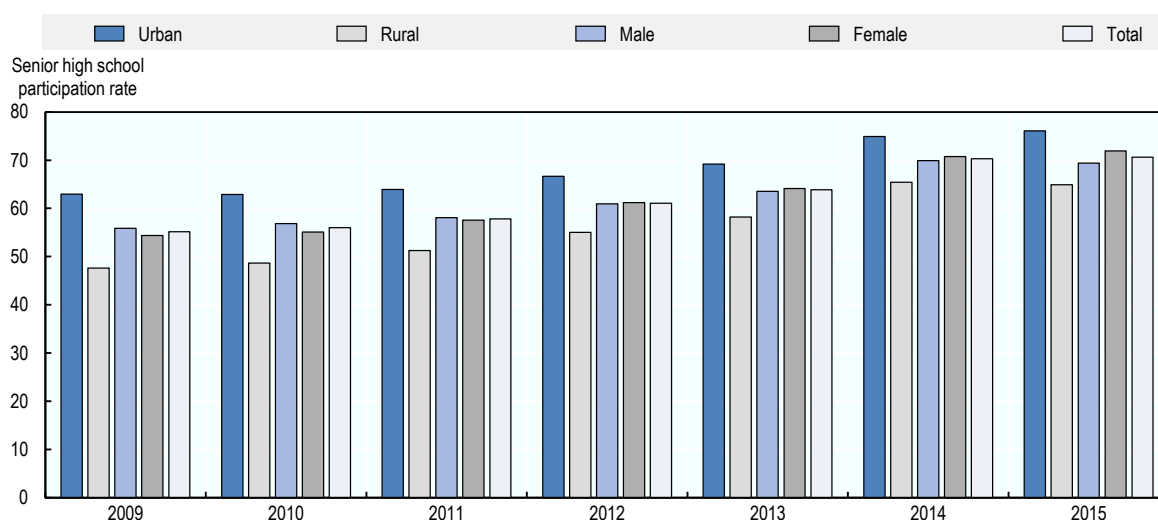
Source: Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

The gross enrolment rate is much lower for senior high (upper secondary) school, which was fee-paying until 2016. Enrolment increased by 15.4 percentage points to 70.6% between 2009 and 2015 (Figure 1.20) and will increase significantly with 12-year compulsory schooling. Again, females are slightly more likely to be enrolled than males. Until recently, less than one-third of students graduated (Shin Jongsoo et al., 2017_[28]).

Student outcomes are not improving at the same pace as enrolment, contributing to skills shortages in the economy (Allen, 2016_[29]). The latest results of the OECD Programme for International Student Assessment, in which the country has participated since 2000, showed that around three-quarters of 15 year-olds do not have basic skills in mathematics and less than one-third have basic reading proficiency (OECD, 2018_[30]). However, Indonesian students showed one of the strongest improvements in science assessments among participating countries between 2012 and 2015 while their performance in mathematics assessments also improved also over the period (OECD, 2016_[31]).

Figure 1.20. Senior high school enrolment is rising rapidly

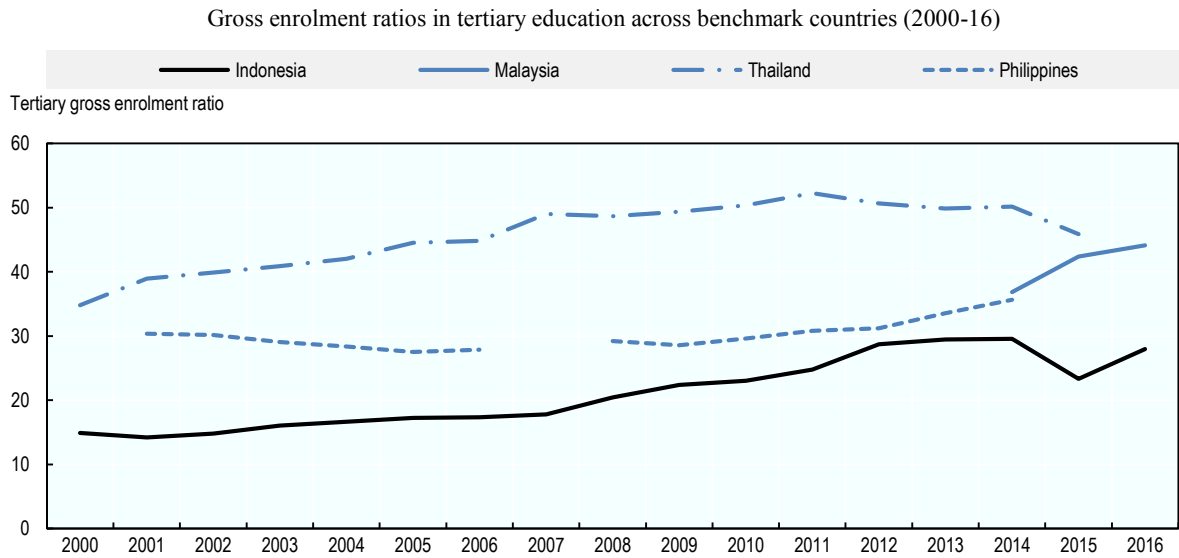
Enrolment in senior high school by region and sex (2009-15)



Source: Statistics Indonesia (2016^[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

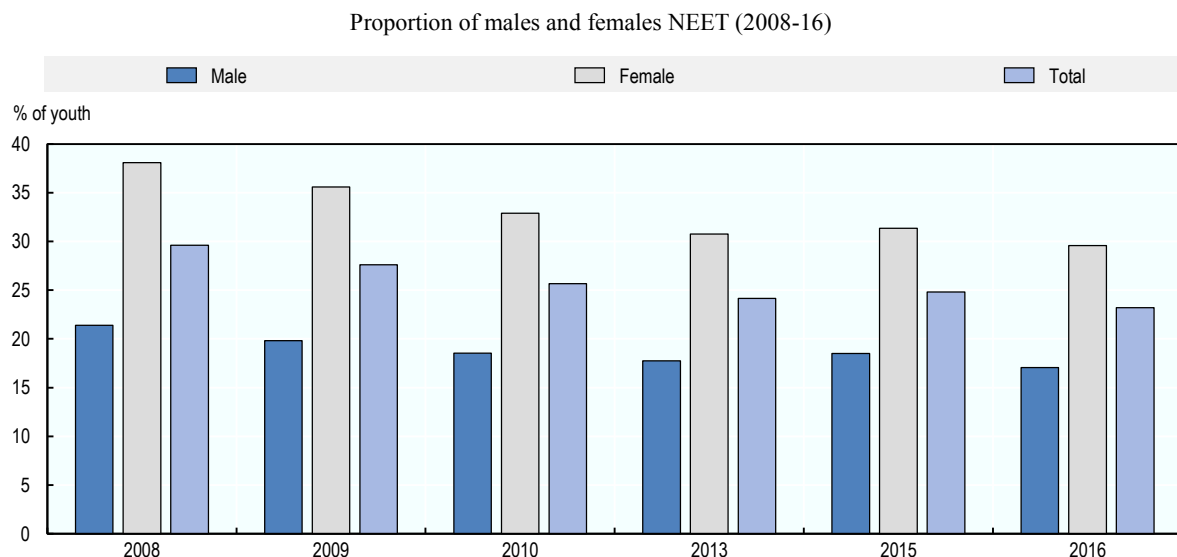
Tertiary education enrolment almost doubled between 2000 and 2016, from 14.9% to 27.9%, although it remains below enrolment in the benchmark countries (Figure 1.21). Growth in the proportion of students completing secondary education drove demand for tertiary education even before the expansion in basic education (Negara and Benveniste, 2014^[32]). Evidence indicates there are significant returns to higher education in terms of labour force participation, wages and job availability (Negara and Benveniste, 2014^[33]).

Only 10% of students enrolled in tertiary education were from the lowest two income quintiles in 2012, despite legislation requiring that 20% of higher education students come from “frontier, outer and disadvantaged areas” (Negara and Benveniste, 2014^[32]; Sekretariat Negara Republik Indonesia, 2012^[34]). This disparity in education outcomes predicated on income risks exacerbating and perpetuating inequalities.

Figure 1.21. Tertiary enrolment lags behind benchmark countries

Source: World Bank (2018_[5]), *World Development Indicators* (database), data.worldbank.org/products/wdi.

Increased enrolment in senior high school and tertiary education is associated with a decline in the proportion of youth (aged 15-24) not in education, employment or training (NEET) (Figure 1.22). Some 23.2% of Indonesian youth were classified as NEET in 2016, a 6.4 percentage point decrease from 2008 (ILO, 2015_[35]). The percentage of female youth NEET is considerably higher than for males, although the gap appears to be shrinking.

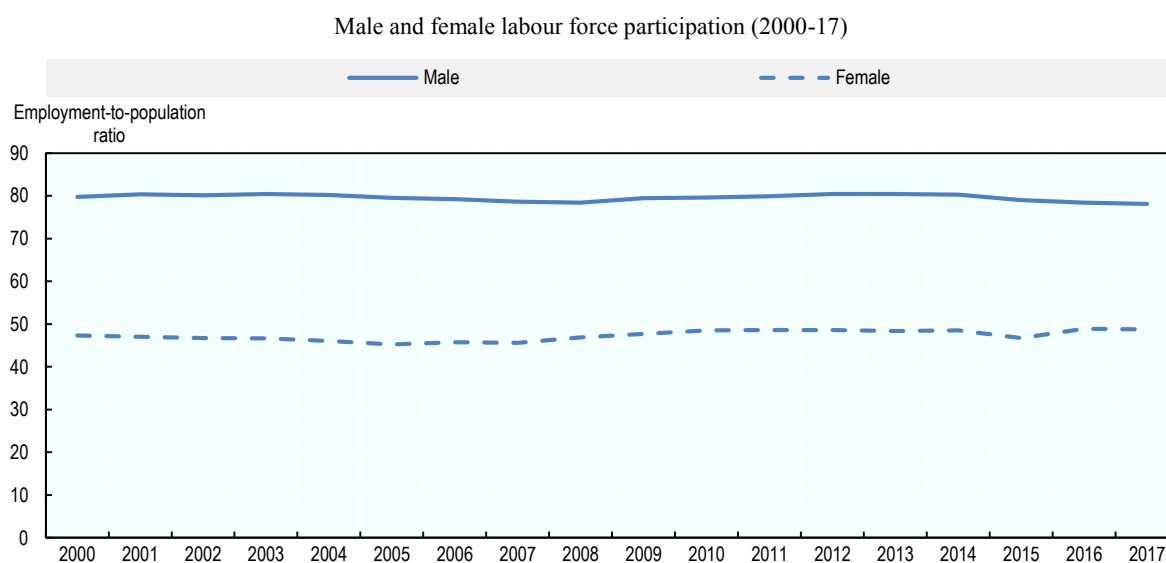
Figure 1.22. The proportion of youth NEET remains high, especially among women

Source: ILO (2015_[35]), *Key Indicators of the Labour Market, 9th edition* (database), www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/lang--en/index.htm (accessed 22 June 2018).

Adulthood

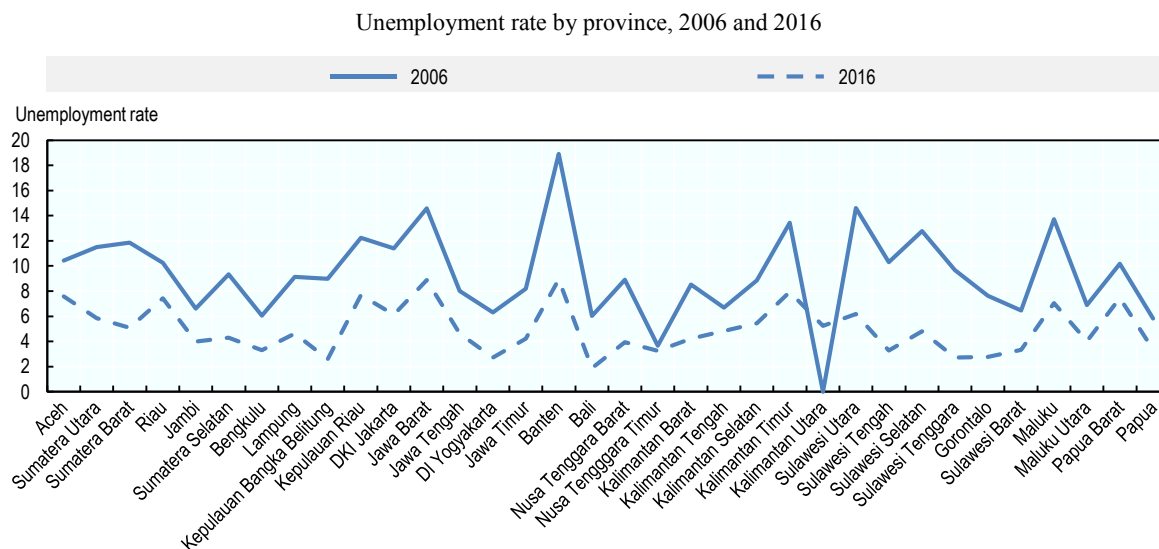
Although the labour force has grown significantly in absolute terms, rates of labour force participation have changed little since 2000. There is a major disparity in labour market participation between men and women, contributing to women's vulnerability at working age as well as in old age. The average labour force participation rates for men and women between 2000 and 2015 were 79.7% and 47.1% respectively and there is little evidence of convergence (Figure 1.23). The gender pay gap for full-time workers in 2014 exceeded 30% (OECD, 2017^[36]).

Figure 1.23. A large gender gap exists in labour force participation



Source: ILO (2015^[35]), *Key Indicators of the Labour Market, 9th edition* (database), www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/lang--en/index.htm (accessed 22 June 2018).

The economy has so far been able to accommodate strong growth in the labour force. The national unemployment rate fell from 10.3% in 2006 to 5.6% in 2016. Although rates vary by province, they declined in all provinces except Kalimantan Utara between 2006 and 2016 (Pratomo, 2015^[37]). Although unemployment is low, approximately 30% of the labour force is thought to be underemployed and workers also confront widespread low pay and long working hours (OECD, 2017^[36]).

Figure 1.24. Unemployment has declined and varies by province

Note: DI = Daerah Istimewa; DKI = Daerah Khusus Ibukota.

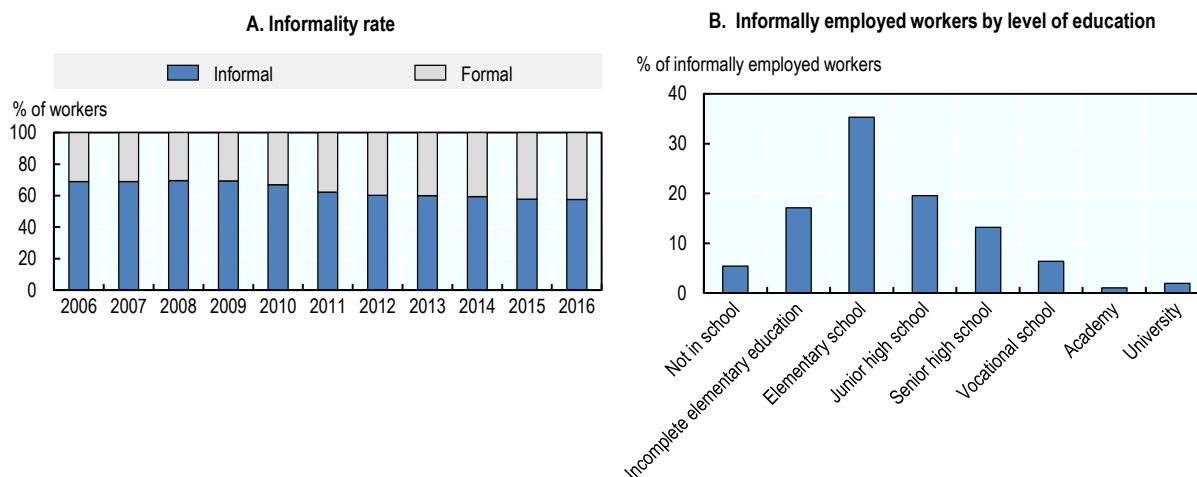
Source: Statistics Indonesia (2016^[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

The rate of informality has declined but nonetheless accounts for the majority of employment in Indonesia. Between 2006 and 2016, the rate of informal workers (defined by Statistics Indonesia as own-account workers, temporary or casual employees and unpaid family workers) fell from 68.9% to 57.6% (Figure 1.25A). Informality is associated with elevated exposure to a range of risks. Defining informality at the household rather than individual level, this review finds that households containing informal workers tend to be worse off.

According to IFLS data for 2014, 42.9% of the informal workforce were own-account workers, 42.4% were employees, 12.5% were unpaid family workers and 2.2% were employers. Men were more likely to be informal employees than women (47.8% versus 35.4%) while women were much more likely to be unpaid family workers than men (21.6% versus 5.4%).

Figure 1.25. Informality is declining slowly

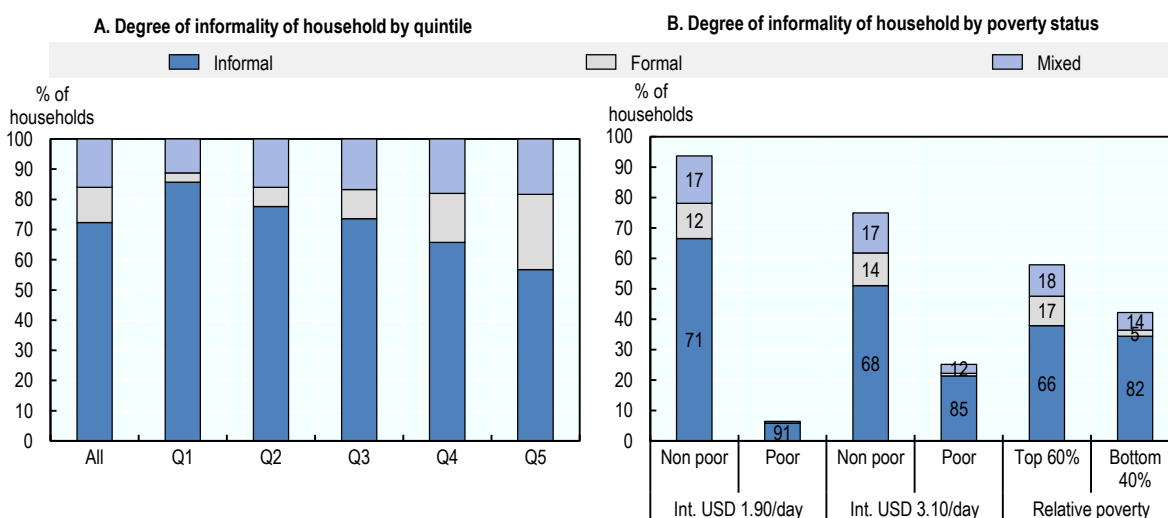
Informality rate over time (2006-16) and by level of education (2016)



Note: National definitions used in the estimation of informality.

Source: Authors' calculations based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

The likelihood of being informally employed decreases with higher educational attainment: 35.3% of individuals who only completed elementary education are in informal work compared with 1.9% of university graduates (Figure 1.25B). Based on data from the IFLS for 2014/15, informality is inversely correlated with income. In the first quintile, 86% of households contain only informal workers compared with 57% in the top quintile (Figure 1.26A). Some 91% of households classified as poor by the global USD 1.90/day benchmark contain only informal workers (Figure 1.26B).

Figure 1.26. Informality and poverty are correlated

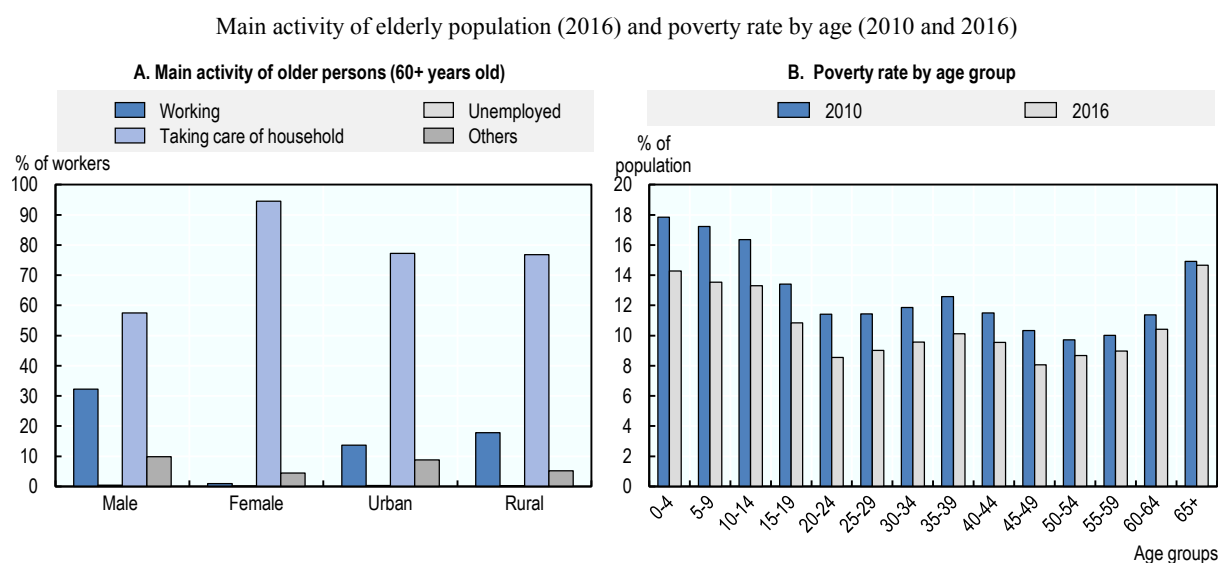
Source: Authors' calculations, based on RAND Institute (2015_[10]), Indonesian Family Life Survey – Wave 5, www.rand.org/labor/FLS/IFLS.html.

As discussed in Chapter 3, informal households are less likely to be covered by social protection, which in turn increases their exposure to health and other shocks. The GoI is making a particular effort to expand contributory arrangements in the informal sector. Informal workers often find themselves in the “missing middle” of social protection coverage, whereby they are ineligible for poverty-targeted social assistance but do not have access to employer-based social insurance arrangements, making it important that they can access public schemes.

Old age

Indonesia’s elderly population is relatively small but it is highly prone to poverty. In 2016, 14.7% of individuals over age 65 were poor, down only slightly from 14.9% in 2010. Poverty among all other age groups declined over the same period, most significantly among children, the cohort in which poverty was previously most concentrated (Figure 1.27B).

Figure 1.27. Old-age poverty has barely declined in recent years



Source: Authors’ calculations, based on Statistics Indonesia (2016_[41]), SUSENAS, <https://microdata.bps.go.id/mikrodatabase/index.php/catalog/769>.

The majority of elderly individuals do not receive support from public social protection. Contributory pension arrangements have historically been targeted at formal workers, resulting in less than 10% coverage among today’s working population and lower still among the elderly (OECD, 2017_[36]). Social assistance has been extended to elderly individuals but coverage remains extremely low (see Chapter 2).

In 2007, only 6.8% of individuals aged 60-64 received a pension. The rate decreased for older cohorts: coverage was 4.9% for ages 70 to 74 and 2.7% for age 75+. Women were three to five times less likely to receive a pension (Priebe and Howell, 2014_[38]). Elderly individuals, especially women, are highly reliant on transfers from household members.

Nearly one in three men continue to work past age 60 (Figure 1.27A). However, the disability rate among the population aged over 65 has been calculated to be 46.5%, much higher than for the population as a whole. This limits the elderly’s population remain

economically active and support themselves (Adioetomo, Mont and Irwanto, 2014^[39]). With the elderly population starting to increase rapidly, the need to expand old-age social protection will become increasingly pressing; failure to do so would risk driving poverty rates upwards

Health risks

Indonesia is undergoing an epidemiological transition. Non-communicable diseases are becoming a more significant burden on health than communicable diseases: the proportion of total deaths attributable to non-communicable diseases rose from 63% in 2010 to 77% in 2014. The most common causes of death in 2014 were cardiovascular diseases, cancer and diabetes (WHO, 2014^[40]).

This transition is borne out by the number of Disability-Adjusted Life Years (DALYs) lost to major causes from 2000 to 2015 (Table 1.1). Although communicable diseases still accounted for the largest proportion of DALYs in 2015, their contribution declined by 32.5% from 2000. There were significant increases for cardiovascular diseases; diabetes; and urogenital, blood, endocrine and chronic liver diseases.

Table 1.1. The health burden of non-communicable diseases is increasing

Changes in principal causes of loss of DALYs (2000-15)

Cause	2000	2005	2010	2015	Percentage point change (2000-15)
Communicable, maternal, neonatal and nutritional diseases	29 556	26 231	23 211	20 005	-32.3
HIV/AIDS and tuberculosis	4 051	4 114	4 172	4 156	2.6
Diarrhea, lower respiratory and other common infectious diseases	12 873	10 232	8 150	6 575	-48.9
Neglected tropical diseases and malaria	1 617	1 648	1 536	1 549	-4.2
Maternal disorders	906	754	597	511	-43.6
Neonatal disorders	7 474	6 899	6 260	4 974	-33.5
Nutritional deficiencies	2 075	2 036	1 979	1 765	-15.0
Other communicable, maternal, neonatal and nutritional diseases	558	547	516	475	-14.9
Neoplasms	3 199	3 576	4 023	4 516	41.2
Cardiovascular diseases	10 216	11 280	12 400	13 769	34.8
Chronic respiratory diseases	3 149	3 209	3 365	3 225	2.4
Cirrhosis and other chronic liver diseases	1 465	1 587	1 743	1 738	18.6
Digestive diseases	1 824	1 897	1 881	2 110	15.7
Neurological disorders	1 851	2 004	2 165	2 318	25.3
Mental and substance use disorders	3 641	3 954	4 289	4 638	27.4
Diabetes and urogenital, blood and endocrine diseases	4 540	5 098	5 865	6 617	45.7
Musculoskeletal disorders	3 238	3 617	4 061	4 545	40.3
Other non-communicable diseases	4 890	5 295	5 649	6 020	23.1
Transport injuries	2 900	2 759	2 728	2 717	-6.3
Self-harm and interpersonal violence	422	457	498	538	27.6
Forces of nature, war and legal intervention	117	208	201	114	-2.3
All causes	73 498	73 634	74 537	75 269	2.4

Source: IHME (2016^[41]), *Global Burden of Disease* (database), www.healthdata.org/gbd/data (accessed 22 June 2018).

The increase in HIV/AIDS is noteworthy. Data from the Joint United Nations Programme on HIV and AIDS indicate that nearly 690 000 Indonesians aged 15-49 lived with HIV in 2015, equivalent to a prevalence rate of 0.5%, up from 0.1% in 2003 (WHO, 2016^[42]). National rates mask important regional variation. MoH data indicate that Jakarta has the largest population living with HIV/AIDS. Bali, East Java and Papua also report relatively large populations (Indonesian National AIDS Commission, 2014^[43]).

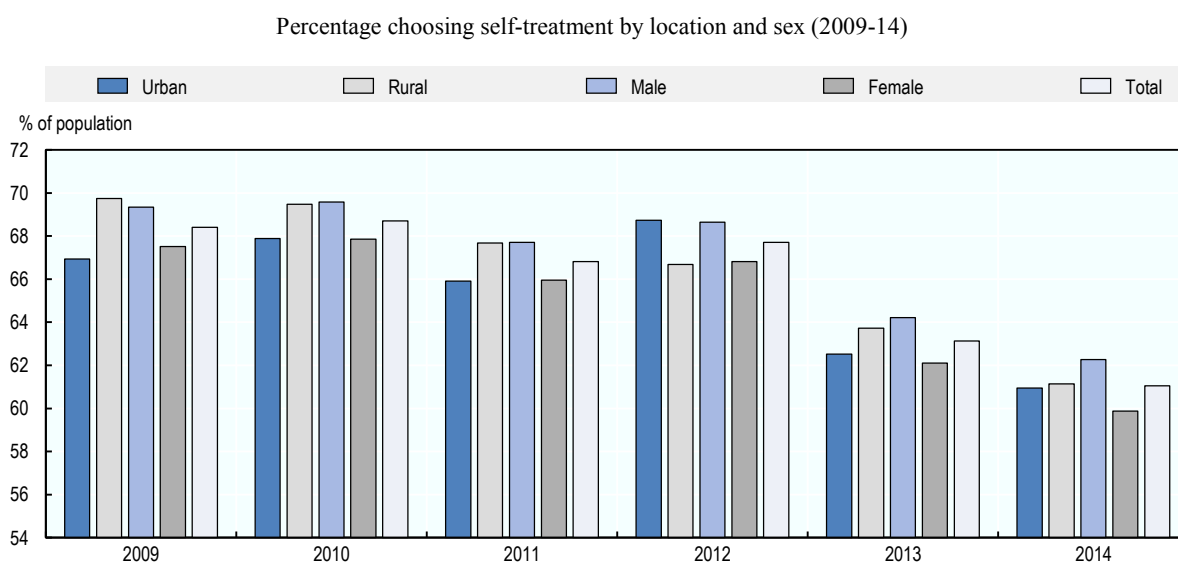
Rates might be much higher than is reported, as cases often go undiagnosed. Only around 35% of individuals living with HIV/AIDS know their status (Indonesian National AIDS Commission, 2014^[43]). HIV/AIDS was responsible for 35 000 deaths in 2015, leaving 110 000 children orphaned (Indonesian National AIDS Commission, 2014^[43]). Few individuals diagnosed with HIV receive antiretroviral therapy: 13% received treatment in 2016 (WHO, 2016^[42]).

The proportion of Indonesians who are obese has risen dramatically in recent years and represents a significant long-term health threat. The proportion of the population that is obese more than doubled between 2007 and 2018, from 10.5% to 21.8% (Ministry of Health, 2018^[44]).

The high prevalence of smoking, especially among men, is a particular health concern. It is a major cause of non-communicable disease. In 2013, some 66.0% of adult males and 6.7% of females smoked, up from 62.2% and 1.3% in 2001 (MoH, 2013^[45]). As of 2018, the mean age at initiation of daily smoking is 17.6 years, and 34.8% of the population aged 15 and older smoke tobacco regularly: roughly 67% of Indonesian men and 2.7% of Indonesian women (WHO Regional Office for South-East Asia, 2018^[46]).

A majority of Indonesians suffering a health issue choose self-treatment instead of visiting health facilities or medical professionals, although this trend is decreasing: in 2014, 61% treated themselves, compared with 68.4% in 2009. Overall, men and rural residents are more likely to choose self-treatment, possibly because of lack of access to adequate health facilities (Figure 1.28).

Figure 1.28. The proportion of people treating themselves has declined



Source: Authors' calculations, based on Statistics Indonesia (2016^[41]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

People with disabilities

The 2015 Intercensal Population Survey indicated that around 8.6% of the population over age 2 have some type of disability and half (48.5%) report multiple disabilities. Using a combination of population and household surveys, TNP2K has calculated the rate to be between 10% and 15% of the population but suggests that the actual rate could be much higher. Rates are higher for females than for males and for rural residents than for urban residents and individuals with disabilities face more risks and vulnerabilities than the general population (Adioetomo, Mont and Irwanto, 2014^[39]).

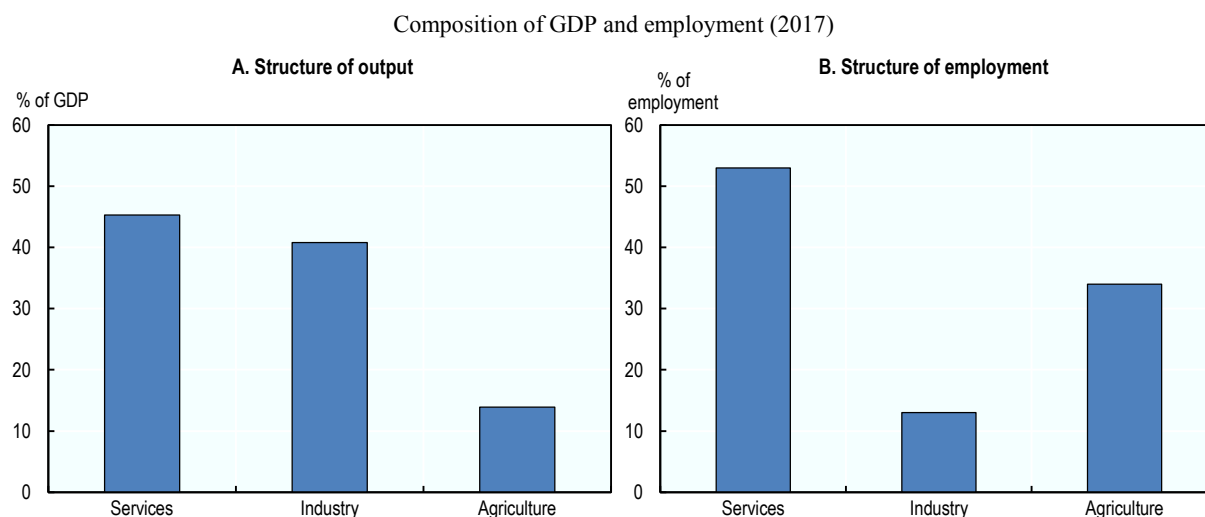
Poverty rates among households with a member with a disability are 2.4 percentage points higher than among those without. Individuals with disabilities are less likely to be enrolled in school, and those with a disability have a 66.8% probability of completing primary education relative to those with no impairments. Individuals with a mild disability are 31.1% less likely to be employed than un-impaired individuals; those with severe impairments are 91.8% less likely.

A legislative framework for integrating people with disabilities within mainstream development policies is being established. Following the ratification of the United Nations Convention on the Rights of Persons with Disabilities in 2007 and its passing into law in 2011, Indonesia passed Law No. 8/2016 on Persons with Disabilities in 2016 that takes a rights-based approach to disability (Wardana and Dewi, 2017^[47]). Improving access to social protection for people with disabilities is a critical enabler for their integration within the developmental process. According to TNP2K, just 1% of people with disabilities access Asistensi Sosial Orang Dengan Kecacatan Berat (ASODKB), the principal social assistance programme for this group. ASODKB, which became Asistensi Sosial Penyandang Disabilitas Berat, is discussed further in Chapter 2.

Climate change is a threat while Industry 4.0 poses opportunities and risks

Indonesia's long-term economic performance will be a key determinant of demand for social protection in the future. The prospects for sustained economic growth to drive increases in per capita income and improvements in living standards are positive. However, the associated impact on poverty and inequality will depend on the structure of this growth and the extent to which it can be harnessed by the tax system to finance redistributive fiscal policies. At the same time, the structure of employment will influence the extent to which Indonesia is affected by challenges such as climate change and the Fourth Industrial Revolution

Indonesia's economic structure has changed significantly in the past 20 years, with a shift away from the primary sector. The service sector accounted for 43.6% of GDP in 2017, while industry accounted for 39.4% and agriculture for 13.1% (Figure 1.29). The service sector is also the largest employer, accounting for 48% of employment in 2017, up from 37% in 2000, while agriculture's employment share fell from 45% to 30% over the same period (World Bank, 2018^[5]). Employment in industry increased from 17% to 22% (World Bank, 2018^[5]).

Figure 1.29. Agriculture's share of output and employment has declined

Source: World Bank (2018_[5]), *World Development Indicators*, accessed 21 January 2019.

These economic and labour-market changes have been important drivers of enhanced productivity and instrumental in accommodating growth in the working-age population. Indonesia's economic prospects are positive: the economy is expected to maintain growth rates in excess of 5% up to 2020, inflation is mild, and monetary and fiscal policy are contributing to a stable macroeconomic environment. However, Indonesia risks being caught in a middle-income trap if it doesn't generate more inclusive growth and strengthen human capital.

Indonesia is approaching 40 years as a middle-income country, which is significantly longer than some of the East Asian tigers, such as South Korea (Estrada et al., 2017_[48]). Neighbours such as the Philippines and Malaysia are expected to graduate to high-income status before Indonesia. Weaknesses in public service delivery through the decentralised system of government has been identified as a key constraint to Indonesia's graduation (Huang, Morgan and Yoshino, 2018_[49]).

Climate change is likely to have an adverse impact on the economy and labour force over the longer term. Indonesia was the fifth-largest emitter of greenhouse gases in the world in 2017 but has pledged to reduce emissions by 29% from a business as usual scenario by 2030 (World Resources Institute, 2016_[50]). A 2011 International Food Policy Research Institute (IFPRI) study shows that climate change will reduce GDP between now and 2030. Output will also decrease for some crops, such as rice and paddy, increasing their prices and reducing food security (Oktaviani et al., 2011_[51]).

At the same time, the proportion of the population vulnerable to climate change will increase significantly. An Asian Development Bank study indicates that the population vulnerable to poverty will increase by between 15% and 91% due to the increased flooding and drought associated with climate change (Fujii, 2016_[52]). Non-climate related natural disasters also pose a major threat to livelihoods: Indonesia is considered extremely vulnerable to earthquakes and tsunamis, as demonstrated by the events that struck Sulawesi in September 2018 and Sunda Strait in December 2018.

According to the National Disaster Mitigation Agency, there were 2 426 natural disasters in Indonesia in 2018, which left 4 231 people dead or missing (Heriyanto and Cahya,

2018^[53]). Social protection has been shown to be an important part of the policy response to natural disasters and climate shocks in Southeast Asia. It can support households not only to cope with shocks but also adapt to climate change and enhance resilience (Hallegatte et al., 2016^[54]). The human and economic benefits of ex ante responses relative to disaster relief are substantial.

The Fourth Industrial Revolution is likely to have a profound influence on Indonesia's future. It present great opportunities in terms of increasing productivity, higher growth rates, and better-paid jobs, as a result of which rising demand will offset declines in employment associated with automation (Asian Development Bank, 2018^[55]).

However, it also threatens disruption, with some sectors more affected by automation than others. According to the International Labour Organization (ILO), 85% of salaried workers in Indonesia's retail sector – a major source of employment for women – are at high risk from automation. At the same time, 60% of salaried workers in automotive engineering, more than 60% of salaried workers in electrics and electronics, and 64% of salaried workers in textiles, clothing and footwear are also at high risk (Chang, Rynhart and Huynh, 2016^[56]).

As the Asian Development Bank notes, the policy response to Industry 4.0 must be wide-ranging: “Governments should respond to these challenges by ensuring that workers are protected from the downside of new technologies and able to harness the new opportunities they provide. This will require co-ordinated action on skills development, labour regulation, social protection, and income redistribution.” By embedding social protection in national development plans, the GoI is maximising its potential to play a supportive role both in protecting workers and enhancing long-term productivity, as well as promoting inclusive growth more broadly.

Note

¹ Stunting is defined as the percentage of children whose z-score for the height-for-age index is below two standard deviations below the mean.

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Chapter 2. Social protection coverage

Social protection in Indonesia has evolved rapidly since the Asian Financial Crisis, through both a major scale-up of social assistance and “big bang” reforms to social insurance. This chapter charts this trajectory over the past two decades, outlining the main economic, political and legislative drivers of social protection before examining in greater detail the main programmes that have been established during this period. It provides an inventory of existing schemes, analyses their key design features and scale of operation, and discusses how well they meet the present and future needs identified in Chapter 1, as well identifying major gaps in this regard.

Indonesia's recovery from the far-reaching economic, political and social consequences of the Asian Financial Crisis of 1997-98 is an international success story. Social protection was poorly developed prior to the Crisis but emerged as an important part of the response and has since played an ever-larger role in Indonesia's development. As the Government of Indonesia (GoI) confronts the challenges identified in Chapter 1 – a marked slowdown in the decline in poverty, the vulnerability of the middle class, major regional disparities and high inequality – social protection is featuring ever-more prominently in national strategies.

Social protection is growing in prominence

The Asian Financial Crisis, which caused widespread unemployment and a substantial increase in poverty in Indonesia, exposed both a lack of social programmes and major shortcomings in the programmes that did exist. Prior to the crisis, Indonesia's social protection programmes were traditionally been relief-oriented interventions rather than integrated systems of preventive programmes that keep families from falling into poverty (Jellema and Hassan, 2012_[11]). Following the crisis, the GoI set about adopting a stronger set of policies addressing poverty alleviation and implementing centralised social protection programmes (Perdana, 2014_[21]). Key legislation related to employment was also introduced, for example through the Manpower Act of 2003.

Three presidents have charted the evolution of social protection in Indonesia: Megawati Sukarnoputri (2001-04), Susilo Bambang Yudhoyono (2004-14) and Joko Widodo (2014-present). Their respective administrations took responsibility for scaling up social assistance and for reforming social insurance, although the degree of continuity between governments has varied.

Social assistance reforms have not occurred in a particularly strategic manner. Each administration has prioritised different programmes over others, experimenting with new programmes and rejecting or reforming programmes based on their impact. The evolution of social assistance, particularly under President Yudhoyono, was strongly influenced by the imperative to compensate poor households (and ward off popular discontent) following cuts in fuel subsidies. Although President Yudhoyono's ten years in office was a period of major policy development in social assistance, it is notable that budgetary allocations did not increase accordingly (Tomsa, Mietzner and Aspinall, 2015_[31]).

The development of social insurance has been propelled by big bang reforms in 2004 and 2011 (Bauer and Thant, 2010_[41]). President Megawati initiated discussions around the first far-reaching social insurance reforms, which culminated in the 2004 legislation creating the Sistem Jaminan Sosial Nasional (SJSN; National Social Security System) policy framework. President Yudhoyono's second administration then oversaw passage of another landmark reform seven years later: the 2011 Social Security Provider Law No. 24, which created Badan Jaminan Sosial Nasional (BJPS; National Social Security Administering Body).

BJPS Kesehatan (henceforth BPJS Health), which began operations in January 2014, was made responsible for Jaminan Kesehatan Nasional (JKN; Public Health Insurance) with the aim of achieving universal health coverage (UHC). BPJS Ketenagakerjaan (henceforth BPJS Labour), which began operations in July 2015, is responsible for employment-related social security.

The SJSN reforms recognised a need to establish a social insurance system with much greater expanded coverage than previous arrangements had achieved. As this chapter and

Chapter 3 will discuss, the BPJS Health has been much more effective than BPJS Labour in this regard. At the same time, there is growing recognition of the need to create a system of social assistance, which has evolved in a highly fragmented manner with little coherence between the various institutions involved. Overall, 37 programmes social protection programmes were implemented in 2015, up from 30 in 2012 (Adioetomo, Pardede and Quarina, 2012^[5]).

The National Medium-Term Development Plan (RPJMN) for 2015-19 calls for a social protection system to cover the entire population based on comprehensive coverage of all citizens throughout the lifecycle and for special programmes for the poor. The strategy also calls for improved targeting of social assistance to increase coverage among the poor population. An objective under Outcome 2 – Equitable access to social services and social protection – is the ‘integration of several family-based social assistance schemes for poor and vulnerable families that have children, disabled, and elderly in the form of conditional cash transfers and/or through in-kind assistance to support nutrition’.

As this report will discuss, there are many dimensions to establishing a social protection system. These include not only coherence between programmes but also between institutions, information systems, targeting systems and financing arrangements.

Box 2.1. Social protection in rooted in the Constitution

Social protection is recognised as a basic human right by Indonesia’s constitution, which was promulgated in 1945 and amended in 1999, 2001 and 2002.

Article 28 enshrines that:

- Every person shall have the right to live in physical and spiritual prosperity, to have a home and to enjoy a good and healthy environment, and shall have the right to obtain medical care.
- Every person shall have the right to receive facilitation and special treatment to have the same opportunity and benefit in order to achieve equality and fairness.
- Every person shall have the right to social security in order to develop oneself fully as a dignified human being.

Meanwhile, Article 34 stipulates that:

- Impoverished persons and abandoned children shall be taken care of by the
- The state shall develop a system of social security for all of the people and shall empower the inadequate and underprivileged in society in accordance with human dignity.
- The state shall have the obligation to provide sufficient medical and public service facilities.

Social assistance has evolved in a fragmented fashion

Formal social assistance programmes emerged after the Asian Financial Crisis and have since experienced strong growth. Social assistance is characterised by multiple programmes implemented by a number of different line ministries. It encompasses various programmes, from conditional cash transfers (CCTs) to food subsidies and

student scholarships. A key impetus behind growth in social protection since 2005 has been the phasing out of fuel subsidies. Social assistance programmes were implemented to cushion the impact of these reforms and were financed by the resultant decline in tax expenditure.

As will be discussed in Chapter 4, social assistance has received relatively low levels of funding; social assistance accounted for 29.7% of total social protection spending in 2015 (Adioetomo, Aninditya and Radjiman, 2016_[6]). However, this is starting to change, in part because there is political support for the investment case for social assistance. The administration of President Widodo has placed social protection at the centre of its inclusive growth strategy (World Bank, 2017_[7]). As Chapter 3 explains, not many of the programmes outlined in this section are achieving their potential in terms of reducing poverty and inequality.

Background

Following adoption of the 1945 Constitution, social protection was primarily provided by families and communities rather than centralised government initiatives (Kwon and Kim, 2015_[8]). Poverty reduction was not a policy objective until the early 1990s (Perdana, 2014_[2]). Social assistance during the New Order administration (1966-98) was characterised by religious-based protection, *Zakat* (the social protection institution of Islam), whereby each Muslim is obliged to contribute in cash and in kind at religious festivals to support poorer Muslims. In 1968, *Zakat* was installed as a semi-governmental operation to distribute welfare to the population (Kwon and Kim, 2015_[8]).

Prior to the Asian Financial Crisis, social spending consisted principally of supply-side improvements in health, education and infrastructure (water, sanitation, electrification) (Sudarno and Bazzi, 2011_[9]). In the aftermath of the crisis, which led to mass lay-offs and high inflation, an additional 36 million Indonesians were pushed into poverty, driving the poverty rate up to 24%.

At the same time, a political shift towards a more democratic government provided a more conducive environment for national social protection initiatives (Jellema and Hassan, 2012_[1]). In 1998, the GoI established a social safety net programme, *Jaring Pengaman Sosial* (JPS), which offered temporary relief programmes providing access to food, health care and education for those affected by the crisis (Perdana, 2014_[2]). The JPS programmes were found to be inefficient due to mis-targeting and low coverage (Mukul, Zen and Dita, 2018_[10]).

Over the past two decades, the GoI has transitioned from a traditional relief-response outlook to a longer-term developmental agenda that incorporates social protection more comprehensively. In 2008, the Ministry of National Development Planning (BAPPENAS) introduced the *Possible Social Protection Reforms for Indonesia* report, which detailed the shortcomings of existing social programmes and committed to developing effective programmes (Kwon and Kim, 2015_[8]).

The RPJMN for 2015-19 focuses on reducing inequality between income groups and between regions as a necessary condition for stronger economic growth and shared prosperity. (Perdana, 2014_[2]). Social protection is a critical component of the RPJMN, featuring in two of the four outcomes.

Social assistance programmes

For the most part, the GoI's budget allocation for social assistance programmes, Dana Bantuan Sosial (Bansos)¹ is managed by the Ministry of Social Affairs (MoSA). However, resources for social assistance are also shared with other line ministries and institutions that implement social assistance programmes.

The Bansos fund is intended to cover six functions of social assistance:

1. protect, prevent and handle the risk of social vulnerability among individuals/families/groups/communities so that their basic needs are fulfilled
2. help rehabilitate people with a dysfunctional ability to recover
3. meet the basic needs of the whole population through an institutionalised scheme
4. empower individuals with social problems to meet their basic needs
5. alleviate poverty among people/families/groups/communities not in work or with insufficient work to fulfil their needs
6. disaster preparedness and management programmes and policies.

This section provides information about a range of social assistance programmes intended to protect individuals against the risks identified in Chapter 1. These programmes, which vary substantially in terms of expenditure and coverage, are implemented by a wide range of institutions; in a number of cases, social protection is not their core mandate. A full inventory of social assistance is provided in Annex 2.A.

Food assistance

Rice for the Poor: Rastra

Rastra (formerly Raskin) provides subsidised rice for the poor. The programme was initiated in 1998 to reduce the impact of the rise in food prices following the Asian Financial Crisis by reducing the burden on household food expenditure and stabilising the price of rice. Rice accounts for almost one-quarter of poor households' total average monthly expenditure (Timmer, Hastuti and Sumarto, 2017_[11]). The allocation of subsidised rice was 15 kg per poor household per month in 2017, at a price of approximately IDR 1 600 (USD 0.12) per kg.²

Households eligible for Rastra are registered in the UDB, although not all poor and vulnerable households in the UDB receive Rastra. Since 2013, Rastra covered 15.5 million households, representing 62% of households in the UDB and about one-quarter of all households in Indonesia (Timmer, Hastuti and Sumarto, 2017_[11]). In 2017, a reform was initiated to integrate Rastra with an electronic food voucher system, Bantuan Pangan Non Tunai (BPNT).

Through the BPNT, households receive an electronic savings card to be used in *E-Warongs* – shops appointed by the bank to sell food commodities to BPNT recipients via Electronic Data Capture machines.³ In 2017, the GoI entered into an agreement with *Himpunan Bank Milik Negara* (The Assemblage of State Owned Banks) to disburse BPNT benefits. Every eligible household receives IDR 110 000 (USD 8.36) per month to buy rice or sugar with the savings card. In 2017, the programme was implemented in 44 cities⁴ but had not been implemented in rural areas due to infrastructure constraints. Approximately 1.2 million households benefited from the BPNT in 2017, with an allocated budget of IDR 1.6 trillion (USD 0.12 billion) (Kusnaini, 2017_[12]). In 2018, the BPNT was expanded to 219 districts, covering 10.3 million households. The full

integration of Rastra and BPNT is expected to be completed in 2019, with an expansion to the remaining 295 districts and an additional 5.3 million households (TNP2K, 2018^[13]).

Box 2.2. The Unified Database is the basis for a social assistance system

In 2005, the GoI began developing the Basis Data Terpadu untuk Program Penanggulangan Kemiskinan (henceforth Unified Database, UDB), an electronic database containing social, economic and demographic information. This was an important first step in establishing the information architecture for social protection and allows for a major scaling up of social assistance programmes

A Statistics Indonesia survey, the Pendataan Sosial Ekonomi (PSE; Socioeconomic Data Collection), was the starting point for the UDB. The 2005 survey included basic information on 19 million households in the bottom 30% of the income distribution. Surveys conducted in 2008 and 2011 by the newly established Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K; National Team for the Acceleration of Poverty Reduction of the Vice President's Office) increased coverage to 24.7 million households, representing the poorest 40% of the population, or about 96.4 million individuals.

Initial categorisation of households involved 14 non-monetary variables to compute a weighted welfare index. Subsequent rounds relied on a proxy means test to score households, constantly improved to targeted outcomes. To improve the UDB's accuracy and enhance traction at a local level, an update in 2015, which surveyed 28 million households, involved public consultation forums with groups of around 20 villagers and community leaders to decide which households should continue registered, be added and be dropped (World Bank, 2017^[7]).

The UDB is the foundation for various programmes, including Beras Sejahtera (Rastra, formerly Raskin; Rice for the Poor), JKN, Bantuan Siswa Miskin (BSM, Cash Assistance to Poor Students), Program Keluarga Harapan (PKH; Family of Hope Programme) and Smart Indonesia Programme, as well as local poverty reduction programmes. PKH is the only programme to fully adopt the UDB to generate quotas and determine eligibility, and to implement an update procedure. TNP2K, BAPPENAS and the MoSA are currently piloting on-demand applications to update the UDB to reduce exclusion errors (World Bank, 2017^[7]).

The UDB is currently managed by an inter-ministerial working group lead by the Ministry of Social Affairs, including TNP2K, Ministry of Planning, Coordinating Ministry of Human Development and Culture, Ministry of Education, Ministry of Health, Ministry of Home Affairs (Civil Registry), BPJS, the Central Bureau of Statistics. The working group is organised around three main functions:

1. supporting access to and use of the UDB
2. developing, implementing and maintaining the infrastructure to ensure the availability, security and integrity of UDB data
3. monitoring the use and evaluating the performance of the UDB for targeting, as well as investing in research for continuous improvement of the system.

Education

Assistance for Poor Students: Programme Indonesia Pintar (PIP)

In 2015, President Joko Widodo launched PIP, a collaboration between the Ministry of Education and Culture (MoEC), MoSA and the Ministry of Religious Affairs (MoRA), as an improvement over the previous Poor Student Assistance Programme (see PIP analysis in Chapter 3). The MoEC implements PIP for elementary, junior and senior high school, while the MoRA implements it for religion-based schools: *Madrasah Ibtidayah* (elementary), *Madrasah Tsanawiyah* (junior high school) and *Madrasah Aliyah* (senior high school).

PIP supports school-age children aged 6-21 through cash transfers to reduce education expenses and thereby prevent dropout. In particular, it targets poor and vulnerable households in the bottom quartile. Each eligible student receives a Kartu Indonesia Pintar (KIP; Smart Indonesia Card). Students can register by bringing their Kartu Keluarga Sejahtera (KKS, Family Welfare Card) to the nearest education facility or showing their Surat Keterangan Tidak Mampu (SKTM, Certificate of Poverty) (Ministry of Education and Culture, 2016^[14]). Benefit levels range between IDR 450 000 to IDR 1 000 000 per year, depending on the grade. Beneficiaries are encouraged to use these transfers for school supplies, transport and fees. As of 2017, more than 18 million students had benefited.

Student Scholarships: Bidikmisi

The GoI also provides scholarships, or Bidikmisi (Special Assistance for Students), for study at general and religion-based universities to improve access for those with the potential but not the means. The Ministry of Research, Technology and Higher Education (MoRTHE) and MoRA implement Bidikmisi collaboratively. The MoRA implements Bidikmisi for religion-based universities.

Cash transfers

Family of Hope Programme: Program Keluarga Harapan (PKH)

In 2007, the GoI launched PKH, the first conditional cash transfer programme in Indonesia. Administered by the MoSA, it seeks to improve the quality of human capital by providing cash transfers conditional on households accessing specified health and education services. The PKH helps reduce the burden of household/family expenditure for very poor households (the immediate consumption effect), while investing in future generations through improved health and education (the human capital development effect).

PKH provides a combination of short- and long-term assistance (Nazara and Rahayu, 2013^[15]). As it encourages beneficiaries to access and use basic health, nutrition and education services, it is expected to promote future generations' opportunity and productivity (World Bank, 2017^[7]). In particular, PKH conditionalities consist of health check-ups for pregnant women, newborns and toddlers, and school attendance for children aged 6-18.

Beneficiaries are households in the UDB that rank below a certain poverty cut-off and contain one of the following:

- a pregnant or lactating woman

- at least one child under age 6
- children aged 7-21 attending elementary or high school
- children aged 16-21 who have not yet completed basic education
- an older person age 70 or over not covered by other social assistance transfers, or a person with a severe disability (new as of November 2016).

Beyond the cash transfer, PKH also provides Family Development Sessions through monthly meetings targeting mothers. These information sessions aim in particular at improving parenting skills, healthy behaviours, child protection, household financing and productive economy, including saving behaviour, financial literacy and business advice.

PKH recipient households that are no longer categorised as poor, do not meet other criteria or have received benefits for six years are no longer eligible and are considered to have graduated from the programme. Households still qualifying after six years are eligible for a three-year extension (transition period), after which they are considered to have graduated from the programme and to have access to other social assistance programmes, such as Kelompok Usaha Bersama (KUBE; Co-operative Business Groups), discussed below.

As of 2016, the PKH was the third-largest CCT in the world, with a massive and rapid scale-up in coverage, from 3.5 million families in 2015 to 6 million families (about 9% of the population) by the end of 2016 and 10 million households in 2018 (World Bank, 2017^[7]). PKH is among the largest social assistance programmes in Indonesia, estimated to have cost IDR 8 964 billion (USD 681 million) in 2016, of which 89% was spent on benefits (World Bank, 2017^[7]).

Neglected Elderly Social Assistance: ASLUT

Under the Asistensi Sosial Lanjut Usia Terlantar (ASLUT), the GoI provides social assistance for abandoned or neglected people age 70 and older (age 60 and older, if bedridden) who do not have a regular income to fulfil basic needs and suffer from sickness or are unable to perform daily activities. Beneficiaries are entitled to IDR 200 000 (USD 15.2) per month. The programme helps caregivers meet beneficiaries' basic needs and provides for other social rehabilitation services. In 2017, the GoI allocated IDR 61.1 billion (USD 4.6 million) for approximately 30 000 beneficiaries.

To identify and determine beneficiaries, local/district social offices collect data, and select and document potential beneficiaries and the waiting list. If beneficiaries die, move out or no longer fulfil the criteria, the programme assistant sends an update and details of the beneficiary replacement to the Direktorat Rehabilitasi Sosial Lanjut Usia (Directorate of Elderly Social Rehabilitation). Every beneficiary is given an ASLUT ID Card with information their bank account, name, age, sex and address.

Co-operative Business Groups: KUBE

KUBE was designed as a strategy for still-poor households graduating from the PKH after six years. Following a recertification process, these households are granted an additional three years of transfers, complemented by additional livelihood and support from programmes like KUBE (a follow-up to the Family Development Sessions) to set up sustainable businesses.

KUBE assists households in building a sustainable path out of poverty during a three-year transition period, providing necessary supports to develop or participate in economically

productive activities through cash or in-kind transfers. The programme encourages the creation of group-based microbusinesses by providing capital to groups of seven to ten people from poor households, along with entrepreneurship and business training (World Bank, 2017_[7]). Around 20 000 KUBE-PKH groups received grants of up to IDR 20 million (USD 2 000) in 2015 (World Bank, 2017_[7]). Recent developments include continued web-based training for PKH facilitators to better support beneficiaries with business proposals and to manage the KUBE-PKH database monitoring their business activities.

The Direktorat Penangan Fakir Miskin Perdesaan and the Direktorat Jenderal Penanganan Fakir Miskin, Kemensos run KUBE. The MoSA administers and finances it through the social assistance budget. In 2017, KUBE reaching 53 600 beneficiaries with a budget of IDR 292 billion (Kusnaini, 2017_[12]).

Empowerment of the Indigenous Community: Komunitas Adat Terpencil (KAT)

The GoI recognises 1 128 ethnic groups among its population of 250 million. Some indigenous communities are characterised as KAT if they are geographically isolated. The three-year programme improves access to essential services in these communities by developing housing and providing a living allowance and essentials, such as clothing and bedding. The MoSA implements the programme, investing in basic infrastructure, including roads, transport and electricity, and improving access to information.

Every beneficiary household receives four components of assistance during the three years:

1. residential quality improvement (provision of simple residence/houses)
2. environment facilities (provision of toilets, worship/prayer places, community halls and lighting devices. Construction involves local people)
3. life insurance (to support a focus on mental health mentoring, motivation sessions and other human resource development opportunities)
4. plant seeds, work equipment and household utensils (includes land certification).

In 2017, the GoI allocated IDR 94.9 million (USD 7.2 million) to 2 064 households with limited access to basic social services, dependent on natural resources, marginalised in rural or urban areas, located in the borders, coast or outer and remote islands (Kusnaini, 2017_[12]).

Social Assistance for Children and Family Development

This programme provides social services and rehabilitation to fulfil children's basic needs, such as nutrition, care and schooling. Beneficiaries are children neglected or abandoned, street children, children who commit crimes (juvenile delinquencies), children with disabilities, and children who need special protection (including victims of natural disasters).

In 2017, the GoI allocated IDR 63.8 million to 77 420 beneficiary children. The benefit is up to IDR 1.1 million per year, consisting of IDR 200 000 for eligible children, IDR 200 000 for parents of children with disabilities and children who need special protection, and IDR 700 000 for meeting children's basic and nutritional needs.

Benefits are disbursed to the organisation that files the application and manages the child's capacity-building activities. The Social Assistance Fund is transferred to the Lembaga Kesejahteraan Sosial Anak (Child Social Welfare Institution), which submit a

proposal for child and family development to the district- or city-level social office, along with a statement of willingness to take care of the children and their families.

Social Assistance for the Severely Disabled: Asistensi Sosial Penyandang Disabilitas Berat (ASPDB)

The ASPDB provides essential services to people with disabilities and those suffering physical or mental deficiencies that limit their ability to conduct physical, spiritual or social functions adequately. Direct cash transfers of IDR 300 000 per person per month are provided only to caregivers or family members of people with severe disabilities to maintain their health and meet their daily basic needs. In 2017, the GoI allocated IDR 67.5 million to 22 500 beneficiaries.

To identify and determine beneficiaries, local or district social offices gather information on the potential beneficiaries and their families, including name, address, type of disability, household socio-economic profile, recipient ID number, full body picture showing physical disability, copy of family registry card,⁵ copy of ASPDB recipient ID document (if already registered), and copy of household head and guardian ID cards. The MoSA receives information on the potential beneficiary from the community, non-governmental and other grassroots organisations, and mass media selected and verified by social offices at the district and province levels.

Rehabilitation and Social Assistance for Drug Addicts: Rehabilitasi dan Perlindungan Sosial untuk Korban Penyalahgunaan Napza

This programme supports drug and alcohol addiction recovery – rehabilitating beneficiaries to regain and enhance self-confidence, thereby encouraging and enabling them to be more responsible for their lives – through “self-help groups”. The monetary benefit is provided to social development centres and social care centres that conduct the rehabilitation. The *2011 Annual Report of the Ministry of Social Welfare* reported 4 810 drug addicts were rehabilitated under the programme for the drug addicts. Beneficiaries increased to 14 394 in 2015.

Social Assistance for Socially Vulnerable People: Perlindungan Sosial untuk Tuna Sosial

This programme targeted the socially vulnerable, such as juvenile delinquents, ex-convicts, victims of drug abuse, the homeless, beggars, people living with HIV/AIDS, transvestites and abandoned people with chronic diseases. It provides support to improve their basic social services through activities that fulfil basic needs or increase social institutions providing assistance and rehabilitation services. The programme assisted 7 967 in 2011 and 7 430 in 2015.

Stimulus Assistance for Housing: Bantuan Stimulan Perumahan Swadaya (BSPS)

Through BSPS, the Ministry of Public Housing (MoPH) provides social assistance to develop new housing, improve the quality of housing, or develop and improve the public facilities, empowering low-income households to build or improve the quality of their homes and ensure a secure dwelling.

BSPS is specifically targeted at low-income households in coastal, remote, natural disaster-prone and slum areas. Assistance is directly transferred to eligible households

through community-based institutions. In 2017, the BPS budget reached IDR 1.8 trillion (USD 139.6 million), covering 110 000 beneficiaries (Kusnaini, 2017^[12]).

The MoPH provides other subsidies for public housing: Facility of House Financing, also known as subsidy for mortgage loans; subsidy for bank interest; and subsidy for down payment fee. To access these, beneficiaries must be Indonesian citizens (proved by national ID Card), not own a house, never have received a government housing subsidy, have a tax ID number, have proof of tax payment, have a monthly income not exceeding IDR 4 million (USD 304.1) for a *rumahtapak* (ordinary house) or IDR 7 million (USD 532.16) for *rumahsusun* (flat). Informal workers with uncertain monthly incomes may pay daily or weekly instalments, in accordance with bank regulation.

Uninhabitable House Rehabilitation Programme: Rahabilitasi Rumah Tidak Layak Huni (RS-RTLH)

This GoI programme provides social assistance for PKH beneficiaries and other poor families with social welfare cards to improve their housing and sanitation facilities. The MoSA implements the programme, which was estimated to cost IDR 25 650 000 000 million (USD 1.9 million) in 2017, according to the budget (TNP2K, forthcoming^[16]).

Beneficiaries are poor households included in the UDB that meet the following criteria:

- receives Rastra benefits or has a KKS, KIS or letter from head of village stating a person or household is poor and eligible to receive SKTM assistance from head of village over duty stamp or is registered in the PKH
- has an ID Card or other ID and valid family identification card and/or
- has a house on his/her own land, proved by certificate of ownership or other documents.

Social insurance is leading systematisation of social protection

Social insurance in Indonesia has a much longer history than social assistance, with some programmes pre-dating the New Order administration. Historically, public social insurance consisted of four operators: ASKES (mandatory health insurance for civil servants), TASPEN (mandatory old-age security defined benefit programme for civil servants), ASABRI (mandatory old-age security defined benefit programme for the armed forces) and JAMSOSTEK (mandatory retirement, work accident and death benefits for formal workers in the private sector).

An overhaul of social insurance provision began with SJSN Law No. 40 of 2004, which mandated universal social security coverage for all Indonesians, including health care, work accident, old-age savings, pension and death. In particular, the law stipulates entitlements for the entire labour force, including the gradual inclusion of informal workers through a staircase approach, with non-contributory schemes for the poorest, contributory schemes with nominal contributions for the self-employed and informal workers, and statutory social security schemes with contributions set as a percentage of wages for formal workers (Mukul, Zen and Dita, 2018^[10]).

The SJSN Law mandated that social security should guarantee the fulfilment of basic needs through an integrated and comprehensive system. Law No. 24 of 2011 and Presidential Regulation No. 109 of 2013 provided the regulatory and policy framework for systematisation (Government of Indonesia, 2011^[17]; President of the Republic of

Indonesia, 2013_[18]). These established BPJS as the implementing agency of social security and outlined the gradual stages of social security programme participation.

BPJS is responsible for specific areas of coverage through two management bodies: (BPJS Health; health care coverage based on the ASKES operator) and BPJS Labour; arising from a merger of TASPEN, ASABRI and JAMSOSTEK) (Mukul, Zen and Dita, 2018_[10]). Dewan Jaminan Sosial Nasional (DJSN; National Social Security Board) is the oversight body for BPJS Health and BPJS Labour.

Old-age and work accident programmes

Since July 2015, BPJS Labour has implemented all social security programmes for employees and non-wage or informal workers (PBPU). Coverage has not increased at the same rate as membership of JKN: at the end of 2018, there were 30.5 million members (News Desk, The Jakarta Post, 2019_[19]).

Prior to the 2015 reform, JAMSOSTEK administered benefits for private sector workers. TASPEN remains the administrator of benefits for civil servants, while ASABRI administered those for armed forces personnel. ASKES, TASPEN, ASABRI and JAMSOSTEK were hampered by low investment returns, poor governance, limited benefits and low coverage (Mukul, Zen and Dita, 2018_[10]).

The Jaminan Pensiun (JP), created in 2014, is governed by the SJSN Law, Articles 39 to 42. It is compulsory insurance for workers in the formal private sector to help participants and their dependents maintain a decent standard of living in case of loss of income due to death, total permanent disability and retirement. It is run on a defined benefit basis, with benefits paid either as an annuity (for those with at least 15 years of contribution) or a lump sum (for those with less than 15 years of contribution). It acts as an old-age pension and disability pension but also covers the family, including the contributor's parents, spouse and children. Employees and their employers pay contributions (1% and 2%, respectively, to be increased over time to 8% total). PBPU contribute 3% of their income (Mukul, Zen and Dita, 2018_[10]).

The Jaminan Hari Tua (JHT; Old-Age Savings) provides a guarantee against social and economic risks upon retirement, resignation, lay-off without active employment, or permanent emigration from the territory of Indonesia. BPJS delivers the programme under the SJSN law, and it is mandatory for all, including informal workers. For formal workers, the employee contribution rate is 2% of wages and the employer rate is 3.7% of wages. The contribution rate for informal workers is defined by the GoI.

JHT benefits are paid as a lump sum upon reaching retirement (minimum age 56 years), the amount corresponding to the accumulated value of contributions plus investment returns (guaranteed at the minimum of average time deposits rate of state-owned banks). One-time partial withdrawal before retirement is allowed for individuals who have contributed for ten years.

The Jaminan Kematian (JKM; Death Benefit) provides for participants upon the death of their wives/husbands/children or for families upon the death of participants. It is paid to heirs if participants die during the active period. This includes a lump-sum compensation, periodic compensation, funeral expenses and scholarships for children. For wage or formal workers (PPU), the premium is 0.30% of monthly wages while for non-wage earners (PBPU), it is set at IDR 6 800 (Indonesian rupiah).

Jaminan Kecelakaan Kerja (JKK; Occupational Accident Benefit) provides protection against the risks of work-related accidents, including those incurred in transit to or from work and illness caused by the working environment. Employers pay the premium, which varies from 0.24% to 1.74% of the monthly wage, depending on the degree of risk of the work. Beneficiaries receive both health treatment and a cash transfer paid to either the affected worker or the family of those who suffer a severe disability.

PT Tabungan Asuransi Pegawai Negeri (PT TASPEN, Civil Servants Insurance Savings) manages the JKK, Old-Age Security, Pension Insurance and JKM/Insurance for retired government workers. Under these schemes, a retired civil servant receives a monthly pension benefit and a lump-sum benefit at retirement age. In 2015, PT TASPEN had 4 402 391 participants, and total expenditure for claims and benefits was IDR 11.15 million (PT TASPEN, 2016^[20]). Participants consisted of civil servants from the central government, civil servants in the autonomous region, state officials, state-owned enterprise (SOE) participants, judges and veterans.

Both PT ASABRI and PT TASPEN are to be integrated within BPJS Labour by 2029 (Silaban, 2015^[21]). However, this is not yet a plan for how this will occur.

Armed forces and police personnel are also covered by pension and old-age saving benefits with additional occupational injuries benefits and life insurance. Asuransi Angkatan Bersenjata Republik Indonesia (PT ASABRI) manages the savings and insurance programmes for the armed forces. The retirement age for military personnel varies depending on their level: age 53 for the lowest level (*Tamtama*) and age 58 for officers (*Perwira*).⁶ PT ASABRI health insurance covered approximately 1.18 million military and police personnel in 2015 and incurred expenditure of IDR 1.03 trillion.

Health insurance

While the right of all citizens to be physically, mentally and spiritually healthy was included in the Basic Health Law of 1960, the greatest changes in the implementation of the health care system have taken place since 2000, with the ambitious declaration in 2012 to achieve UHC by 2019. The legislative path to UHC has been marked by domestic political concerns, decentralisation and the increasing importance of health services as an electoral issue (Pisani, Maarten and Nugroho, 2017^[22]).

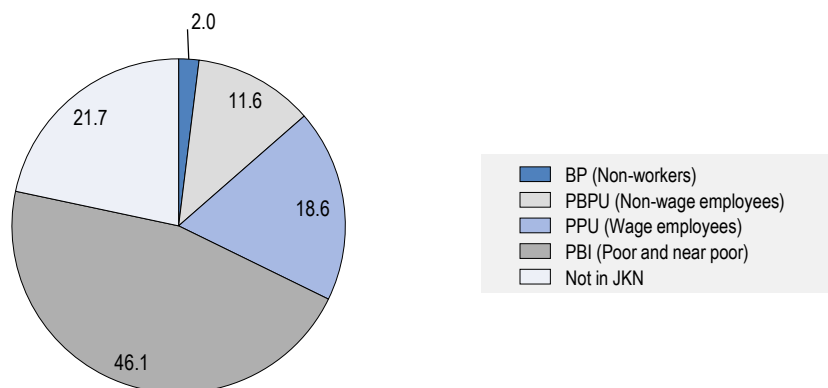
Law No. 24 of 2011, which created BPJS Health, was a significant milestone towards UHC. BPJS Health is a non-profit trust fund replacing the PT JAMSOSTEK, Jamkesmas and PT ASKES schemes, which had been controversial and unpopular due to operational dysfunctions, inaccurate targeting and issues in the supply of services (Pisani, Maarten and Nugroho, 2017^[22]). BPJS Health's main mission is to implement JKN, in particular to manage its membership, collect premium from contract providers and make direct payments to providers. It also co-ordinates with BPJS Labour in cases of road traffic injuries and work accidents.

BPJS Health operations started in January 2014 with 111.6 million members, a number which quickly exceeded the roadmap goal of 121.6 million to reach 133.4 million at the end of 2014. Coverage increased further, to 171.9 million at the end of 2016, and 203 million (75% of the population) in October 2018 (Agustina et al., 2019^[23]). To achieve UHC by the end of 2019, JKN would need to cover 257 million individuals, making it the world's largest UHC plan.

There are two main categories of JKN participant: non-contributory members registered as *Penerima Bayaran Iuran* (PBI) and contributory members (non-PBI). PBI members are

individuals identified as poor and near poor by the UDB who receive a 100% subsidy from the GoI, which pays their premiums directly (Mahendradhata et al., 2017^[24]). PBI members receive a Kartu Indonesia Sehat (KIS; Healthy Indonesia Card).⁷ Total beneficiaries increased from 86.4 million in 2-14 to 117 million in 2018 (including members of locally run schemes).

Figure 2.1. JKN coverage and type of membership



Source: Dewan Jaminan Sosial Nasional, *JKN* (website), <http://sismonev.djsn.go.id/kepesertaan/index.php> (accessed December 2018).

Non-PBI members consist of PPU, PBPU and non-workers (BP). PPU include civil servants, military officers, police officers, government officials, government officials with no civil servant status, private workers and workers not included in previous categories but who receive wages, including foreigners who have been working in Indonesia for at least six months. A great majority of these workers had health insurance coverage prior BPJS Health implementation, for instance through PT ASKES and PT JAMSOSTEK. Private sector PPU members contribute 4.5% of monthly wages to JKN, with their employers contributing 0.5%; public sector PPU members contribute 2% and their employers 3% (Mahendradhata et al., 2017^[24]).

PBPU are those working without contract (or independent workers), including foreigners who have been working in Indonesia for at least for six months, those with irregular incomes, the self-employed and other individuals who were previously not covered by health insurance but can, under JKN, voluntarily register themselves and their family members. PBPU members can choose among three benefit packages, ranging from IDR 30 000 per member per month for benefits in the third class ward to IDR 51 000 for benefit services in the second class and IDR 80 000 for benefits in the first class ward (Mahendradhata et al., 2017^[24]).

BP are investors; employers; pension beneficiaries (retired civil servants, retired military personnel, retired government officials, widowers or orphans of pension beneficiaries); veterans; national independence heroes; widowers; orphans of veterans and national independence heroes; and non-employees not included in previous categories but able to pay the insurance premiums.

The social insurance premium was set at IDR 23 000 per person per month in 2017 (World Bank Group, 2016^[25]). Both PBPU and BP are contributory members of JKN and,

as such, should pay monthly premiums. However, their contribution habits threaten the system's sustainability, as discussed in Chapter 4.

JKN benefits have been revised several times since initial regulation in 2013 by the Ministry of Health (MoH). Packages stipulate benefits not covered (vs. those covered), such as services that do not follow procedures, services in non-BPJS-contracted facilities, services covered by the JKK, services abroad, disorders caused by drug or alcohol addiction, self-harm, traditional medicine, experimental procedures and disaster situations (World Bank Group, 2016_[25]).

While the expansion of JKN has allowed inclusion of poor and near-poor households in national health insurance as PBI members, an issue arises among households with workers who are not poor but may not be able to afford the premiums to be integrated as PBP members. Three-quarters of the top 60% of the income distribution work informally and are ineligible as PBI but might face difficulties providing regular contributions.

Segments of the population are thus left unprotected by both social assistance programmes for the poorest households and social insurance programmes for workers able to pay contributions. For example, only 52% of individuals aged between 20 and 35 years in the middle of the income distribution were registered with JKN in 2018 and there are also notable gaps in coverage for children from birth up to the age of four (Agustina et al., 2019_[23]).

Labour market programmes are too small to increase productivity

The GoI's vision for social protection involves empowering groups that are currently poor or vulnerable to make a full contribution to Indonesia's economy and share in its prosperity. While social assistance is capable of promoting long-term human capital development and breaking the inter-generational transmission of poverty, active labour-market policies are also important, particularly in the short term, in increasing the skills and productivity of poor, vulnerable and marginalised workers. However, such programmes are currently implemented at relatively small scale, with small budget allocations. Meanwhile, passive labour market policies are better established but compliance with severance pay and minimum wages is uneven.

Active labour market policies

According to the Asian Development Bank, labour market programmes account for a small fraction of Indonesia's social protection expenditure. In 2012, Indonesia had a Social Protection Index of 0.03 for labour market programmes: expenditure on such programmes averaged over all potential beneficiaries represented only 3% of per capita overall poverty line expenditure (ADB, 2013_[26]).

Active labour market programmes are primarily implemented by the Ministry of Manpower, MoEC and Ministry of Agriculture (MoA). The main labour market programme is the Life Skills Education Programme (LSEP), administered by the MoE and funded by the Social Assistance Fund. This programme has two components: Assistance for Community Life Skills Programme and Community Entrepreneurship Education. The LSEP helps dropouts, the unemployed and the poor acquire competitive and improved work skills and secure entrepreneurship opportunities.

Beneficiaries include the following individuals:

- aged 16-40, especially KIP holders
- aged 16-21 with KKS
- dropped out of school or not continuing studies (including those attending school equalisation programmes, except for vocation school equalisation programme) and never joined similar programmes
- not attending an education programme or similar training funded by the state or provincial budgets
- willing to follow an education programme and develop incubator businesses.

Indonesia does not implement a national-level public works programme. However, some 90% of financing from the Village Funds is allocated to small-scale local infrastructure projects (mostly road building), meaning that they have a strong public works rationale. The extent to which they can be classified as social protection programmes varies, however, with some villages placing much more emphasis on employing unemployed individuals (especially youths) than others (Gama, Saget and Elsheikhi, 2018^[27]).

The significant expansion of the Village Funds recalls the Program Nasional Pemberdayaan Mandiri (PNPM, Community Empowerment Programme) established by the administration of former president Yudhoyono in 2006 to accelerate the decline in poverty and promote equality. The PNPM, implemented by the Ministry of Home Affairs on a nationwide basis, built on the successes of the Kecamatan Development Programme and the Urban Poverty Project.

The PNPM was aimed at reducing poverty and addressing broader measures of deprivation through community-driven development. Projects were chosen through a participatory process, with a particular emphasis on improving local infrastructure and increasing access to social services, particularly health and education. Micro-credits were also made available to some 30 000 groups (World Bank, 2012^[28]; Centre for Public Impact, 2017^[29]).

The PNPM was found to be effective at reducing poverty, especially in poor sub-districts, but did not benefit groups that were marginalised for other reasons. It also increased employment and use of health services (including immunisations and ante-natal visits) but had little impact on school enrolment. It is notable that communities considered the programme to be for the community as a whole rather than for poor, vulnerable or marginalised households (World Bank, 2012^[28]).

The PNPM's success has clearly been a driving force behind the Village Funds programme, which has sought to reinforce community ownership and strengthen village-level governance structures. The World Bank has proposed that Indonesia implement a public works programme as part of a shock-responsive social protection system but at present this doesn't appear to be under consideration.

Passive labour market policies

Passive labour market programmes are prominent in the social protection landscape. Indonesia does not operate an unemployment insurance fund but workers who lose their jobs are, in theory, protected by a system of severance pay. Current severance pay regulations were established by Law No. 13 of 2003 on Manpower, which increased the level of payment that employers were required to make from previous levels.

Under the 2003 legislation, three forms of benefit exist for workers who leave a job: severance pay, a reward for working time and a compensation fee. Eligibility for the different benefits depends on the reason for leaving a job, and the total benefit varies by years of service, as well as whether a worker contributed to a private pension arrangement (ILO, 2017_[30]). As a result of this dispensation, severance pay rates are significantly higher in Indonesia than elsewhere in the region; after 20 years of service, employees might be eligible for a lump-sum payment equivalent to 30 months' salary.

Employers, who are responsible for making these payments, complain that severance pay imposes a significant cost and impacts heavily on their ability to hire or dismiss workers. This was a particularly contentious issue during the Global Financial Crisis and is likely to remain important as Indonesia's labour market confronts the impact of the Fourth Industrial Revolution.

However, the impact of severance pay arrangements on the efficient functioning of the labour market is diminished by low compliance rates. The World Bank (2012_[31]) finds that "approximately one-third of legally-eligible employees actually receive severance pay after a job separation. On average, the ratio of the severance pay received to the legally-entitled amount is below 40%. The product of these two ratios yields a wage-loss protection share of between 10% to 14% of eligible severed workers' monthly wages."

A strategy of non-compliance might be advantageous for the functioning of the labour market, but the World Bank report shows that the most vulnerable workers are also the least likely to receive the severance pay to which they are entitled. Moreover, a system that inculcates a culture of non-compliance can also have knock-on effects for other regulations, including social insurance enrolment and even tax compliance

Recent reforms to the JHT have heightened the need to revisit severance pay arrangements. Under the previous dispensation, workers were allowed to withdraw funds from their provident fund whenever they lost their job. A reform in 2015 tightened up the rules on withdrawals to ensure that workers have a reasonable amount in their account when they reach retirement but this was swiftly reversed (ILO, 2017_[30]).

Given the malfunctioning of the severance pay system, the GoI should consider the possibility of implementing a system of unemployment insurance. This is important not only for protecting workers' welfare but also for maintaining aggregate demand. In the absence of such an arrangement, Indonesia's social protection is highly pro-cyclical, constraining its capacity to support incomes during an economic downturn.

Since the 1970s, Indonesia has also implemented a system of minimum wages. The level of the minimum wage varies by province to take into account different costs of living across the country; under the labour legislation of 2003, the minimum wage is intended to provide an adequate standard of living for a single worker. (OECD, 2018_[32]) found that the minimum wage is equivalent to around 90% of the median wage, which is high relative both to countries at a similar income level and OECD countries. This study finds that young workers are most likely to be disadvantaged by the high minimum wage.

The impact of minimum wages on Indonesian firms in the manufacturing sector has been shown to vary by size, causing a reduction in formal employment in firms that are small, labour-intensive and low-skilled but not in large firms (Del Carpio, Nguyen and Wang, 2012^[33]). In other sectors, the minimum wage often does not hold, resulting in some 40% of the workforce receiving a salary at or above the minimum wage in 2015 (BAPPENAS, 2014^[34]).

The recent changes to social insurance and the looming disruption associated with Industry 4.0 make a review of severance pay and minimum wages timely. (OECD, 2018^[32]) proposes that the GoI pilot lower levels of employment protection and discounted minimum wages for youths working in special economic zones, with close monitoring of the results.

Gaps in social protection reflect structural constraints to Indonesia's development

This Chapter concludes by assessing whether there exist obvious gaps in legal or de jure coverage of social protection, that is to say whether individuals are protected against the risks identified in Chapter 1. This is not the same as effective (or de facto) coverage of social protection, which will be examined (for the largest programmes) in Chapter 3.

The analysis in this chapter (and the inventory below) indicates that Indonesia's social protection system comprises programmes that cover many of the risks and vulnerabilities identified in Chapter 1, through a combination of social assistance, social insurance and active labour market policies. However, the large number of programmes, and the large number of institutions with responsibility for implementing them, has generated fragmentation and duplication which undermine the system's effectiveness. This inefficiency is a particular concern given the low levels of financing for social protection, discussed in Chapter 4.

Nonetheless, there are some notable gaps in provision, particularly in three key areas: early childhood development (ECD), programmes for youths not in education, employment or training (NEET) and social assistance for the elderly. Each represents a different challenge for social protection planners.

For example, ECD programmes require a combination of health, education, welfare services and income support (Britto et al., 2017^[35]), not to mention physical infrastructure such as clinics and childcare facilities. This demands a degree of co-ordination between different line ministries that is hard enough in itself; it also requires vertical coherence between central and local government to ensure services meet required standards. Both Indonesia's size and its high level of decentralisation militate against such coherence.

The challenge facing programmes for youths NEET is also, to an extent, one of co-ordination. Indonesia has one of the highest rates of upper secondary school students enrolled in vocational education and training (VET): 45% in 2015, versus 20% in 2005 (Asian Development Bank, 2018^[36]). To ensure students receive the skills they need to meet the needs of the economy, MoEC needs to work in close collaboration with the Ministry of Manpower, as well as engagement from employers (OECD, 2018^[32]).

To make sure that students from poor families stay in school up to upper secondary level would require an even stronger policy push and additional expenditure. Indonesia's demographics make financing a particular challenge greater still: 17.2% of the population was aged between 15 and 24 in 2015, representing enormous potential demand for training (UNDESA, 2017^[37]). However, it is also important to note that the unemployment rate for individuals aged 25-34 who have completed secondary education is almost as high as for those who did not reach upper secondary education (OECD, 2018^[32]); the return on education might simply not be sufficiently obvious to students or their families to warrant the investment.

Cultural factors play a large role in the lack of social assistance provision for the elderly: families are expected to look after elderly relatives, without their having to rely on public support. Nonetheless, these attitudes are being tested by large-scale internal migration (often to cities), which results in elderly relatives being left behind as their children pursue better economic opportunities (Priebe and Howell, 2014^[38]). In the future, demographic trends mean that the number of elderly relative to the size of the working age population will increase, placing further strain on such arrangements.

In addition to these structural deficiencies in the social protection system, Indonesia is also reacting more slowly to the potential of shock-responsive social protection mechanisms than some of its neighbours, such as the Philippines (World Bank, 2018^[39]). Faced with a high risk of natural disasters, Indonesia lacks adequate shock response or protective programmes for poor and vulnerable households to prevent them from falling into poverty in the event of shocks (Perdana, 2014^[2]). However, the UDB will be a huge asset if and when Indonesia sets about addressing the situation.

Finally, a shortcoming that cuts across the social protection system is its failure to address systemic gender inequalities. Besides maternal health and maternal leave, Indonesia does not have programmes specifically targeting women's empowerment. As a consequence, women are more at-risk from poverty across their lives. Moreover, Indonesia is not maximising the economic and social potential of a huge part of the population, implying a major constraint to the GoI's objective of sustained, robust and inclusive growth.

Notes

¹ This allocation is regulated under the Ministry of Finance Decrees No. 81 of 2012, No. 254 of 2015 and No. 228 of 2016.

² Coordinating Ministry of Human Development and Culture (CMoHDC), *Technical Guidelines of Rastra*, 2017.

³ Electronic Data Capture machines allow merchants to accept and process credit and debit card transactions.

⁴ In-depth interview with the Deputy Assistance of Social Compensation in the CMoHDC, Jakarta, May 2017.

⁵ A national family identification card with a family ID number.

⁶ 2004 Law No. 34 on Indonesia's *Tentara Nasional Indonesia* (armed forces).

⁷ KIS holders consist of PBI members, the homeless, people with disabilities and *Penyandang Masalah Kesejahteraan Sosial* (people with social welfare problems).

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Annex 2.A. Detailed inventory of social protection programmes

Table 2.A.1. Inventory of social protection programmes

Programme	Eligibility criteria	Benefit	Target/number of beneficiaries	Budget/expenditure (IDR)	Budget/expenditure (USD)	Responsible ministry/agency
Old-Age Security	Individuals who have lost income due to work inability, such as death, total and permanent disability, and retirement upon reaching age 55	Lump sum, based on employee's total contribution plus interest	13 112 283 ² (2015) 13 413 901 ³ (mid-2016)	16 754 000 000 000 ² (2015) 18 610 000 000 000 ¹ (2016)	1 214 498 007 1 385 084 847	Badan Pengelola Jaminan Sosial (BPJS) Labour, Tabungan Asuransi Pensiun (PT TASPEN), PT ASABRI
Death Benefit (JKM)	Survivors of participants who died due to non-work-related accidents	JKM and funeral costs	14 042 592 ² (2015) 14 057 192 (mid-2016)	448 000 000 000 ² (2015) 597 120 000 000 ¹ (2016)	32 475 535 44 441 798	BPJS Labour, PT TASPEN, PT ASABRI
Occupational Accident Benefit (JKK)	Individuals who become ill or hurt because of their occupation	Benefits include transport, expenses for medical services, medications and disability	14 042 592 ² (2015) 14 057 192 ³ (mid-2016)	627 000 000 000 ² (2015) 833 440 000 000 ¹ (2016)	45 451 250 62 030 366	BPJS Labour, PT TASPEN, PT ASABRI
Jaminan Pensiun (JP)	Formal workers who are registered and have paid the premium, where 2% of the premium is paid by the employer and 1% is paid by the employee	Either an annuity (15 years of contributions) or a lump sum (fewer than 15 years of contributions)	6 481 983 ² (2015) 8 191 113 ³ (mid-2016)	36 000 000 000 ² (2015) 15 760 000 000 ¹ (2016)	2 679 369 1 172 968	BPJS Labour, PT TASPEN, PT ASABRI
Construction workers insurance (Jaminan Konstruksi)	Formal workers from construction companies who are registered and have paid the premium	JKK and JKM	4 946 404 ² (2015)	2 000 000 000 ² (2015)	144 980	BPJS Labour

The informal/independent workers insurance/benefit	Informal workers who are registered and have paid the premium: 1% for work-related insurance, 2% for Death Benefit and IDR 6.800 per person per month	Old-Age Security, JKK and JKM	614 633 ² (2015) 881 233 ³ (mid-2016)	22 000 000 000 ² (2015) 15 000 000 000 ¹ (2016)	1 594 781 1 116 404	BPJS Labour
Social insurance for the armed forces and police	Armed forces and police	Insurance savings, hospitalisation, JKM, pension benefit	1 183 536 ⁵ (2015) 1 178 998 ⁶ (2016)	1 038 049 844 ⁵ (claim expenses 2015) 1 237 704 000 ⁶ (2016)	75 248 92 118	PT ASABRI
Savings and insurance for civil servants	Civil servants	Basic and supporting examination, class 1 in-patient at public hospital, intensive treatment, diagnostic support, medical equipment and implant, surgery, blood transfusion and/or medical rehabilitation	11 195 872 ⁷ (2015)	11 154 280 00 (claim expenses 2015)	808 574	PT TASPEN
Neglected Elderly Social Assistance (ASLUT)	Poor individuals over age 60 who are ill and require assistance or are neglected	IDR 200 000 per person per month	30 000 ¹⁰ (2017)	61 100 000 000 ⁸ (2017)	4 644 975	Ministry of Social Affairs (MoSA)
Non-PBI (contributory JKN members)	Formal sector employee (PPU), self-registered members (PBPU) and employers (BP)	Free health care	69 275 869 ⁴ (2017)	67 247 884 000 000 ¹ (total claim expenses for all contributory and non-contributory members 2016)	5 005 052 397	BPJS Health
Health insurance subsidies for the poor and near-poor, Penerima Bantuan Iuran [PBI] (non-contributory JKN members)	Households in the poorest 40% (poor and near poor)	Free health care in class III public hospitals	92.2 million ⁴ (2017)	25 502 400 000 000 ⁸ (premium allocated for non-contributory, MoF, 2017) 67 247 884 000 000 ¹ (total claim expenses for PBI+NonPBI 2016)	1 938 756 272 5 005 052 397	Ministry of Health and BPJS Health
Rice for the Poor (Rastra formerly Raskin)	Below poverty line	15 kg of rice per household per month at 75% to 80% lower than market price	14.2 million households ⁹ (2017)	19 787 100 000 000 ⁸ (2017)	1 504 264 862	Bulog (Gol logistic agency), co-ordinated by MoSA and Coordinating Ministry of Human Development and

Non-cash Food Assistance ¹⁰ (Bantuan Pangan Non Tunai [BPNT])	Households in the poorest 25% in 44 pilot cities	IDR 110 000 per household per month	1 432 408 households ¹⁰ (2017)	1 596 000 000 000 ⁸ (2017)	121 331 914	Culture (CMoHDC) MoSA
Assistance for Poor Students (Indonesian Smart Card [PIP])	Students from households in the poorest 25%	IDR 450 000 (elementary); IDR 750 000 (junior high); IDR 1 000 000 (senior high) per student per year	16 487 872 ¹¹ (2017)	9 456 320 000 000 ⁸ (2017)	718 893 112	Ministry of Education and Culture (MoEC)
Assistance for Poor Students (PIP for Islamic-based school)	Students from households in the poorest 25%	IDR 450 000 (elementary/Madrasah Ibtidaiyah); IDR 750 000 (junior high/Madrasah Tsanawiyah); IDR 1 000 000 (senior high/Madrasah Aliyah) per student per year	1 576 411 ¹² (2017)	1 223 820 000 000 ⁸ (2017)	93 037 859	Ministry of Religious Affairs (MoRA)
Student Special Assistance (Bidikmisi)	Students living in poor households (previous Indonesian Smart Card recipients) who have good academic potential	IDR 3 900 00 00 for living allowance and IDR 2 400 000 00 for education fees per student per semester	80 000 ¹³ (2017)	3 474 550 000 000 ⁸ (2017)	264 143 987	Ministry of Research, Technology and Higher Education (MoRTHE)
Student Special Assistance (Bidikmisi) for Islamic-based school	Students living in poor households (previous Indonesian Smart Card recipients) who have good academic potential	IDR 3 900 000 00 for living allowance and IDR 2 400 000 00 for education fees per student per semester	7 500 ¹² (2017)	252 630 000 000 ⁸ (MoF, 2017)	19 205 565	MoRA
Family of Hope Programme (PKH)	Households in the poorest 8% (poorest of the poor)	IDR 1 890 000 per household per year	7 000 000 households ¹⁰ (2017)	11 340 000 000 000 ⁸ (2017)	862 095 180	MoSA
Co-operative Business Groups (Kelompok Usaha Bersama [KUBE])	Poorest of the poor (previous PKH household recipients)	Stimulant aid to Co-operative Business Groups (sum depends on the businesses developed)	53 600 ¹⁰ (2017)	292 050 000 000 ⁸ (2017)	22 202 372	MoSA
Empowerment of	Indigenous households in border	Assistance for	1 721 households ¹⁰	94 900 000 000 ⁸ (2017)	7 214 536	MoSA

the Indigenous Community (Komunitas Adat Terpencil [KAT])	areas, underdeveloped regions, isolated areas and outer islands	improving housing and surrounding environment, and empowering the indigenous community in border areas, underdeveloped regions, isolated areas and outer islands	(2017)			
Social Assistance for Children and Family Development (TEPAK)	Vulnerable children (neglected, abandoned, disabled, in jail, etc.)	IDR 1 100 000 per child/family per year	77 420 ¹⁰ children or parents (2017)	63 710 000 000 ⁸ (2017)	4 843 394	MoSA
Social Assistance for the Severely Disabled (ASPDB)	Individuals who have severe disabilities (aged 2-59)	IDR 300 000 per person per month	22 500 ¹⁰ (2017)	67 500 000 000 ⁸ (2017)	5 131 519	MoSA
Rehabilitation and Social Assistance for Drug Addicts	Drug and alcohol addicts in rehabilitation institutions		14 394 ¹⁰ (2015)	72 711 140 850 ¹⁰ (2015)	5 270 833	MoSA
Social Assistance for Socially Vulnerable		Basic social services	7 430 ¹⁰ (2015)	45 100 935 000 ¹⁰ (2015)	3 269 368	MoSA
Electricity subsidy	Households that have 450 VA and 900 VA, based on Unified Databased	Subsidy for electricity tariff: IDR 1 043 per kWh per household (450 VA); IDR 875 per kWh per household (900 VA)	19.1 million households (450 VA); 6.54 million household (900 VA) ¹⁷ (2017)	45 375 200 000 000 ⁸ (2017)	3 449 536 263	Ministry of Energy and Mineral Resources (MoEMR)
Liquid petroleum gas subsidy (LPG)	Households and small and medium-sized enterprises	Subsidy for liquid gas: IDR 17 750 per LPG tube	Number of beneficiaries will be selected from UDB February 2018	35 413 100 000 00 ⁸ (2017)	2 692 192 489	MoEMR
Assistance for Energy-Saving Solar Lamps (Bantuan Penyediaan Lampu Tenaga)	Households no connection to power lines located in border areas, underdeveloped regions, isolated areas and outer islands	Energy-saving solar lamp package	95 729 ¹⁷ packages (2017)	294 050 000 000 ⁸ (2017)	22 354 417	MoEMR

Surya Hemat Energi [LTSHE])						
Social Assistance for Improving Productivity of Poor People through improving housing and its public facilities (Rahabilitasi Rumah Tidak Layak Huni [RS-RTLH])	Poorest of poor households (PKH recipients) who have poor-quality houses and public facilities (water sanitation, personal hygiene facilities, etc.)	Cash transfer for improving housing conditions and sanitation facilities (sum depends on the condition)	1 000 households and 710 households in border areas, underdeveloped regions, isolated areas and outer islands ¹⁰ (2017)	27 950 000 000 ⁸ (2017)	2 124 829	MoSA
Stimulus Assistance for Housing (Bantuan Stimulan Perumahan Swadaya [BSPS])	Individual who do not have a house with minimum wage in provincial level	Assistance fund or raw materials for building or improving house	110 000 houses (2017) ¹⁴	1 837 050 000 000 ⁸ (2017)	139 657 139	Ministry of Public Works and Public Housing (MoPWPH)
Liquidity Facility for Housing Mortgage (Fasilitas Likuiditas Pembiayaan Perumahan [FLPP])	Husband and wife workers (formal or informal) whose joint income is maximum IDR 4 000 000 to IDR 7 000 000 per month		120 000 ¹⁴ (2017)	3 100 000 000 000 ⁸ (2017)	235 669 758	MoPWPH
Subsidy for Bank Interest of Housing Mortgage (Subsidi Selisih Bunga [SSB])	Husband and wife workers (formal or informal) whose joint income is maximum IDR 4 000 000 to IDR 7 000 000 per month	5% of bank Interest for mortgage	225 000 ¹⁴ (2017)	3 702 600 000 000 ⁸ (2017)	281 480 918	MoPWPH
Subsidy for Mortgage Down Payment (Subsidi Bantuan Uang Muka [SBUM])	Husband and wife workers (formal or informal) whose joint income is maximum IDR 4 000 000 to IDR 7 000 000 per month	IDR 4 000 000 per person	550 000 ¹⁴ (2017)	1 112 000 000 000 ⁸ (2017)	84 537 023	MoPWPH
Subsidy for	Farmers who have fewer than	3.6 million t urea,	Ministry of Agriculture	31 153 400 000 000 ¹⁵ (2017)	2 368 359 434	MoA

fertiliser	2 km ² of rice fields	800 000 t SP-36, 1 million t ZA and 895 000 t organic fertiliser per year at 50% to 75% lower than market price	(MoA) did not do any recapitulations on number of beneficiaries				
Assistance for premium insurance for rice farmers (Bantuan Premi Asuransi Usaha Tani Padi [AUTP])	Farmers who have fewer than 2 km ² of rice fields	Premium of insurance, IDR 144 000 per km ² per planting season (72% from total premium)	500 000 ¹⁵ (2017)	147 360 000 000 ⁸ (2017)	11 202 676	MoA	
Assistance for premium insurance for cow farmers (Bantuan Premi Asuransi Usaha Ternak Sapi [AUTS])	Cow farmers who have small-scale enterprises	Premium of insurance, IDR 160 000 per km ² per planting season (80% of total premium)	-	20 840 000 000 ⁸ (2017)	1 584 309	MoA	
Assistance for premium insurance for fishermen (Bantuan Premi Asuransi Nelayan [BPAN])	Small-scale and traditional fishermen who are under age 65	Premium of insurance, IDR 175 000 per person per year	500 000 (2017)	87 500 000 000 (2017)	6 651 969	Ministry of Ocean and Fisheries Affairs	
Assistance for premium insurance for small fish farmers (Bantuan Premi Asuransi bagi Pembudidaya Ikan Kecil [BPAPIK])	Fish farmers who have small-scale enterprises	Premium of insurance, IDR 450 000 per person per year	300 000 (2017)	135 000 000 000 ¹⁶ (2017)	10 263 038	Ministry of Ocean and Fisheries Affairs	
Skills development for Sidoarjo mud flow disaster	Sidoarjo mud flow disaster victims in 12 villages (those who lost jobs, and children unable to study or	Skills development training	250 (2015)	757 812 650 (2015)	54 934	Badan Penanggulangan Lumpur Sidoarjo (BPLS; Sidoarjo Mud Flow	

victims	who suffer from trauma)	and education				Administering Body)
Assistance for Poktan (farmers groups)		Skills development training and education	10 380 380 ¹⁵ farmers groups (2015)	11 779 807 008 651 ¹⁵ (2015)	853 918 594	MoA
Vocational Village (Desa Vokasi)		Skills development training and education	11 322 ¹¹ (2014)	18 115 200 000 ¹¹ (2014)	1 313 171	MoEC
Life Skills Education Programme: Assistance for Community Life Skills Programme (ProgrammeKecakapan Kerja Unggulan [PKKU])	Individuals aged 16-40 who want to be trained and who possess a Smart Card (KIP) or social welfare card (KKS)	IDR 10 000 000 per person per year	49 500 ¹¹ (2017)	127 620 000 000 ⁸ (2017)	9 701 992	MoEC
Life Skills Education Programme: Community Entrepreneurship Education (ProgrammeKecakapan Wirausaha Unggulan [PKWU])	Entrepreneurs aged 16-40 who possess a Smart Card (KIP) or social welfare card (KKS)	IDR 10 000 000 per person per year	39 500 ¹¹ (2017)	116 250 000 000 ⁸ (2017)	8 837 616	MoEC

Notes: Table summarises information related to the social protection system described in this chapter. .. = missing value or not available. - = absolute zero. kWh = kilowatt hour. LPG = liquid petroleum gas. SP-36 = superphosphate, 36% P₂O₅. t = tonne. VA = volt-ampere. ZA = Zwavelzure ammoniak [ammonium sulfate].

Source: This information was collected through a review of annual reports, as well as consultations with line ministries. Numbered sources: 1) BPJS Kesehatan (2016); 2) BPJS Labour Annual Report 2015; 3) BPJS Labour Semester 1 Report 2016; 4) DJSN 2017; 5) PT ASABRI Annual Report 2015; 6) PT ASABRI Annual Report 2016; 7) PT TASPEN Annual Report 2015; 8) consultation with the MoF; 9) consultation with the CMoHDC; 10) consultation with the MoSA; 11) consultation with the MoED; 12) consultation with the MoRA; 13) consultation with the MoRTHE; 14) consultation with the MoPWP; 15) consultation with the MoA; 16) consultation with the Ministry of Ocean and Fisheries; 17) consultation with the MoEMR.

Chapter 3. Effectiveness of social protection

A selection of the programmes identified in Chapter 2 have emerged as central to Indonesia's strategies for reducing poverty and inequality and promoting inclusive growth. This chapter examines the effectiveness of these key programmes: Rastra (formerly Raskin; Rice for the Poor), Programme Indonesia Pintar (PIP; Assistance for Poor Students), Penerima Bayaran Iuran (PBI; Social Health Insurance for the Poor and Near Poor) and Program Keluarga Harapan (PKH; Family of Hope Programme). It analyses their impact across four dimensions: coverage, adequacy, equity and efficiency. This analysis is intended to inform the evolution of these programmes and support appropriate allocation of resources across the social protection system. The chapter concludes with a gender-based analysis of the pension system.

The Government of Indonesia (GoI) has placed social protection at the centre of its inclusive growth strategy. Social assistance represents the most direct means by which the GoI can address persistent levels of poverty and high inequality. However, the extent to which it fulfils this potential depends on the extent to which programmes reach the intended beneficiaries, especially in the constrained financing environment discussed in Chapter 4.

In recent years, it has scaled up four key non-contributory programmes outlined in Chapter 2: Rastra, PKH, PBI and PIP. This chapter provides in-depth analysis of these programmes' coverage, adequacy, equity and efficiency, shedding light on their potential to alleviate poverty, reduce inequality and protect vulnerable populations. A final section focuses on social insurance and vulnerability in old age through a gender lens.

Rice for the Poor: Rastra

Rastra (formerly Raskin) emerged as a response to national food emergency linked to the 1997 Asian Financial Crisis. The subsidy to purchase rice, Indonesia's food staple, was subsequently expanded and integrated into the national social protection system. In its non-crisis function, the subsidy aims to reduce low-income household food spending and provide poor and near-poor households with access to rice (CMoHDC, 2017^[1]), strengthen food resilience and alleviate poverty (Rahayu, 2014^[2]).

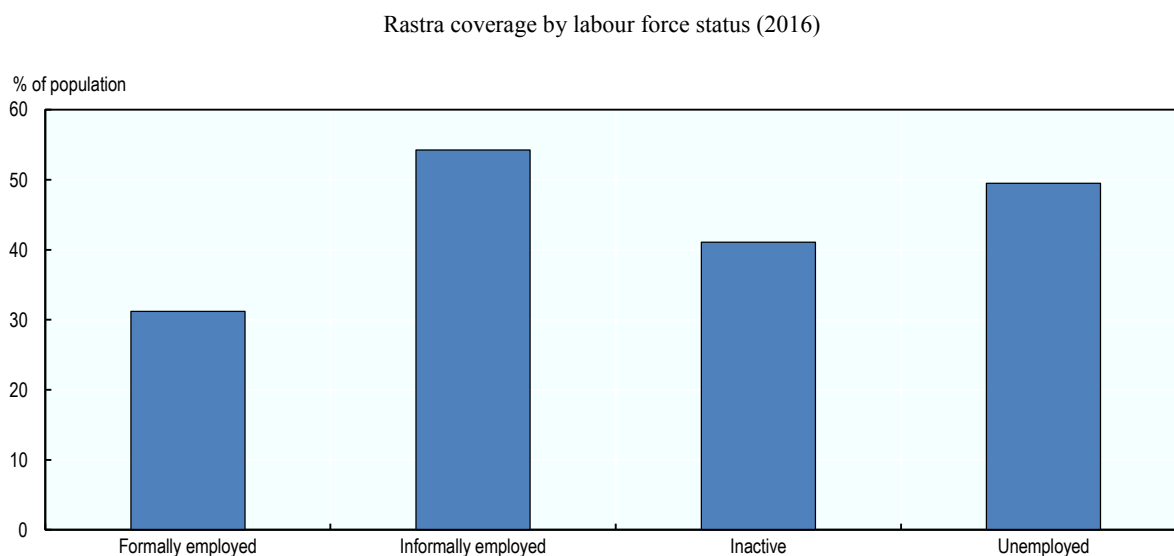
In 2017, rice had a market price of IDR 9 220 (Indonesian rupiah) per kg. By contrast, Rastra households paid a fixed rate of IDR 1 600 per kg, nearly 80% below market price. The GoI allocated approximately IDR 19 trillion to cover the difference between market and subsidised price for fiscal year 2017/18. Between 2011 and 2016, Rastra expenditure amounted to 37.3% of government spending on its main social assistance programmes (World Bank, 2017^[3]). Although substantial, this marks a notable decrease, compared with preceding years, as the programme is being integrated into the Bantuan Pangan Non Tunai programme (BPNT; Non-cash Food Assistance) (see Chapter 2 overview.)

Coverage of Rastra

According to the 2016 Survei Sosial Ekonomi Nasional (SUSENAS; National Socio-Economic Survey), an estimated 44.6% of the population reported being covered by Rastra, making it the largest social assistance programme in Indonesia by far (Statistics Indonesia, 2016^[4]). Covering nearly half the population is a remarkable feat for any social programme but notably so for a country with a population of 261 million and large geographic disparity. As such, Rastra delivery procedures are complex and contend with significant targeting challenges.

According to 2016 SUSENAS data, Rastra covers a larger proportion of the informally employed (54.3%) and unemployed (49.5%), compared with the formally employed (31.2%). It also reaches 41.1% of those excluded from Indonesia's labour force (Figure 3.1).

Figure 3.1. A majority of informal and about half of unemployed individuals benefits from Rastra

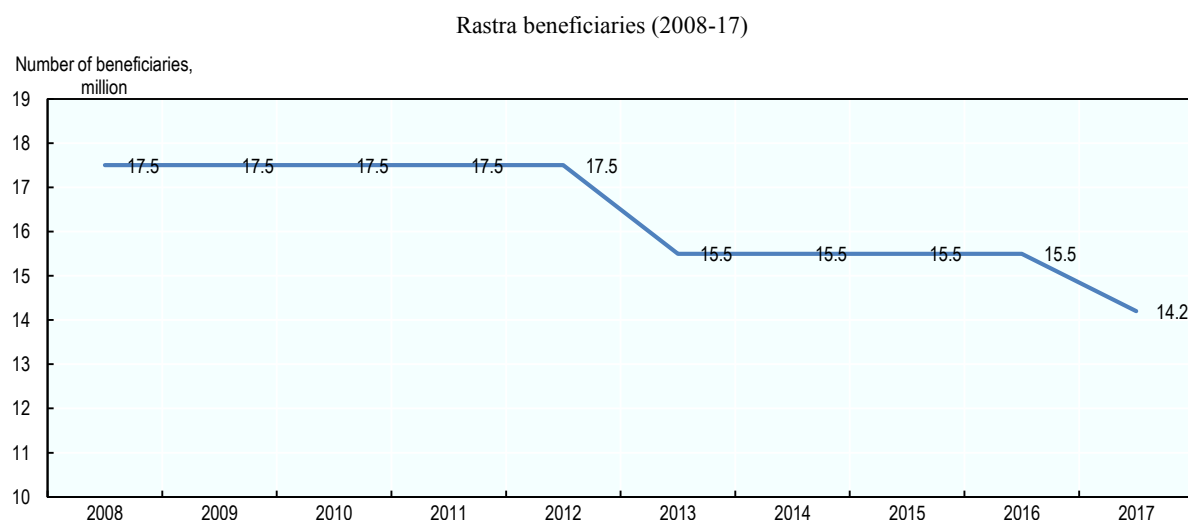


Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Targeting performance

Rastra aims to cover all households in the bottom 40% of households included in the Unified Database (UDB (CMoHDC, 2017_[1])). According to Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K; National Team for the Acceleration of Poverty Reduction), 15.5 million households were eligible for Rastra in 2013. By 2017, eligible households had declined to 14.2 million, largely due to budget reallocations to a successor programme, BPNT (Figure 3.2).

Figure 3.2. Rastra coverage is declining



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Adequacy of Rastra

Analysis of the adequacy of the Rastra benefit compares the subsidy's generosity against a number of socio-economic indicators, such as food adequacy, the extreme (or food) poverty line (EPL), the national overall poverty line (OPL), the average household consumption threshold and the poverty gap.

On average, per capita monthly rice consumption stands at 9.5 kg (38 kg for a four-member household). By distributing 15 kg of rice to each household, Rastra contributed 39.5% to households' total rice consumption, equivalent to IDR 108 975 per month or IDR 1 307 700 per year (2016 prices) per household. Table 3.1 summarises benefit values between 2014 and 2016 (Rahayu, 2014_[2]).

Table 3.1. Rastra subsidies represent an increasing burden on government

Subsidy amount, GoI purchase price and household purchase price for rice (2014-16)

	2014	2015	2016
Subsidy (IDR/kg)	6 447	6 725	7 265
Government purchase price (IDR/kg)	8 047	8 325	8 865
Household purchase price (IDR/kg)	1 600	1 600	1 600

Source: CMoHDC (2016).

Between 2014 and 2016, the benefit value decreased across multiple reference indicators, pointing to a lower level of sufficiency. In 2016, the benefit accounted for 47.3% of average rice consumption expenditure per capita but substantially lower shares of the various subsistence levels: 9.6% of the EPL, 7.7% of the OPL and 2.9% of the average household consumption per capita (Table 3.2).

Table 3.2. Rastra benefits represent a decreasing share of living standards

Rastra benefits as a share of selected living standards indicators (2014-16)

Year	Rastra benefits per capita relative to average rice consumption per capita (monthly) (%)	Rastra benefits per capita relative to EPL (%)	Rastra benefits per capita relative to OPL (%)	Rastra benefits per capita relative to average household consumption per capita (%)
2014	50.1	11.2	9.0	3.5
2015	45.4	10.3	8.2	3.1
2016	47.3	9.6	7.7	2.9

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Rastra suffers from severe implementation shortcomings. There are, for instance, substantial disparities between the value of the benefit reported by beneficiaries (reported in the SUSENAS) and the total amount purchased by the government for distribution (World Bank, 2017_[3]). Survey respondents reported that, on average, the subsidised rate for rice in 2016 was IDR 2 054/kg, in lieu of the promised IDR 1 600/kg. A single household ought to have received rice to a total value of IDR 1 307 700 in 2016. Survey data show that the average household received IDR 435 900 (World Bank, 2017_[3]).¹

Inclusion error is also a concern that has been attributed to community-level decisions on programme implementation. Using SUSENAS data, TNP2K-Mahkota estimates that in 2017, for example, Rastra benefited almost double the number of households on its registration rolls (15.6 million registered households versus 28.6 million beneficiary households) (TNP2K, 2018^[5]). Discrepancies in the number of targeted versus actual beneficiaries and rice rates are reportedly due to community leaders reduce perceived inequality in distribution directives (TNP2K, 2018^[5]; TNP2K, 2015^[6]; Mawardi et al., 2007^[7]).

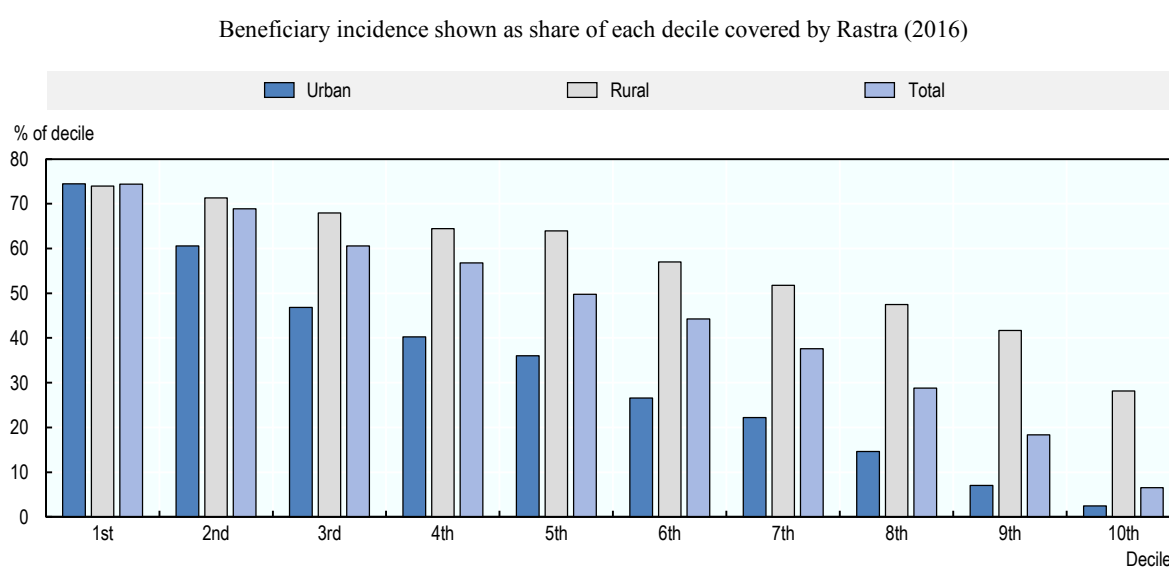
Despite widely reported issues with inclusion error, evaluations of programme impact on nutrient consumption of poor households are largely positive. In 2012, it was estimated that the savings associated with Rastra enrolment helped beneficiary households to increase expenditure on food with higher nutritive value and health services (Pangaribowo, 2012^[8]). Kustianingrum and Terawaki (2018^[9]) similarly find that Rastra improves nutritious intake for poor households, by an average of 5.3 kcal per IDR 100 of subsidy.

Equity of Rastra

Beneficiary incidence and distribution

Figure 3.3 shows the beneficiary incidence with the percentage of households covered in each consumption decile. In rural areas, the programme covers over 60% of the bottom five deciles. The programme demonstrates higher coverage of rural households than urban and of poorer deciles than wealthier. Coverage is wide, but inclusion errors are quite important under Rastra, particularly in rural areas. Coverage of wealthier deciles is significantly higher in rural than in urban areas: 27% of the wealthiest decile in rural areas benefits, compared with 2.4% in urban areas (Figure 3.3).

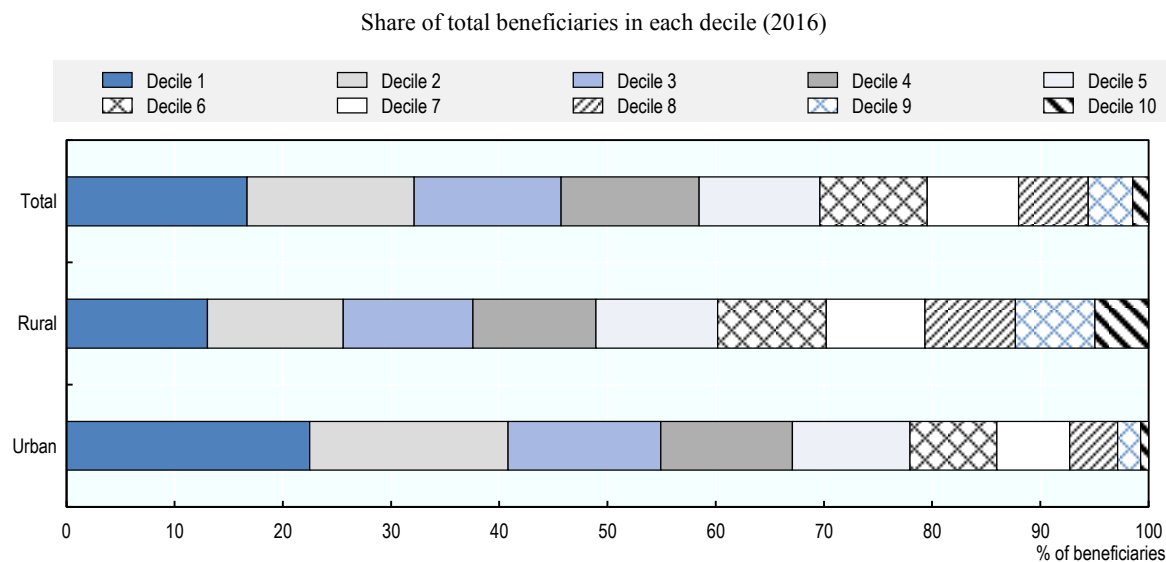
Figure 3.3. Rastra coverage is wide but inclusion errors are prominent in urban areas



Source: Authors' calculations, based on Statistics Indonesia (2016^[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 3.4 depicts the distribution of beneficiaries across expenditure deciles. While a higher share of beneficiaries belong to poorer deciles than wealthier deciles, a substantial share of beneficiaries belong to the top seven deciles. The share of poor beneficiaries is higher in urban areas, whereas the distribution is more uniform across deciles in rural areas. In rural areas, households in the lowest decile are 2.6 times more likely to receive the grant than those in the richest decile, compared with 32.1 times more likely in urban areas. The lowest three deciles make up 45.7% of all beneficiaries.

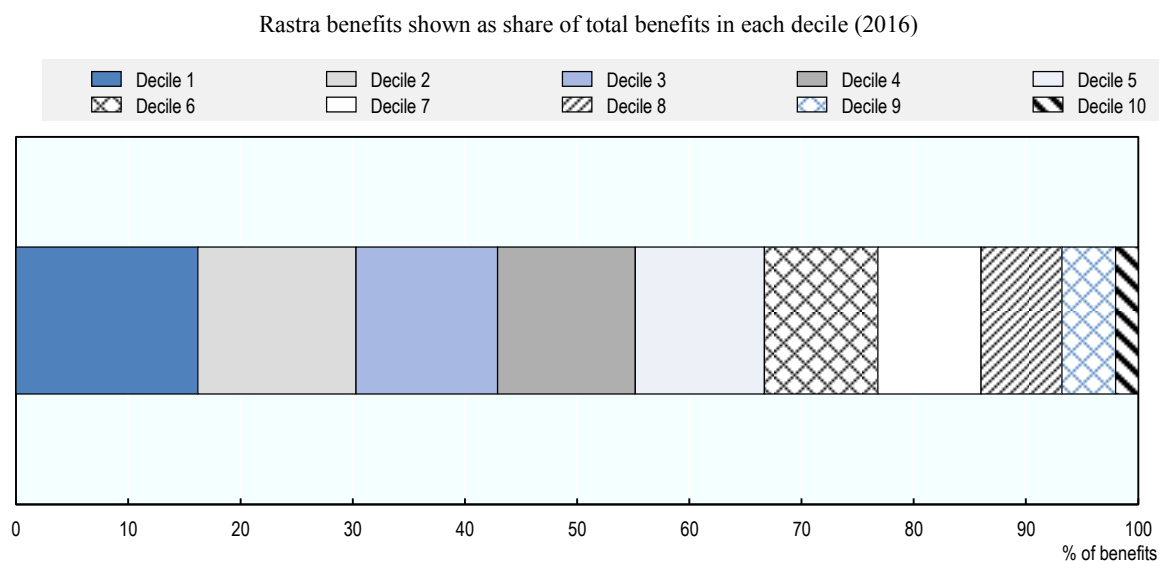
Figure 3.4. Rastra beneficiary distribution displays important differences across rural and urban areas



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Benefit incidence and distribution

Figure 3.5 depicts the percentage of total benefits received by expenditure decile. While the tenth decile receives 2% of benefits, many deciles receive significant payouts. The bottom two deciles receive about a third of all benefits disbursed; the poorest decile receives 16% of total Rastra benefits.

Figure 3.5. About one third of Rastra benefits are received by poorest quintile

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Efficiency of Rastra

Impact studies of Rastra and its predecessor, Raskin, on food consumption show several positive results. A 2005 study found that the subsidy increased household consumption by 4.4%, while reducing the likelihood of falling below the overall poverty line by 3.8% (Sumarto, Suryahadi and Widyanti, 2004_[10]). Another study showed that the programme helps beneficiaries smooth their food consumption and build resilience against economic and environmental shocks (Pangaribowo, 2012_[11]).

Rastra cost the GoI nearly IDR 16.9 trillion, or 0.014% of gross domestic product (GDP), in 2016 and generated a 7.7% poverty headcount reduction, an 8.2% extreme poverty headcount reduction, a 11.9% poverty gap reduction and a 21.8% extreme poverty gap reduction (Table 3.3).

Table 3.3. Rastra significantly reduces poverty

Rastra cost and poverty impacts (2016)

Disbursed amount (IDR trillion and % of GDP)	Poverty headcount reduction	Extreme poverty headcount reduction	Poverty gap reduction (IDN million)	Extreme poverty gap reduction (IDN million)
17	2 340 996	745 422	2 829 571	980 854
0.014%	7.71%	8.15%	11.89%	21.76%

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

The programme's efficiency is calculated as the ratio of the poverty gap reduction to the programme cost, presented in percentages. The analysis depicts the change in the poverty gap for every IDR 100 spent. With a poverty-reducing efficiency of approximately 16.8% (i.e. for every IDR 100 spent, the poverty gap reduces by IDR 16.76) and an extreme

poverty-reducing efficiency of 5.8%, Rastra demonstrates the lowest poverty reduction cost efficiency across the four programmes analysed in this study.

Assistance for Poor Students: Programme Indonesia Pintar (PIP)

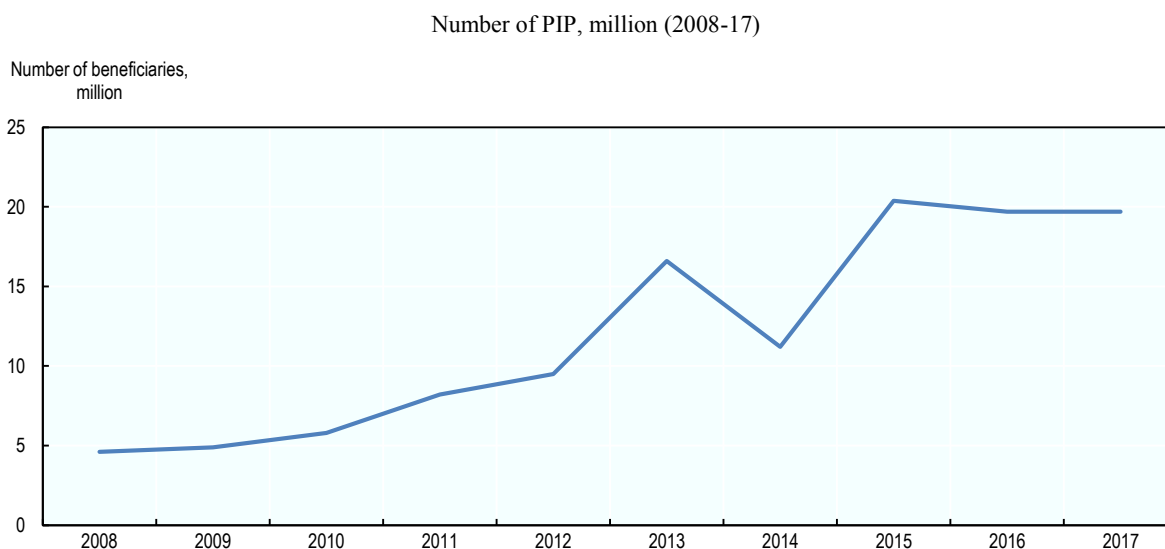
The GoI's original Bantuan Siswa Miskin (BSM; Cash Assistance to Poor Students) programme was developed in 2008 to complement the Bantuan Operasional Sekolah (School Operational Assistance) programme, a school fee waiver for poor children. BSM covers additional costs, such as books, uniforms, shoes or transport cost (TNP2K, 2014_[12]). The combined programmes address supply-side financial constraints and demand-side financial barriers to education to raise attendance (Larasati and Howell, 2014_[13]). Recently, BSM was redesigned and implemented as PIP to include children attending informal institutions.

The BSM has undergone many reforms since 2008, largely due to its moderate performance. Based on a 2012 TNP2K study, targeting accuracy was low and suffered from severe inclusion and exclusion errors: many non-poor households received BSM, while some children from poor households did not. The study also confirmed timing problems, especially disbursement delays (Larasati and Howell, 2014_[13]).

Coverage of PIP

PIP coverage has significantly increased since 2013 for two main reasons. First, in 2012, the GoI began using the UDB to target beneficiaries. The following years (2013-16) saw a significant increase in beneficiaries, from an annual average of 6.6 million in 2008-12 to 16.9 million in 2013-16 (World Bank, 2017_[3]). With this change and a general expansion of the programme, PIP significantly boosted coverage and improved performance. Second, the rise in recipients also reflects a 2015 redesign to include informal education facilities, with a corresponding peak in coverage of 20 million (Figure 3.6). Since 2015, beneficiary numbers have stagnated.

Figure 3.6. PIP coverage has risen strongly but is now steady



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Adequacy of PIP

Analysis of the adequacy of PIP benefits compares their generosity against multiple living standards indicators, such as education costs, the EPL, the OPL, the average household consumption threshold and the poverty gap. Table 3.4 presents benefits by education level before and after 2013.

Table 3.4. All PIP benefits increased after 2013

PIP benefits by education level (before and after 2013)

Category	Before 2013	After 2013
Elementary school	IDR 380 000	IDR 450 000
Junior high school	IDR 550 000	IDR 750 000
Senior high school	IDR 750 000	IDR 1 000 000

Source: World Bank (2017_[3]).

Overall, benefit levels increased after 2013 due to the dissolution of Bahan Bakar Minyak (fuel subsidies). Senior high school students received the largest transfer, followed by junior high school and elementary school students, corresponding to increasing costs associated with higher levels of education (Larasati and Howell, 2014_[13]). Table 3.5 shows the value of benefits students receive relative to various subsistence standards.

Table 3.5. PIP benefits are relatively large

PIP benefit by education level as a share of selected living standards indicators (2016)

Category	PIP benefits per capita relative to EPL (%)	PIP benefits per capita relative to OPL (%)	PIP benefits per capita relative to average household consumption per capita (%)
Average	26.2	21.0	7.9
Elementary school	17.2	13.7	5.1
Junior high school	26.2	20.9	7.9
Senior high school	35.5	28.4	10.6

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

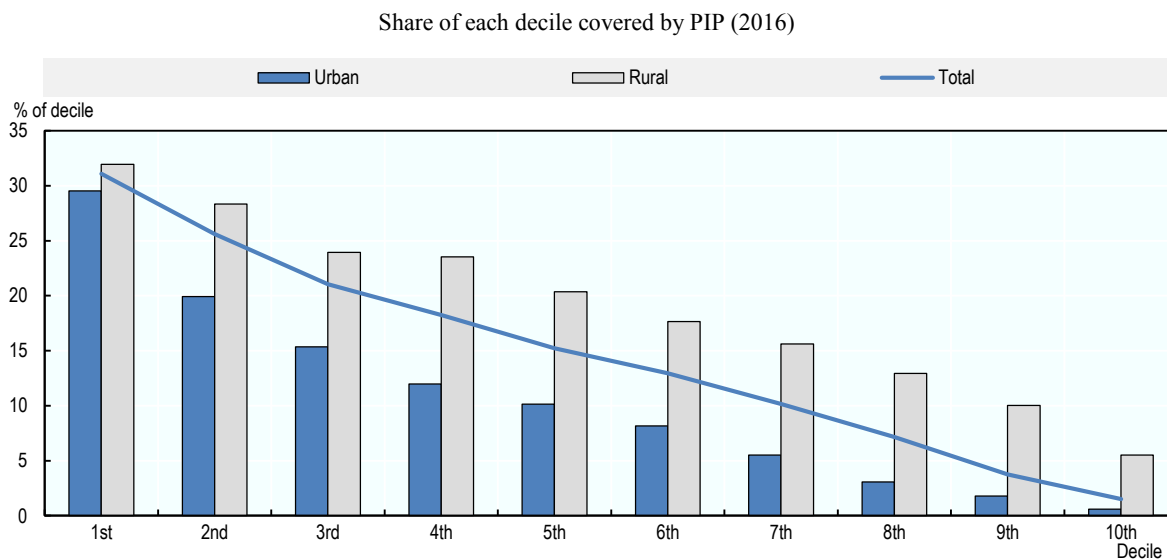
In 2016, the average PIP benefit was equivalent to 26.2% of the per capita EPL, 21.0% of the per capita OPL and 7.9% of the average household consumption per capita. Benefits provided to senior high school students were the most generous of the three categories, representing 35.5% of the per capita EPL and 28.4% of the per capita OPL.

Equity of PIP

Beneficiary incidence and distribution

Like Rastra, PIP is programmed to benefit all households in the bottom two quintiles listed in the UDB with school-age children. PIP covers almost one-third of the bottom 40% of households with school-age children (Figure 3.7). However, coverage among non-targeted households is substantial. Similar to Rastra, rural households with children are more likely to be covered, indicating that social assistance programmes focus strongly on rural populations, which represent 63% of the total population. PIP covers 31% of the poorest decile.

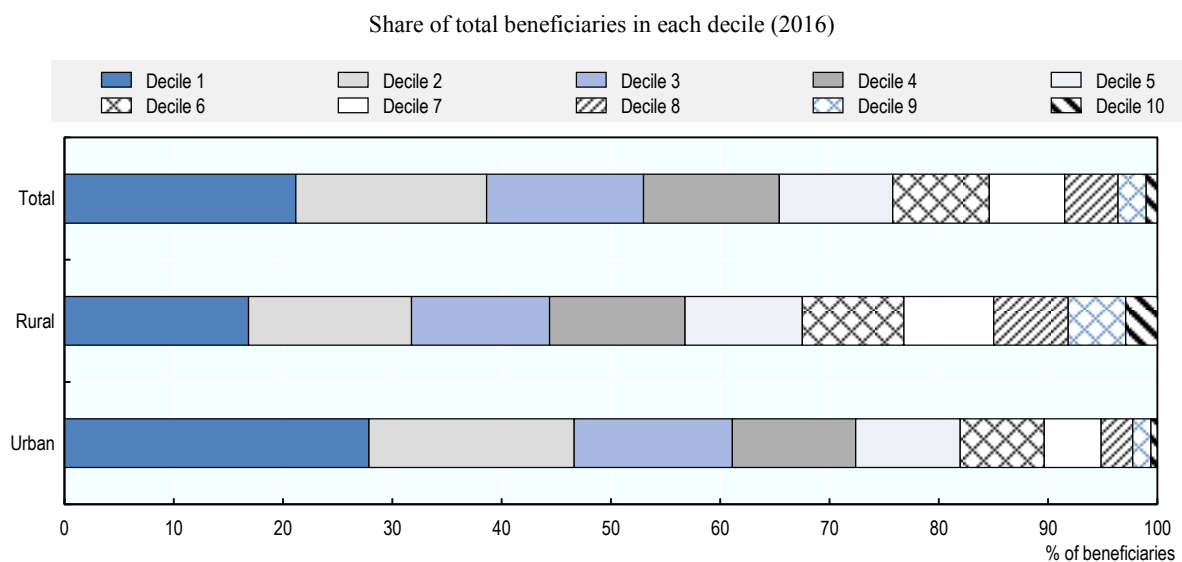
Figure 3.7. PIP beneficiary incidence is pro-poor and much larger in rural areas



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 3.8 shows the total number of beneficiaries distributed by expenditure decile. This indicator reveals better targeting of urban than rural poor students: over 28% of urban PIP recipients are in the poorest expenditure decile, compared with 17% in rural areas.

Figure 3.8. PIP beneficiaries are better targeted in urban areas

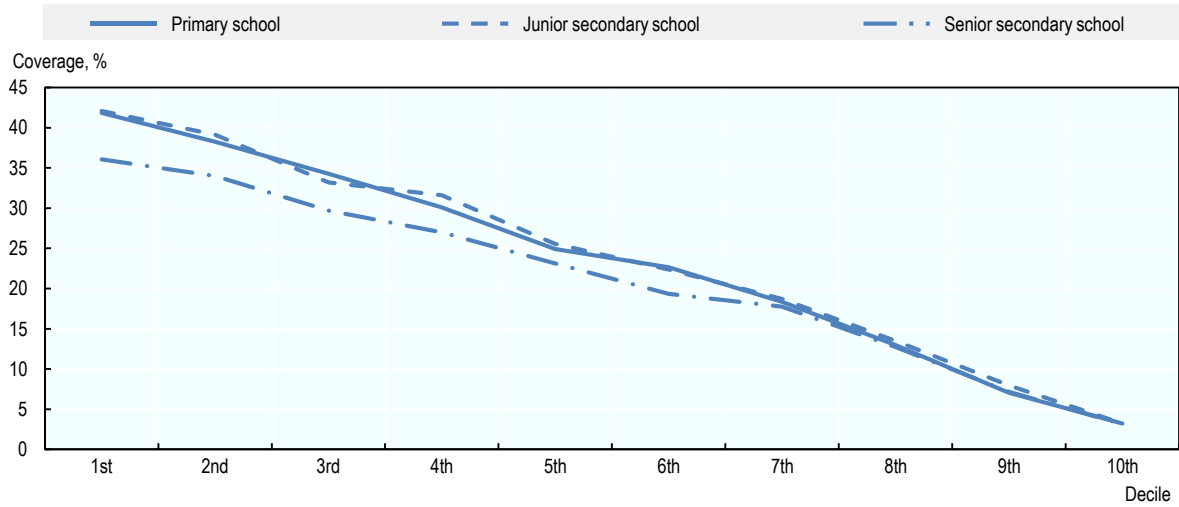


Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 3.9 illustrates coverage by decile for each education level. Coverage of senior high school student benefits was somewhat lower than that of other categories among the lower half of the distribution, reflecting lower enrolment rates.

Figure 3.9. PIP incidence by type of benefit

Share of each decile covered by PIP by education level (2016)



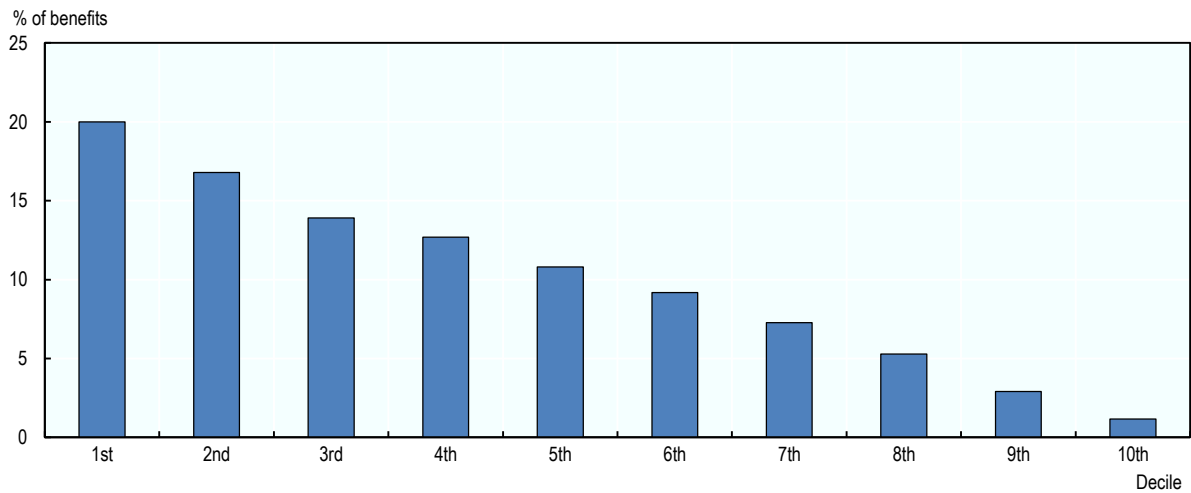
Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Benefit distribution

Figure 3.10 shows benefit distribution by expenditure decile. Households in the poorest three deciles receive approximately half of all PIP benefits.

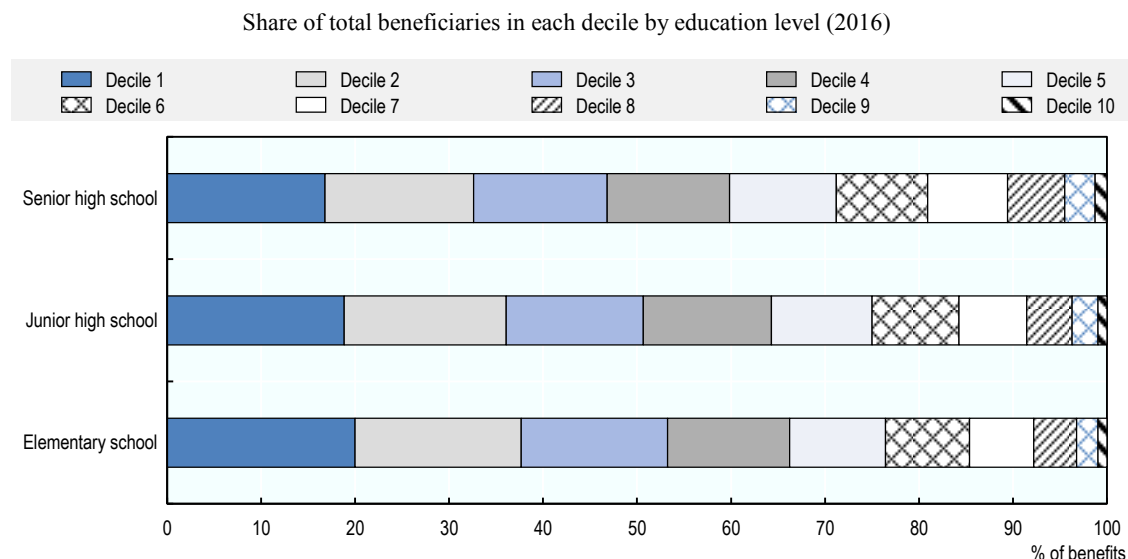
Figure 3.10. The PIP benefit distribution is pro-poor

Share of total benefits in each decile (2016)



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 3.11 shows that the senior high school benefits are more skewed towards the richer quintiles than the elementary and junior high school benefits.

Figure 3.11. PIP benefit distribution varies across education levels

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Efficiency of PIP

PIP cost the GoI 0.006% of GDP in 2016 and generated a 4.6% poverty headcount reduction, 1.0% extreme poverty headcount reduction, 6.6% poverty gap reduction and a 13.7% extreme poverty gap reduction (Table 3.6).

Table 3.6. PIP is a cost-efficient tool to alleviate poverty

Disbursed amount (IDR trillion and % of GDP)	Poverty headcount reduction	Extreme poverty headcount reduction	Poverty gap reduction (IDR million)	Extreme poverty gap reduction (IDR million)
7	1 354 955	85 981	1 489 081	559 194
0.01%	4.61%	1.01%	6.63%	13.68%

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

PIP's poverty-reducing efficiency, measured by the change in the poverty gap for every IDR 100 spent on the programme, is 20%; its extreme poverty-reducing efficiency is 7.5%. PIP is thus more cost efficient than Rastra for poverty alleviation purposes.

Social Health Insurance for the Poor and Near Poor: Penerima Bayaran Iuran (PBI)

PBI was introduced in 2014 as a mandatory contributory scheme replacing Jaskemas, a tax-funded health care fee-waiver programme. It is designed to respond to the high level of out-of-pocket (OOP) expenditure and its impact on access to health services by the poor (WHO, 2017_[14]). It is a scheme for poor and near-poor members of the Jaminan Kesehatan Nasional (JKN; the national health insurance programme) to protect them from health care-related financial risks and commitments. As the GoI pays the premium for the

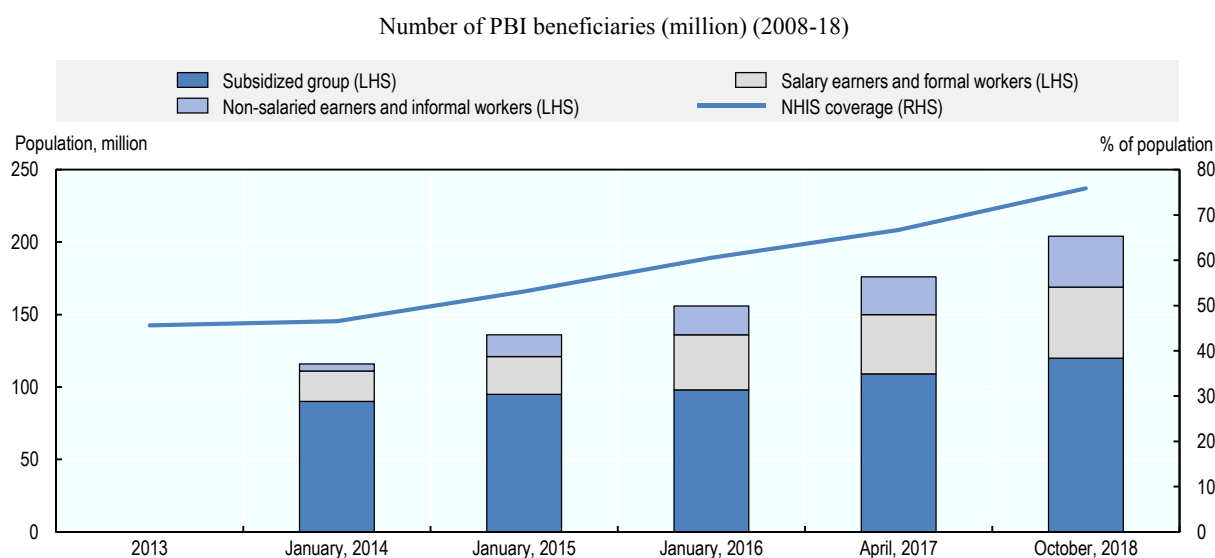
poor and near poor, PBI can be considered a social assistance programme for those households.

Coverage of PBI

In 2014, PBI covered 86.4 million people, of which 21.8 million were poor (Ernada, 2015_[15]). Beneficiary numbers began to rise steadily in 2016 as a result of GoI efforts to achieve universal health coverage, reaching 92.4 million in 2017 (Figure 3.12).

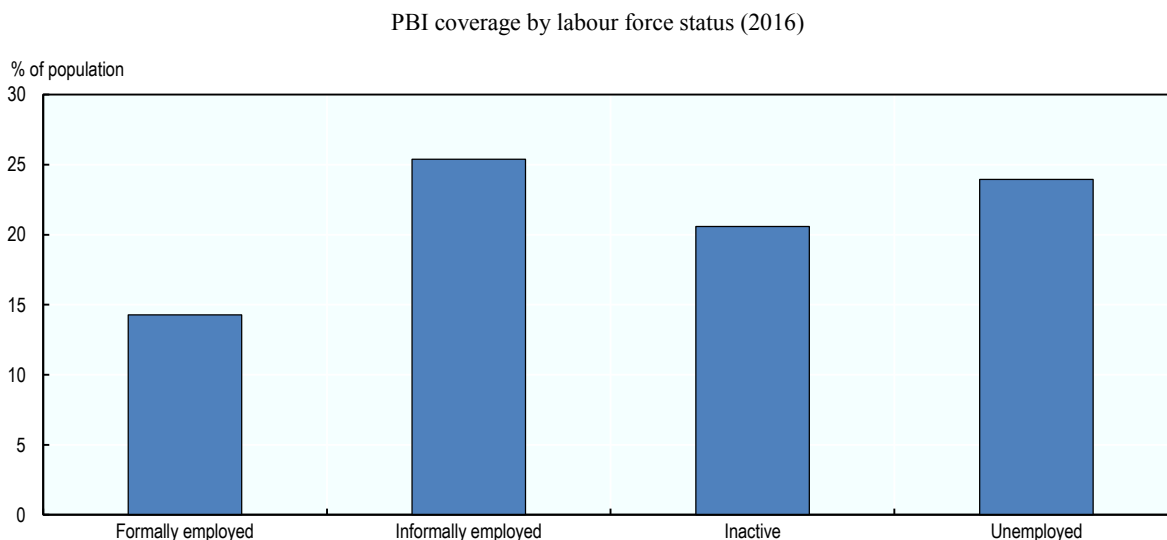
PBI is commonly criticised for poor targeting. PBI mostly consists of Jamkesmas members; however, Jamkesmas applied broader eligibility criteria than PBI (World Bank, 2017_[3]). *A fortiori*, while PBI targeting uses the poorest 40% of households listed in the UDB, Ministry of Health (MoH) staff determined eligibility for its predecessor scheme locally, resulting in vast geographical differences, as well as serious inclusion and exclusion errors (World Bank, 2017_[3]). Additionally, only 55% of those covered by PBI access the health services they need, raising concerns regarding awareness and insurance literacy in the target population.

Figure 3.12. PBI coverage is rising



Source: Agustina, R et al. (2019_[16]), “Universal health coverage in Indonesia: concept, progress, and challenges”, The Lancet.

The 2016 SUSENAS data indicate that PBI covers approximately 25.4% of the formally employed, 23.9% of the unemployed and 20.6% of those excluded from Indonesia’s labour force (Figure 3.13). It reaches a comparatively lower share of the formally employed (14.3%).

Figure 3.13. PBI covers around one-quarter of informal or unemployed individuals

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Adequacy of PBI

For this analysis, the benefit value of PBI is equal to the premium the GoI pays for eligible households. Analysis of the adequacy of PBI benefits compares their generosity against selected living standards indicators, such as food adequacy, the EPL, the OPL, the average health utilisation and the poverty gap.

Generosity of benefits

Presidential Decree No. 19 of 2016 capped the monthly PBI premium per person at IDR 19 225 (January 2014 to March 2016). In April 2016, it was raised to IDR 23 000. Under the non-contributory PBI scheme, beneficiaries can access primary health care at a third-class ward of a partnering public or private hospital. Table 3.7 presents the value of PBI benefits relative to various subsistence levels.

Table 3.7. PBI premiums are low

PBI premium as share of selected living standards indicators (2014-16)

Year	PBI benefits per capita relative to EPL (%)	PBI benefits per capita relative to OPL (%)	PBI benefits per capita relative to average household consumption per capita (%)
2014	7.9	6.4	2.5
2015	7.3	5.8	2.2
2016	8.1	6.5	2.4

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

The benefit value represents a very small share of the per capita OPL (8.1%), the EPL (6.5%) and the average per capita household consumption (2.4%) in 2016. However, it is important to note that, while the premium is very low for the majority of individuals

living in Java, it is far from affordable for residents of poor provinces, for instance the eastern provinces (Zen and Dita, 2018^[17]).

Although this analysis is based on the IDR 23 000 premium, Dewan Jaminan Sosial Nasional (DJSN; National Social Security Board) and various health financing experts have estimated a higher effective monthly cost: up to IDR 36 000 per person (Hidayat, 2015^[18]).

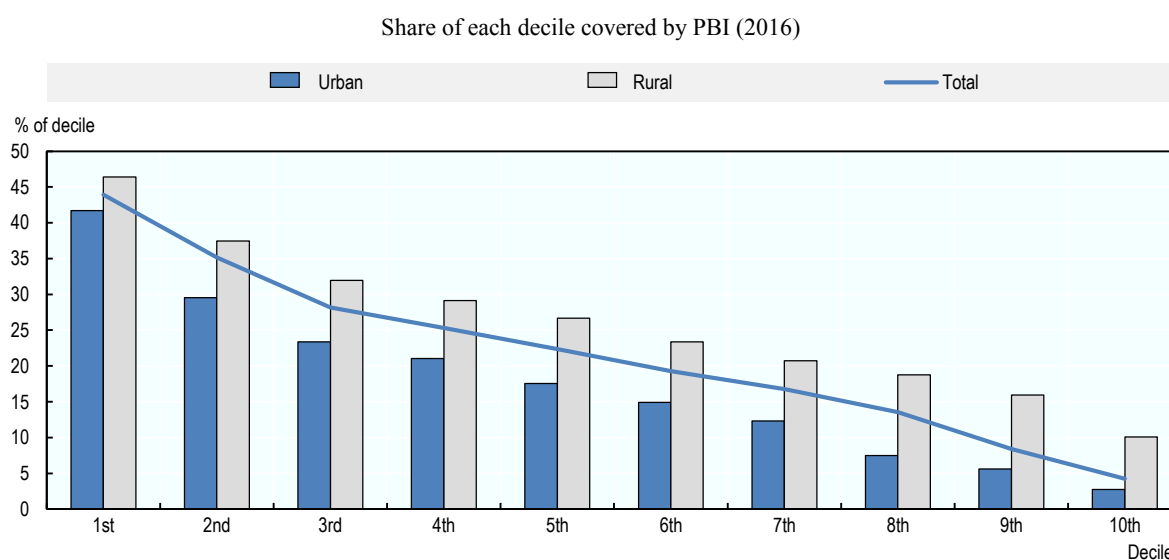
Equity of PBI

This section draws on 2016 SUSENAS data to analyse the beneficiary incidence and benefit distribution by decile.

Beneficiary incidence and distribution

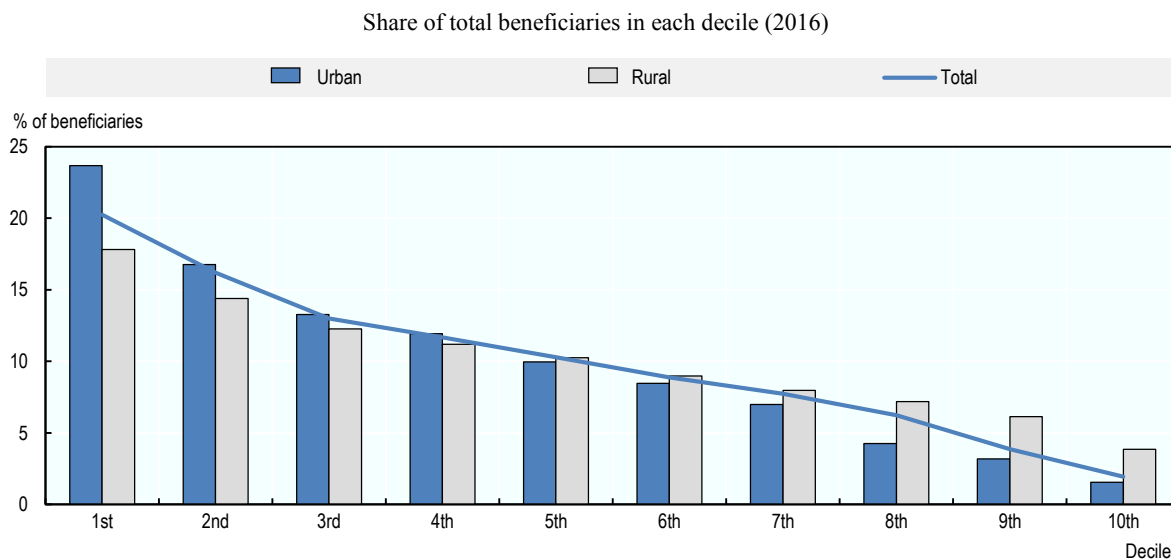
Nearly half (44%) of those in the poorest decile and 35% in the second decile received the PBI fee-waiver (Figure 3.14). Although the beneficiary incidence steadily declines for richer deciles, almost 22% of those in the fifth decile claimed benefits.

Figure 3.14. PBI beneficiary incidence is pro-poor



Source: Authors' calculations, based on Statistics Indonesia (2016^[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

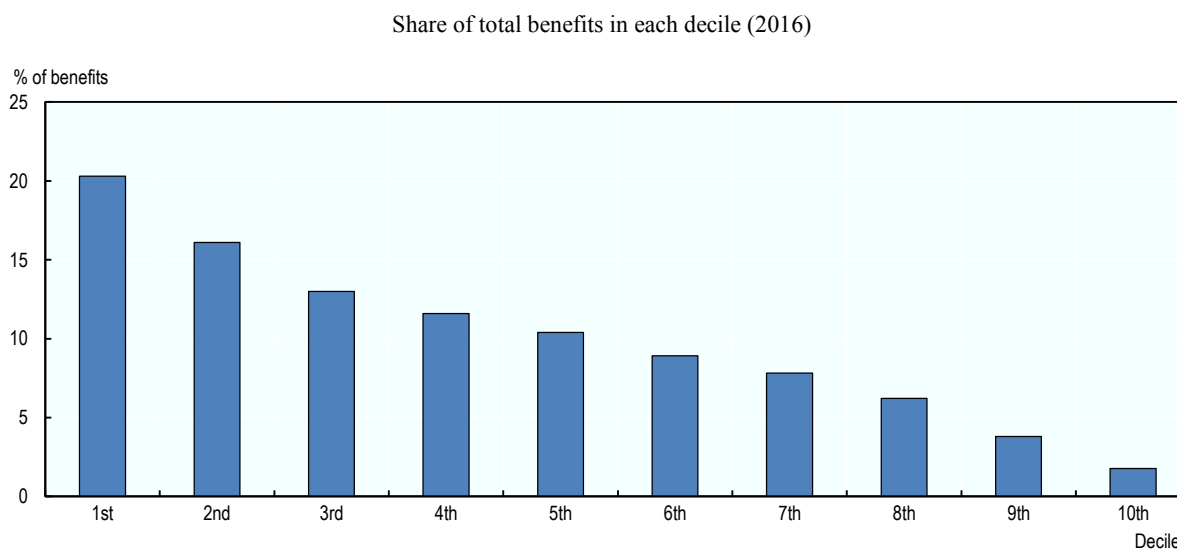
Urban PBI targeting is more pro-poor than rural targeting (Figure 3.15). The highest-to-lowest decile coverage ratio is 15.3 in urban areas and 4.6 in rural areas. This means that, in urban areas, the poorest households are 15 times more often covered than the richest, expressing a high degree of pro-poor coverage.

Figure 3.15. PBI beneficiary distribution is more pro-poor in urban areas

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Benefit distribution

Figure 3.16 shows the benefits distribution by decile. Households in the bottom two deciles receive 36% of all benefits, while those in the richest receive 2% (Figure 3.16).

Figure 3.16. PBI benefit distribution

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Efficiency of PBI

PBI cost IDR 12.8 trillion, or approximately 0.01% of GDP, in 2016 and generated a 7.1% poverty reduction, 6.9% extreme poverty headcount reduction, 11.1% poverty gap reduction and 21.1% extreme poverty gap reduction. For a marginally lower cost, the programme generates nearly as much poverty and extreme poverty reduction as Rastra.

Despite the increase in number of beneficiaries, their outpatient and inpatient utilisation rates have only grown three and two percentage points, respectively (World Bank, 2017^[3]). Barriers to accessing hospitals, such as travelling long distances, largely explain the low growth in utilisation. Considering this, the GoI cannot effectively increase utilisation rates by providing benefits alone but must also simultaneous ease supply-side barriers (WHO, 2017^[14]).

There are two fundamental constraints to accessing full benefits: geographically inaccessible or distant health care centres (Box 3.1); and poorly staffed, equipped and prepared health care facilities. Zen and Dita (2018^[17]) illustrate the infrastructure gap by comparing the 2014 supply side and MoH goals for 2019. They show 233 districts had the minimum of one accredited public general hospital, compared with the 477 target; 350 sub-districts had at least one accredited Puskesmas (Community Health Centre), compared with the 5 600 target; and less than 70% of these centres were deemed in good condition and had access to tap water (Zen and Dita, 2018^[17]).

Box 3.1. Adverse selection and barriers to JKN enrolment

The Indonesia Family Life Survey Wave 5 (IFLS-5)² can be used to estimate a model of the relationship between supply-side issues (in particular, travel time to the nearest hospital) and adverse selection issues (e.g. individuals enrolling when they are sick). The first three columns of Table 3.8 show results using only travel time to the nearest public hospital as an explanatory variable. Columns 4-6 show results, controlling for per capita expenditure, sex, education, food share of household expenditure, self-reported health and disability/chronic disease status. Columns 1 and 4 show results for the full sample of informal workers. Columns 2 and 5 show results for the sub-sample of the poorest 40% of the sample. Columns 3 and 6 show results for the richest 60% of the sample.

Table 3.8. Supply side and adverse selection are factors in JKN enrolment for informal workers

Odds ratio of JKN enrolment of informal workers by travel time to nearest public hospital and health status

		(1)	(2)	(3)	(4)	(5)	(6)
					Individual has JKN		
Nearest public hospital	15-30 mins	0.92**	0.97	0.87***	0.94*	0.97	0.91*
		(0.03)	(0.05)	(0.04)	(0.03)	(0.06)	(0.04)
	30-60 mins	0.80***	0.79***	0.79***	0.81***	0.76***	0.85***
		(0.03)	(0.05)	(0.04)	(0.03)	(0.05)	(0.05)
	More than 60 mins	0.61***	0.58***	0.62***	0.65***	0.60***	0.70***
		(0.03)	(0.05)	(0.04)	(0.04)	(0.05)	(0.05)
	Food share of household expenditure				1.00	1.00*	1.00*
					(0.00)	(0.00)	(0.00)

	Male				1.06***	1.07***	1.06***
					(0.02)	(0.03)	(0.02)
	Per capita expenditure				1.00***	1.00***	1.00
					(0.00)	(0.00)	(0.00)
	Education				0.95**	0.89***	0.97
					(0.02)	(0.03)	(0.03)
Self-reported health	Somewhat healthy				1.10**	0.97	1.21***
					(0.04)	(0.06)	(0.07)
	Somewhat unhealthy				1.21***	1.11	1.31***
					(0.06)	(0.08)	(0.09)
	Unhealthy				1.40**	1.63**	1.23
					(0.21)	(0.37)	(0.25)
	Some disability diagnosed				1.23***	1.20**	1.24***
					(0.07)	(0.11)	(0.08)
	Mixed formal/informal household				1.93***	1.18**	2.60***
					(0.08)	(0.08)	(0.14)
	Labour force status	Informal	Informal	Informal	Informal	Informal	Informal
	Poorest 40%	Yes	Yes	No	Yes	Yes	No
	Richest 60%	Yes	No	Yes	Yes	No	Yes

Notes: Standard errors in parentheses: *** = p<0.01; ** = p<0.05; * p = <0.1. The reference group for travel time was those living fewer than 15 minutes to the nearest public hospital. The reference group for self-reported health was those reporting being healthy.

Source: Authors' calculations based on RAND Institute (2015_[19]), Indonesia Family Life Survey – Wave 5.

Individuals living fewer than 15 minutes from the nearest public hospital represent the reference group. Thus, individuals living further away have lower odds of having health insurance, confirming supply-side constraints to enrolment. The reference group for the variable self-reported health is the healthiest group. Hence, those feeling less than healthy are more likely to get health insurance, confirming the hypothesis of adverse selection.

Informal workers with a diagnosed disability are 1.20 times (bottom 40%) and 1.24 times (top 60%) more likely to have insurance than those not diagnosed with a disability/chronic condition. Informal workers living in mixed households with formal workers are almost twice as likely as those in non-mixed households to have insurance.

Multiple studies confirm JKN's positive impact on the accessibility of health care (Hidayat, 2015_[20]); (Agustina et al., 2019_[16]). Nevertheless, continuously high OOP payments curb this impact. A 2015 DJSN study found that 18% of patients incurred some OOP expense under JKN. The survey also revealed that the average OOP cost stood at IDR 235 945 for outpatients and IDR 1 244 786 for in-patients. The main reason for continued OOP payments is the high cost of medicine (Hidayat, 2015_[20]).

Conditional cash transfer: Program Keluarga Harapan (PKH)

The PKH CCT programme, launched in 2007, targets the poorest 8% of UDB households to improve their access to health, education and social welfare services (World Bank, 2017_[3]). It seeks to reduce household expenditure on health and education while investing in future generations through improved health and education. Key objectives include

improving the nutritional status of children and pregnant and post-partum women, reducing the poverty gap across income groups and improving the education levels of children in poor households (Hadna, Dyah and Tong, 2017^[21]). PKH benefits are conditional on specified health or education requirements (Table 3.9).

Table 3.9. PKH currently targets children and mothers

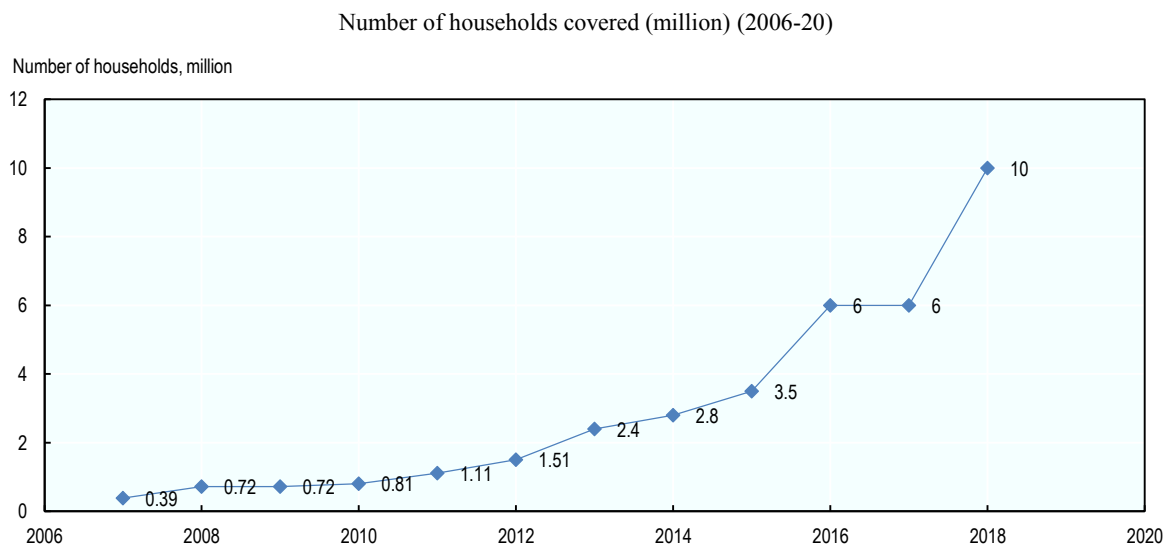
PKH conditionalities and benefits			
PKH beneficiaries	Core conditionalities to receive benefits	Yearly benefit value (IDR) (2013-15)	Yearly benefit value (IDR) (2016)
Pregnant or lactating/post-partum women	Complete 4 antenatal care visits in each trimester of pregnancy and take iron tablets during pregnancy. Newborns should be delivered in a health facility, assisted by a trained health professional. Lactating/post-partum women must complete 2 neonatal care visits before newborns are one month old.	1 000 000	1 200 000
Children aged 0-6	Complete childhood immunisation and monthly growth monitoring check-ups, especially for weight and height. Ensure children take vitamin A capsules twice per year.	1 000 000	1 200 000
Children aged 6-21	Enrol children in the relevant education level. Ensure attendance reaches at least 85% of school days.	500 000 (children in elementary school); 1 000 000 (children in junior high school).	450 000 (children in elementary school); 750 000 (children in junior high school); 1 000 000 (children in senior high school).
Elderly people age 70 or older not covered by other social assistance programmes;	Complete health check-ups at health facilities or at the household via home care and attend day care or social activities, if available.		
People suffering heavy disabilities not covered by other social assistance programmes	Complete health check-ups, as needed, at health facilities or via home care, and follow day care or social activities, if available.		

Source: MoSA (2016^[22]).

Coverage of PKH

PKH eligibility criteria are twofold, taking into account 1) household composition (e.g. presence of a pregnant/lactating woman, one or more children below age 5, children aged 6-15 attending school or children aged 16-18 yet to complete basic education); and 2) household consumption (threshold set at the bottom 14% of households in the UDB).

The PKH was piloted in 2007 in seven provinces, 48 districts and 337 sub-districts, reaching 382 000 households (TNP2K, 2014^[23]). The programme grew to reach 1.5 million poor households in all provinces in 2012, 3.5 million in 2015 and 6 million in 2016 (Figure 3.17). It aims to reach 15.6 million families by 2020. This rapid expansion has involved broader geographic coverage, including the poorest districts of Papua and West Papua, and previously not covered areas (World Bank, 2017^[24]).

Figure 3.17. PKH coverage has grown significantly since 2014

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Adequacy of PKH

Analysis of the adequacy of PKH benefits compares their generosity against multiple living standards indicators, such as the EPL, the OPL and the average household consumption per capita.

In 2007-12, annual benefits ranged from IDR 600 000 to a maximum of IDR 2 200 000 per household (TNP2K, 2014_[23]). In 2013-15, benefits ranged from IDR 800 000 to IDR 2 800 000. In 2016, the maximum increased to IDR 3 700 000, with beneficiary households receiving IDR 500 000 regardless of meeting PKH conditionalities. In 2017, the PKH was reformed to offer a single benefit of IDR 1 890 000 per household per year, including those with members above age 70 or with heavy disabilities. On average, this new benefit accounts for 13% of average household expenditure. The benefit modalities are currently being revised by the Government with a view to increasing benefit values and re-establishing variable benefit levels prior to a further expansion of coverage. As of 2016, various state-owned banks disburse benefits electronically, whereas they were previously cash-based and disbursed through the post (World Bank, 2017_[3]).

Table 3.10. PKH benefits have not significantly increased in recent years

PKH benefits for target groups (2014-16)

Household composition conditionalities to receive benefits	Year	PKH benefits per capita as % of EPL	PKH benefits per capita as % of OPL	PKH benefits per capita as % of average household consumption per capita
Pregnant or lactating/post-partum women and/or children aged 0-6	2014	34.4	27.5	10.7
	2015	31.5	25.2	9.6
	2016	35.3	28.2	10.6
Children aged 6-21 attending elementary school	2014	17.2	13.8	5.4
	2015	15.7	12.6	4.8
	2016	13.2	10.6	4.0
Children aged 6-21 attending junior high school	2014	34.4	27.5	10.7
	2015	31.5	25.2	9.6
	2016	22	17.6	6.6
Children aged 6-21 attending senior high school	2014	-	-	-
	2015	-	-	-
	2016	29.4	23.5	8.8

Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

In 2016, the PKH benefit for households with pregnant or lactating/post-partum women and/or children aged 0-6 was 35% of the EPL, 28% of the OPL and 11% of the average household consumption per capita. The benefit level increased from 2014 compared with poverty line indicators but remained stable compared with the average household consumption per capita.

The benefit for households with children aged 6-21 attending elementary school was 13% of the EPL, 11% of the OPL and 4% of the average per capita household consumption. The benefit levels for this group have steadily declined in the last two years, compared with living standard indicators.

In 2016, the benefit for households with children aged 6-21 attending junior high school was 22% of the EPL, 18% of the OPL and 7% of the average consumption per capita, showing benefit levels were lower in 2016 than in 2014. The relative benefit received by households with children aged 6-21 attending senior high school was greater than for those with children in junior high or elementary school: 29% of the EPL, 23% of the OPL and 9% of the average consumption per capita.

Overall, PKH benefit levels are relatively low, compared with other CCT programmes around the world. CCTs in Mexico, Brazil and the Philippines have benefit levels of about 20% of consumption (World Bank, 2017_[24]).

Nonetheless, several studies indicate that PKH benefits have positive effects on health and education indicators. A 2015 TNP2K evaluation study found that PKH transfers significantly increased monthly household expenditure and increased the number of visits to health facilities at the *posyandus* (sub-district) level by 3%. Child growth-monitoring checks also rose by five percentage points. More modest improvements in school attendance and immunisation were also attributed to the receipt of the grant (TNP2K, 2014_[23]).

In 2017, a World Bank mid-line evaluation showed that PKH increased average monthly household expenditure by 10%, with most going towards protein food consumption and health care costs. It also showed a 22 percentage point increase in child growth-

monitoring checks, a 7 percentage point increase in the share of households receiving immunisation and a 7.1 percentage point increase in the number of neonatal visits. The share of women conducting at least four antenatal care visits increased by nine percentage points, and the share of births delivered at health facilities or by skilled health personnel increased by five percentage points. Other impacts of the grant include reductions in severe stunting and increases in elementary and junior high school participation rates (TNP2K, 2014_[23]).

Equity of PKH

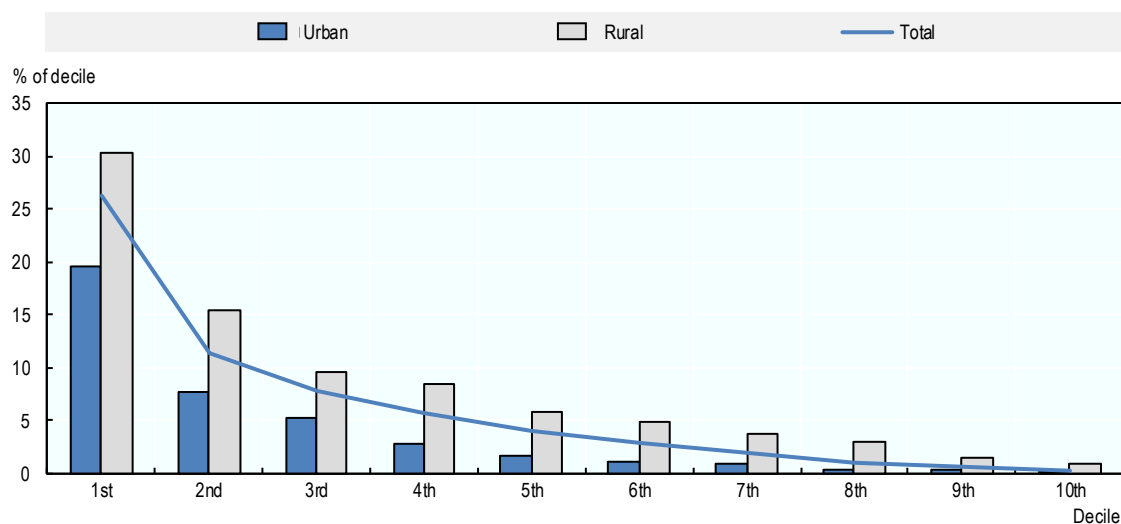
This section draws on 2014 SUSENAS data to analyse the incidence of beneficiaries and benefits by decile.

Beneficiary incidence and distribution

Approximately 26.2% of those in the poorest decile and 11.4% of those in the second poorest are PKH recipients (Figure 3.18). Beneficiary incidence sharply declines for richer deciles, with less than 3% of each of the top five deciles receiving benefits.

Figure 3.18. PKH beneficiary incidence is pro-poor

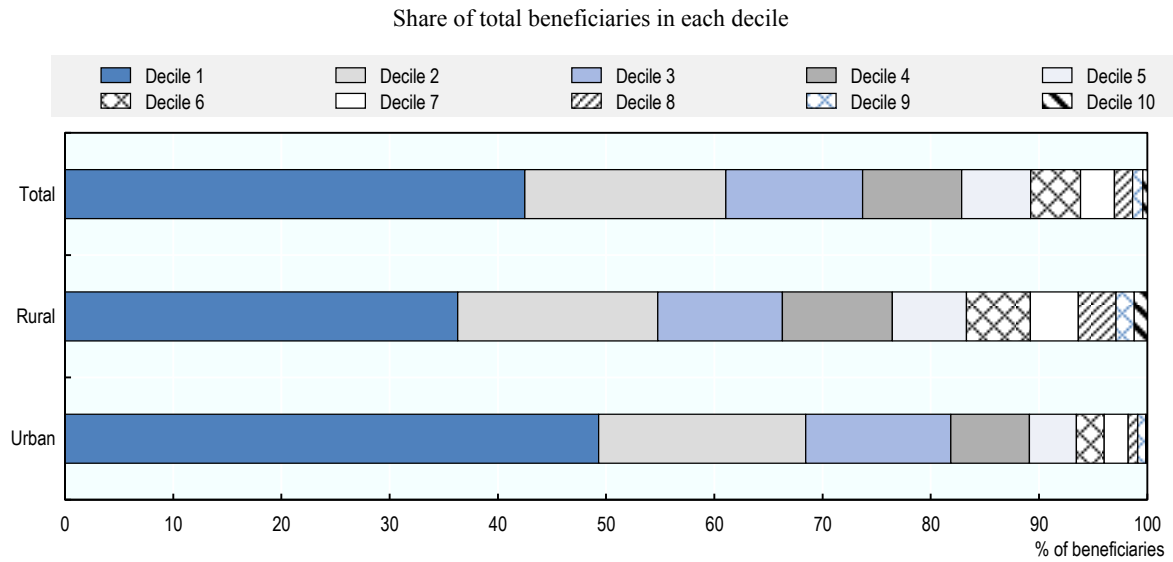
Share of each decile covered by the PKH (2016)



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 3.19 presents the total number of beneficiaries by expenditure decile. Distribution clearly skews towards the poorest deciles: about 75% of beneficiaries are in the first three consumption deciles, while only 1.4% are in the top two. Urban targeting is more pro-poor than rural, as larger numbers of rural households in top deciles receive the grant.

Figure 3.19. PKH beneficiary distribution is more pro-poor in urban areas

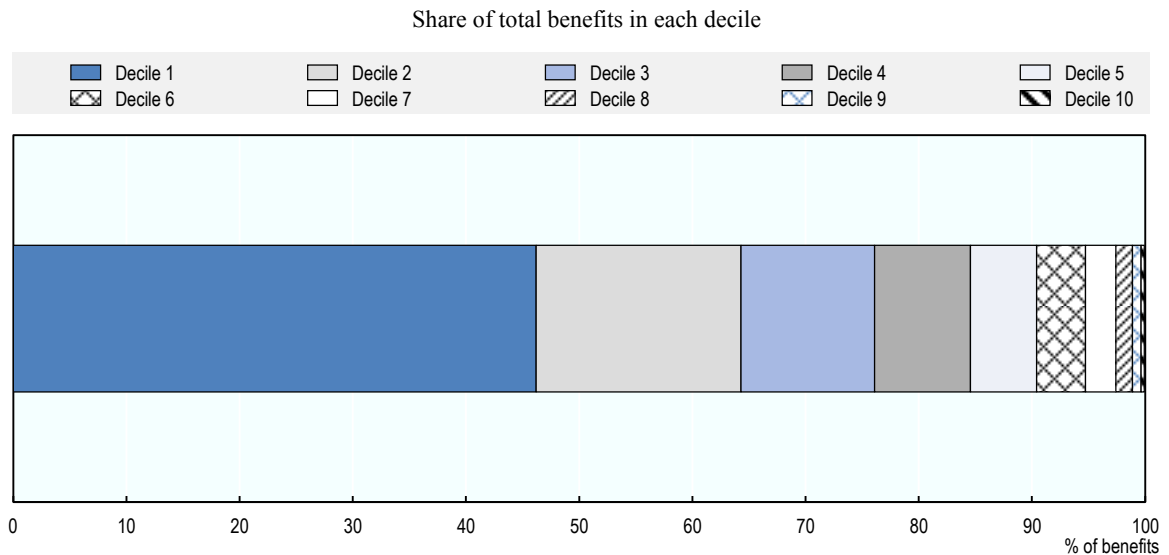


Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Benefit distribution

Households in the first decile receive the largest share of PKH benefits (46.2%) (Figure 3.20). The bottom three deciles receive 76.1%, while the top three receive 2.5%. PKH targeting thus appears to be the most accurate, compared with other social assistance programmes in the country (World Bank, 2017_[3]).

Figure 3.20. PKH benefit distribution



Source: Authors' calculations, based on Statistics Indonesia (2016_[4]), SUSENAS, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Efficiency of PKH

Based on 2014 SUSENAS data, analysis finds a 5.7% reduction in poverty headcount and 25.9% reduction in extreme poverty headcount, with a cost equivalent to 0.05% of GDP (Table 3.11).

Table 3.11. PKH is the most efficient poverty alleviation programme

PKH cost and poverty impacts (2014)				
Disbursed amount (IDR trillion and % of GDP)	Poverty headcount reduction	Extreme poverty headcount reduction	Poverty gap reduction (IDR million)	Extreme poverty gap reduction (IDR million)
5.3	1 806 063.0	2 069 845.0	2 362 689.7	979 580.9
0.05%	5.71%	25.91%	11.92%	30.94%

Note: The analysis of PKH equity, coverage and efficiency is conducted using the 2014 SUSENAS as more recent versions of the survey do not capture the receipt of the grant. The 2014 wave however under-reports coverage of the grant (1.2 million households instead of the reported 2.8 million). For this purpose, a probit regression is run using receipt of the grant as dependent variable and a series of grant receipt determinants as predictors. The latter include household characteristics, receipt of other grants, demographic variables and economic ones. The determinants are selected to maximise the regressions explanatory power and goodness-of-fit. A probability threshold above which households are assumed to be PKH beneficiaries is then selected. This threshold is calibrated to reach the government-reported total beneficiary number. For additional robustness, the poverty rate (both regular and food poverty) among actual receiving households and those determined based on the probit are compared. The findings show that these vary by 3.6 percentage points in the case of the OPL, and 1.8 percentage points for the EPL.

Source: Authors' calculations, based on Statistics Indonesia, SUSENAS 2014, <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

PKH's poverty-reducing efficiency, as measured by the change in the poverty gap for every IDR 100 spent on the programme, is 44.2%; its extreme poverty-reducing efficiency is 18.31%. PKH is thus the best-performing programme on both counts.

Beyond poverty levels, a recent evaluation conducted by TNP2K (Cahyadi et al., 2018_[25]) found important impacts in terms of primary and secondary school attainment and in the level of deliveries in a facility by trained birth attendants. Importantly, this evaluation conducted six years after the programme's introduction found that the continued investment in children over time resulted in cumulative outcomes, in particular in terms of reduced stunting.

Pensions in Indonesia: a gender perspective

This section outlines the risks women reaching old age face, followed by results of an analysis based on the IFLS. The IFLS is a very rich survey, with information on respondents and their families, households, communities, and health and education facilities (Strauss, Witoelar and Sikoki, 2016_[26]). The wide range of modules in the questionnaire, as well as the panel data nature of the survey, allow in-depth analysis of the labour force histories of women and men.

Women are vulnerable in old age

Indonesia has one of the world's largest populations, and it is expected to increase sharply, from 258 million in 2015 to 321 million in 2050. Average life expectancy is projected to rise, from 68.6 years in 2015 to 73.9 years in 2050 (UN DESA, 2015_[27]). Indonesia has the fifth largest elderly population in the world (HelpAge, 2012_[28]), and while the share of men and women is about equal, 57% of the elderly above age 70 are women (Surbakti and Devasahayam, 2015_[29]).

Large segments of the global population rely on contributory pension systems for old-age consumption. However, by design, these systems can exclude many potential beneficiaries or provide inadequate benefits, due to contribution density issues.³ When the population age 60 or over is the fastest growing globally (UN DESA, 2015_[27]), this exclusion and inadequacy can affect the well-being of older individuals, who must otherwise rely on work income or family and network support.

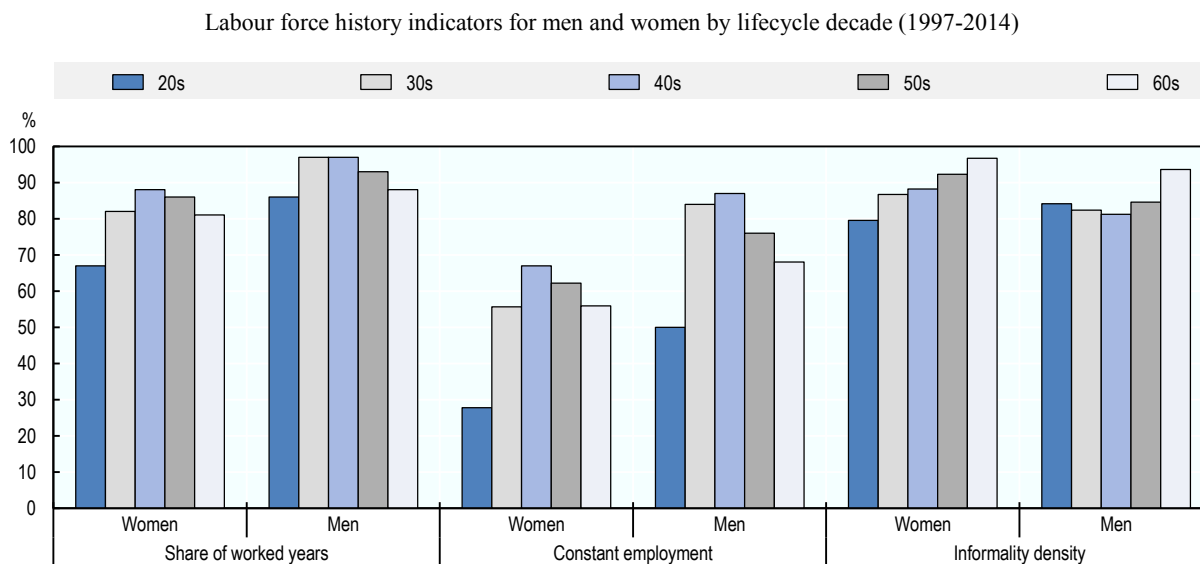
Women are particularly vulnerable. They live longer than men and are more likely to be widowed. They also tend to be less educated: about one-third of Indonesian women age 70 and over are literate, compared to 65% of men (Priebe and Howell, 2014_[30]).

Women's labour force histories also diverge significantly from men's. Care-giving responsibilities mean women are more likely to interrupt work or never enter the labour market. They may also be more likely to work informally, including in more precarious jobs, granting them flexibility for child care.

Pension systems may also treat women and men differently, including earlier mandatory retirement for women (up to five years earlier), which exposes them to vulnerability if benefits are computed as a function of years of contribution (Arza, 2015_[31]).

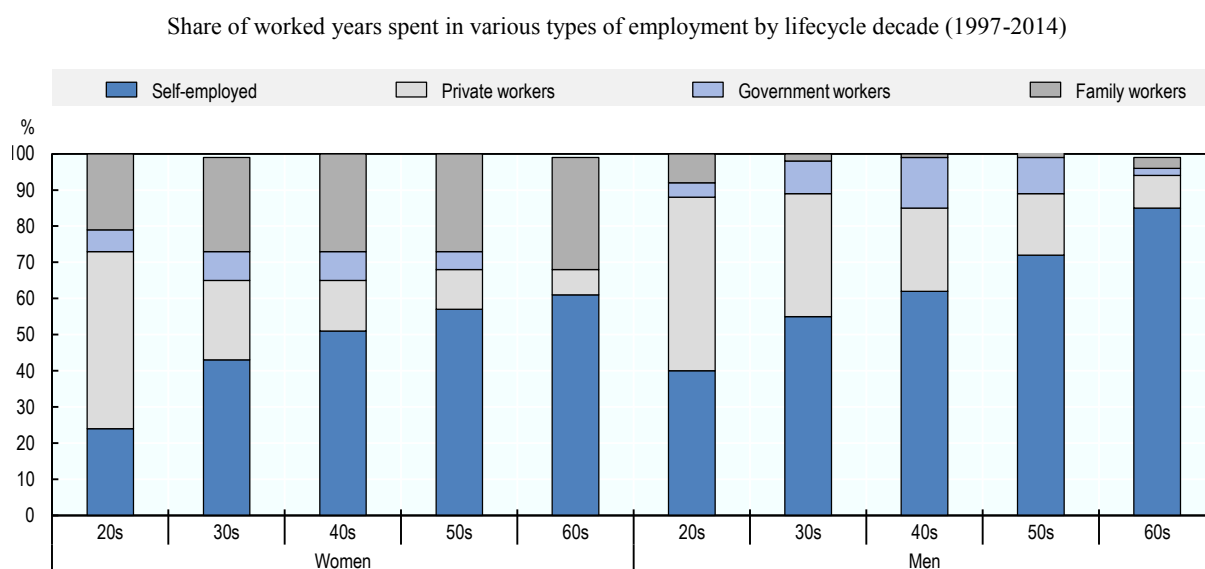
Employment histories

IFLS surveys can generate employment histories by combining retrospective histories and labour force status at the time of the surveys. Figure 3.21 displays the proportion of each lifecycle decade that men and women spend in employment, the share of men and women in constant employment throughout the decade and the percentage of working years spent in informal employment. On average, women work less than men in every decade and are much less likely to be in constant employment, but they are more likely to work informally and to be informally employed the older they are.

Figure 3.21. Women work less and are more likely to work informally than men

Source: Authors' calculations based on RAND Institute (1993^[32]; 1997^[33]; 2000^[34]; 2007^[35]; 2015^[19]), *Indonesia Family Life Surveys*, www.rand.org/labor/FLS/IFLS.html.

Reported type of employment also allows for inferring the share of work life spent in various types of employment, namely as government workers, family workers, private sector workers and self-employed workers. Figure 3.22 shows women are much more likely to be family workers, increasingly so as they age; men are more likely to be self-employed, increasingly so as they age.

Figure 3.22. Women are more likely to be family workers than men

Source: Authors' calculations based on RAND Institute (1993^[32]; 1997^[33]; 2000^[34]; 2007^[35]; 2015^[19]), *Indonesia Family Life Surveys*, www.rand.org/labor/FLS/IFLS.html.

Burden of care and labour force participation

This section focuses on the relationship between household composition and the potential burden of care of children and elderly relying on working-age individuals.

Work density per decade of the lifecycle was computed for each woman and man observed throughout a complete decade (20s, 30s, 40s and 50s), along with the share of those work years spent in informal work (informality density). Regression analysis was then used to identify the relationship, with variables capturing household composition, such as the child dependency ratio (number of children per number of working-age adults) and elderly dependency ratio (number of elderly per number of working-age adults). Poverty and self-reported health were controlled for. Table 3.12 displays work density results by decade and sex. Table 3.13 displays informality density results.

Table 3.12 displays coefficients reflecting the relationship between household composition and work density for women and men in each decade. Overall, women in their 20s and 30s have lower work density than men when their households have a higher child dependency ratio, while men have higher work density the higher the child dependency ratio. The elderly dependency ratio does not have a statistically significant relationship with the work density.

Table 3.12. In households with higher child dependency ratios, women work less than men

Work density by decade, sex and household composition (averaged over lifecycle decade)

	Women				Men			
	20s	30s	40s	50s	20s	30s	40s	50s
Child dependency ratio	-0.04** (0.02)	-0.02** (0.01)	0.01 (0.01)	-0.01 (0.02)	0.06*** (0.01)	0.01*** (0.00)	0.01** (0.00)	0.03** (0.01)
Elderly dependency ratio	0.03 (0.04)	0.02 (0.03)	0.02 (0.02)	0.01 (0.02)	-0.01 (0.02)	-0.02 (0.01)	-0.02* (0.01)	0.03 (0.02)
Poor	-0.03** (0.02)	-0.01 (0.01)	-0.02* (0.01)	-0.02 (0.02)	-0.01 (0.01)	-0.01*** (0.01)	-0.01 (0.01)	0.01 (0.01)
Health	-0.03 (0.02)	-0.07*** (0.02)	-0.02 (0.02)	-0.05** (0.03)	0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.03* (0.01)
Observations	1 461	1 596	1 455	828	1 736	1 786	1 745	1 106
R-squared	0.01	0.01	0.00	0.01	0.02	0.01	0.01	0.01

Notes: For dependency ratios, working age = aged 15-65, child = under age 10, elderly = age 50 and over. Work density = number of years worked in each decade. *** = $p < 0.01$; ** = $p < 0.05$; * = $p < 0.1$.

Source: Authors' calculations, based on IFLS-1 through IFLS-5.

While women in their 20s and 30s are less likely to work the higher the child dependency ratio in their households, they are more likely to work informally if they do. Men are both more likely to work and more likely to work informally.

Table 3.13. In households with higher child dependency ratios, women and men are more likely to work informally

Informal work density by decade, sex and burden of care (averaged over lifecycle decade)

	Women				Men			
	20s	30s	40s	50s	20s	30s	40s	50s
Child dependency ratio	0.09*** (0.02)	0.05*** (0.01)	-0.00 (0.02)	0.06** (0.02)	0.07*** (0.02)	0.07*** (0.02)	-0.04** (0.02)	0.05** (0.03)
Elderly dependency ratio	-0.02 (0.05)	0.02 (0.03)	0.02 (0.03)	0.02 (0.02)	0.12*** (0.04)	0.12*** (0.04)	-0.11** (0.04)	0.11** (0.04)
Poor	0.05** (0.02)	0.04** (0.02)	0.05*** (0.02)	0.02 (0.02)	0.03** (0.02)	0.03** (0.02)	0.11*** (0.02)	0.10*** (0.02)
Health	-0.01 (0.03)	-0.02 (0.03)	-0.01 (0.02)	-0.01 (0.03)	0.01 (0.02)	0.05* (0.03)	0.07*** (0.03)	0.03 (0.03)
Observations	1 461	1 596	1 455	828	1 736	1 786	1 745	1 106
R-squared	0.02	0.01	0.01	0.01	0.02	0.02	0.03	0.03

Notes: For dependency ratios, working age = aged 15-65, child = under age 10, elderly = age 50 and over. Work density = number of years worked in each decade. *** = p<0.01; ** = p<0.05; * = p<0.1.

Beyond the relationship between household composition and overall work and informality density, the effect of changes in household composition on the likelihood of working and informal or formal work status was also examined. To this end, a fixed effects model was estimated, which allowed for controlling for time-invariant characteristics that may affect work status (e.g. education, ethnicity or religion) and measuring the relationship between changes in household composition (e.g. having a baby) and work status the following year(s).

Table 3.14 displays the odds ratio by sex of working in a given time period (t), given a child born in the household that year (t) or in the previous years (t-1 or t-2).

Table 3.14. Women with formal jobs are more likely to stay in the labour force when they have children than women in informal jobs

Fixed effects model of likelihood of not working (averaged over the lifecycle)

	Women			Men		
	All	Informal t-1	Formal t-1	All	Informal t-1	Formal t-1
Child born in t	0.901*** (0.0221)	1.810*** (0.0616)	0.468*** (0.0194)	0.812*** (0.0318)	0.833*** (0.0361)	0.173*** (0.0123)
Child born in t-1	0.838*** (0.0217)	1.258*** (0.0513)	0.918** (0.0343)	0.829*** (0.0327)	0.842*** (0.0369)	0.920 (0.0472)
Child born in t-2	0.604*** (0.0168)	0.799*** (0.0351)	0.679*** (0.0270)	0.756*** (0.0300)	0.760*** (0.0336)	0.679*** (0.0352)
Married	1.088*** (0.0261)	0.806*** (0.0385)	0.916** (0.0357)	0.693*** (0.0312)	0.699*** (0.0356)	0.377*** (0.0181)
Observations	206 162	83 566	81 366	117 321	92 544	54 892
Number of individuals	13 324	8 110	6 984	8 690	7 169	4 510

Notes: Fixed effects model. Coefficients shown as odds ratio. *** p<0.01; ** p<0.05; * p<0.1.

Source: Authors' calculations, based on IFLS-1 through IFLS-5.

Table 3.14 displays the odds ratio for women (columns 1, 2 and 3) and men (columns 4, 5 and 6) of working in a given time period t given that a child was born in the household in that year t , or in the previous years $t-1$ or $t-2$. While women are overall more likely to work when they have had a child, there are significant discrepancies between formally and informally employed women. Previously informally employed mothers are almost twice as likely not to work as informally employed non-mothers. Previously formally employed mothers are more likely to work if they have a child. Previously formally employed fathers are much more likely to work than formally employed non-fathers, while odds are somewhat similar for previously informally employed fathers and informally employed non-fathers.

Women's support strategies in old age

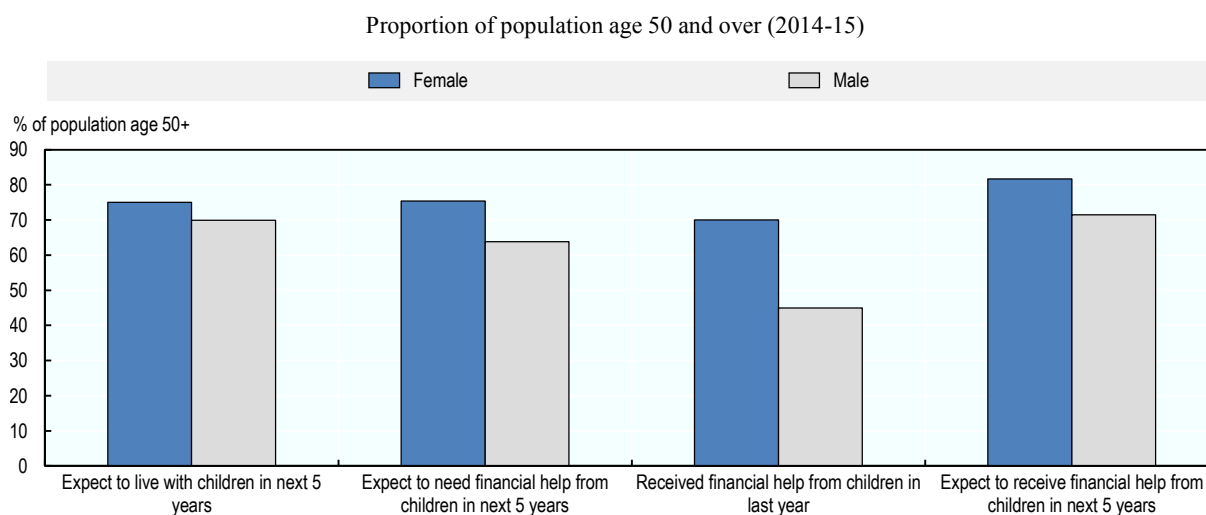
Work

Women are less likely than men to work when they are age 50 or older. About 87% of men continue to be active in the labour market, compared with 74% of women. When asked whether they planned to stop working, male and female respondents over age 50 answered similarly: about 54% planned not to stop; 25% planned to work until their health failed; about 10% had no plans; about 5% planned to change jobs; and 5% planned to stop.

Family support

Women rely on family, especially children, more than men. Among those age 50 and older, 70% of women reported receiving financial support from children vs. 45% of men (Figure 3.23). More women than men anticipate needing or do receive help from children (e.g. financial, co-habitation). Reported own savings are extremely low: 5.1% among men and 4.5% among women over age 50.

Figure 3.23. Women are more likely than men to rely on children for old-age support



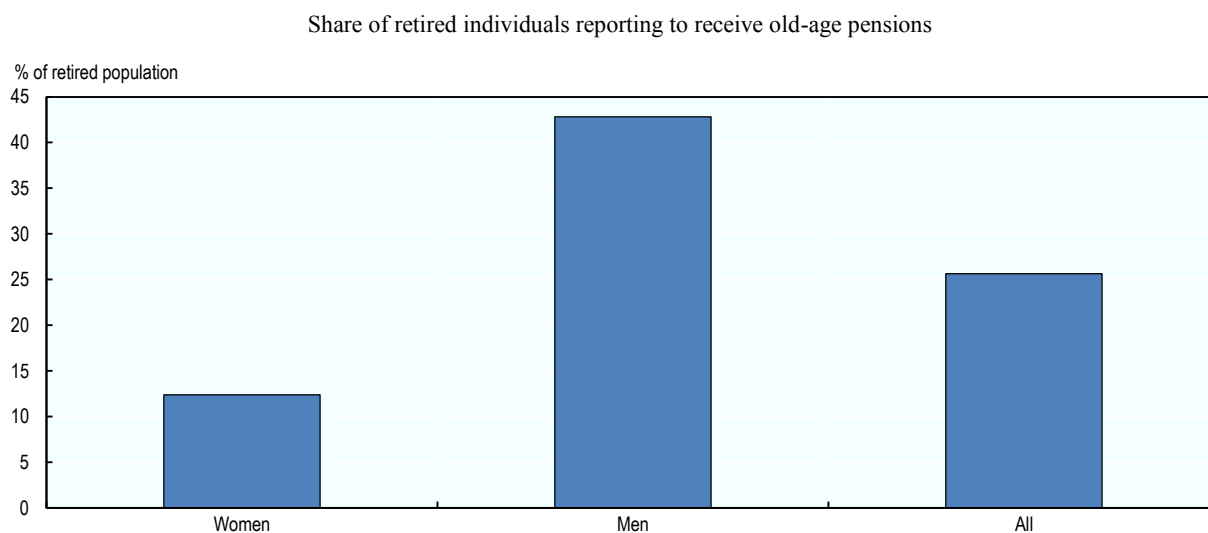
Source: Authors' calculations RAND Institute (2015_[19]), *Indonesia Family Life Surveys*, www.rand.org/labor/FLS/IFLS.html.

Women over age 60 are more likely than men to be widowed: 20% vs. less than 5%. This is attributable to women's longer life expectancy, as well as a trend for men to remarry (Surbakti and Devasahayam, 2015^[29]).

Social protection

The great majority of old-age pensions are contributory programmes targeting formal workers, in particular civil servants and members of the armed forces and police. Pension coverage for retirees is low at about one-quarter of the population. Women are much less likely than men to receive a pension: only 12% are beneficiaries (Figure 3.24).

Figure 3.24. Women are much less likely than men to receive a pension in old age



Source: Authors' calculations RAND Institute (2015^[19]), *Indonesia Family Life Surveys*, www.rand.org/labor/FLS/IFLS.html.

Implications for the pension system

Pension systems vary across dimensions, such as eligibility, vesting periods, contributory or non-contributory features and benefit types. The analysis above identifies a number of factors that vary by sex in terms of labour force participation and type of employment: 1) women work less than men over their lifetimes, and they are more likely to work informally; 2) women in households with higher child dependency ratios work less than men, but both sexes in those households are more likely to work informally, compared with women and men in households with lower ratios; and 3) previously informally employed mothers are twice as likely to stop working as informally employed non-mothers.

A simulation exercise to identify a simplified profile of an average woman's labour history in comparison to an average man's demonstrates how the pension system might affect women's old-age vulnerability. Compiling the decade information (the 40-year period individuals might contribute to a pension system to improve income security in retirement), on average, women spend 32.3 years working, of which 88.7%, or 28.6 years, is in informal work. On average, men spend 37.3 years working, of which 85.2%, or 31.8 years, is in informal work.

Indonesia's old-age pension system consists of contributory schemes, including the Jaminan Pensiun (JP, established in 2014), Jaminan Hari Tua (Old-Age Savings) and the PT ASABRI and PT TASPEN, which target civil servants and armed forces personnel, respectively. Minimum vesting periods are 15 years (180 months), and the retirement age for both men and women is age 58. Indonesia is planning a significant expansion of pension coverage through the JP, which is run on a defined benefit basis and accessible to formal and informal workers.

The system also includes non-contributory pensions for abandoned or neglected people over age 70 without regular income and unable to perform daily activities. The benefit entitlement is IDR 200 000 per month, but coverage is limited, reaching about 30 000 beneficiaries in 2017.

Given the very few years spent, on average, by women in formal employment, it will be crucial for the contributory pension system to integrate informal workers and take into account fragmented labour force histories due to child care interruptions. At the same time, an expansion of social assistance for the elderly is an important mechanism for ensuring the well-being of women excluded from social insurance. Establishing earlier eligibility ages for social assistance for women than men can partly offset the disadvantages women face earlier in life, although such an approach can codify inequality in a manner that violates constitutional requirements.

Notes

¹ The annual value of rice to be distributed to households is IDR 1 307 700 (IDR 7 265 x 15 kg x 12 months); the value actually received is IDR 435 900 (IDR 7 265 x 15 kg [average per household] x 12 months).

² The IFLS is an ongoing longitudinal survey representative of about 83% of the population in 1993 containing over 30 000 individuals in 13 of the 27 provinces.

³ Contribution density = the number of periods a worker contributed to a pension system as a percentage of working years.

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Chapter 4. Financing social protection

Indonesia's spending on social protection is low for a country at its income level but it has risen significantly in recent years and is emerging as a budgetary priority. This chapter locates social protection spending within broader Government of Indonesia expenditure and identifies how it fits into the intergovernmental budgetary system. It analyses spending on key social protection programmes as well as the spending dynamics of various programmes. It assesses the potential to scale up social protection, particularly the scope for higher levels of tax financing, and concludes by examining the fiscal incidence of taxes and transfers to understand their combined impact on poverty and inequality.

Overall public spending as a percentage of gross domestic product (GDP) is low for a country at Indonesia's income level as a result of weak domestic resource mobilisation. Social protection currently accounts for a small proportion of public expenditure and is just one of several priorities confronting the Government of Indonesia (GoI). However, social protection spending has risen in real terms since 2000, has increased as a proportion of public expenditure in recent years and will be an important driver of overall public spending in 2019.

Given current weaknesses in the tax system, higher coverage by contributory social insurance arrangements will be an important mechanism for achieving a step-change in social protection spending and coverage over time. However, concerns over the sustainability of these arrangements exist.

Indonesia's extensive decentralisation complicates the financing of social protection but also offers potential for higher spending if subnational revenues are increased. Social protection is not one of the core functions of the central government, which means that subnational administrations (and the inter-governmental budgetary system) have an influence on overall spending levels.

Changes to the structure of spending offer space for social protection to scale up

Total government spending (including expenditure by central government and transfers to local government) declined from 20.0% of GDP in the early 2000s to 15.0% of GDP in 2010 and stood at 14.6% of GDP in 2016 (Figure 4.1). This level of spending is very low for a country at Indonesia's income level (IMF, 2017^[1]) and limits the GoI's potential to invest in the development of physical and human capital required to escape the middle-income trap. It also constrains the capacity for redistribution through the fiscal system, which is the most direct means of reducing income poverty and inequality.

Another notable feature of Indonesia's fiscal system is the high degree of decentralisation. Under big bang decentralisation reforms of 2001 and 2005, Indonesia devolved substantial funds and authority to local governments, including responsibility for public service delivery and natural resource management. The intention was to improve these functions by empowering local administrations to reflect the country's extremely diverse contexts. However, the reforms did not have the desired effect, resulting in the persistence of sizeable gaps in socio-economic outcomes between provinces and regions. Low capacity levels in sub-national government have been a critical constraint (OECD, 2016^[2]).

Box 4.1. Deepening decentralisation in Indonesia's intergovernmental system

The GoI structure comprises five levels of government: central government, provinces, districts and municipalities, sub-districts and villages. The end of the Suharto era was followed by a major push for decentralisation: Laws No. 22/1999 and No. 25/1999 significantly increased the political authority and resources of the 491 districts and municipalities. As a result, sub-national administrations have significant spending power and great discretion on how public revenues are spent, even though their revenue-raising is not extensive and there are concerns around the financial management capabilities of local government (Nasution, 2016^[3]).

Central government spending accounts for the largest share of total expenditure but spending at this level declined from 15.8% of GDP in 2001 to 9.6% of GDP in 2017. Since 2007, the local government share of total expenditure has increased steadily, indicating deepening decentralisation of government functions. Between 2008 and 2009, a period during which central government spending declined by 3.8 percentage points (in GDP terms), regional expenditure only decreased by 0.9 percentage points. Between 2014 and 2016, district governments' share of total expenditure jumped from 31.1% to 38.1% and was equal to 5.6% of GDP in 2017.

Central government is solely responsible for six absolute (core) functions: finance, foreign affairs, defence, security, religion, and state administration and justice. Central government shares responsibility for provinces and districts for other areas of spending known as concurrent functions. These include the provision of basic services – education, public health and social welfare, government administration, and infrastructure and public works – known as mandatory functions. Elective functions cover the economic sector and include transport, agriculture, industry and trade, capital investment, land, co-operatives, labour force and environment.

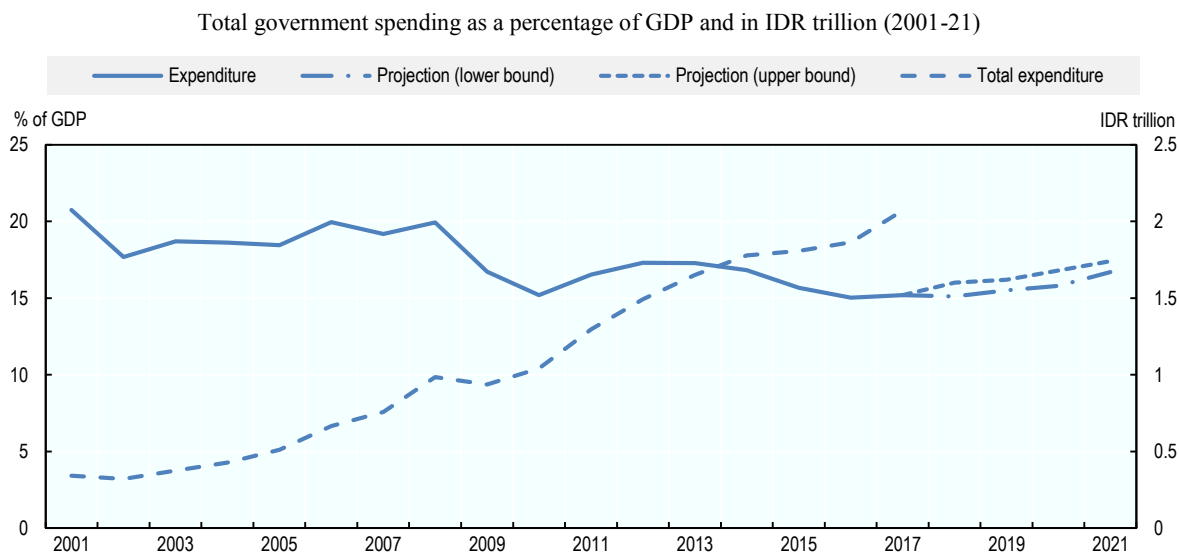
Social protection is thus classified as a mandatory, concurrent function of government. District governors and mayors are thus implicated in the implementation of national social protection programmes but are also empowered to develop their own programmes. This can create confusion and lead to duplication of efforts. It is thought to be a factor behind the inefficient implementation of national programmes, despite the existence of minimum standards in place for service provision (UNDP/UNCDF, 2013^[4]).

Sub-national government receives large-scale transfers from the central government to implement concurrent functions. The largest of these is the Dana Alokasi Umum (DAU; General Allocation Fund), which covers local civil servant salaries. Although it still accounts for 50% of transfers, the DAU's significance has been diminishing slightly of late. The second-largest intergovernmental transfer is the Dana Alokasi Khusus (DAK; Special Allocations Fund), which has grown rapidly in recent years. DAK usually targets remote and less developed areas to facilitate capital financing for selected local governments. The grant is channelled into basic education, preventive health care, basic infrastructure and road development, district markets and small-scale industry development, as well as development of regional art and culture.

Historically the second-largest (now the third-largest) source of transfers to sub-national government is the Dana Bagi Hasil (DBH) Revenue Sharing Grant. The DBH re-allocates revenues from general tax and the exploitation of natural resources, including mining, oil and gas.

Provinces raised 37% of their revenues through taxes in 2017, versus around 6% raised by local governments (districts and municipalities). The Organisation for Economic Co-operation and Development (OECD) Economic Survey 2018 finds that enhanced revenue-generation at a sub-national level, primarily through higher revenues from recurrent taxes on immovable property, would strengthen decentralisation, promoting local responsibility and accountability by better matching spending and tax (OECD, 2018^[5]).

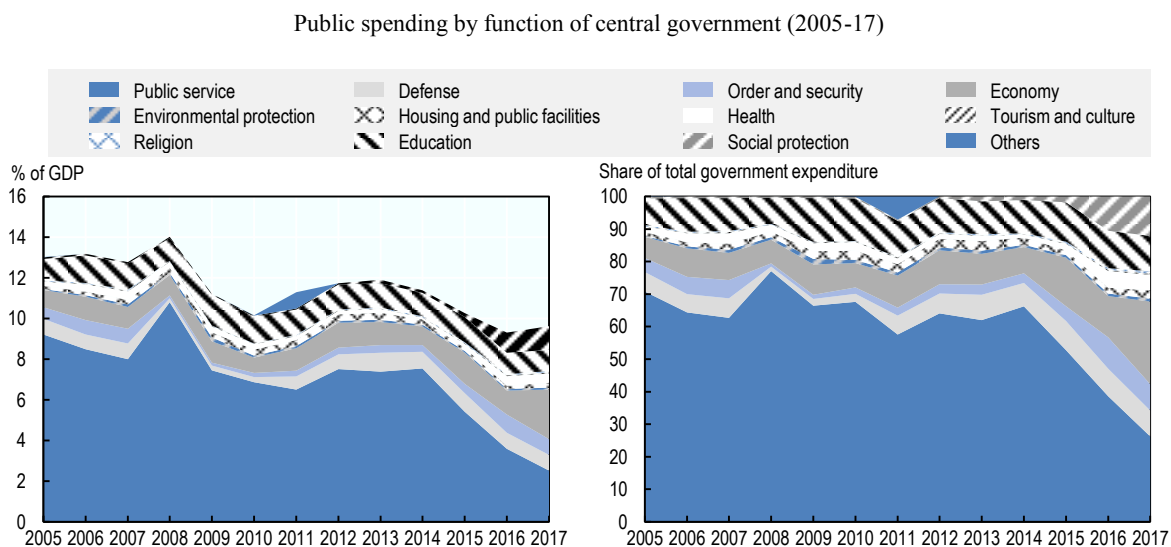
Figure 4.1. Government spending has declined as a proportion of GDP



Note: IDR = Indonesian rupiah.
Source: MoF (2016).

Figure 4.2 shows how the functional classification of central government spending has evolved since 2005. The GoI disaggregates spending into 12 functions: public services, defence, order and security, economy, environmental protection, housing and public facilities, health, tourism and culture, religion, education, social protection, and others (miscellaneous category). Growth in the social protection function group – from 0.2% of GDP in 2015 to 1.2% of GDP in 2017 – is partly due to changes in its composition in 2016.

Figure 4.2. The composition of public spending is changing



Source: MoF (2017).

However, the “social protection” function group covers a broader range of programmes than are recognised as social protection by this review. Its composition recently changed to include food/housing subsidies and social contributions, which were previously classified under the “general government administration” function.

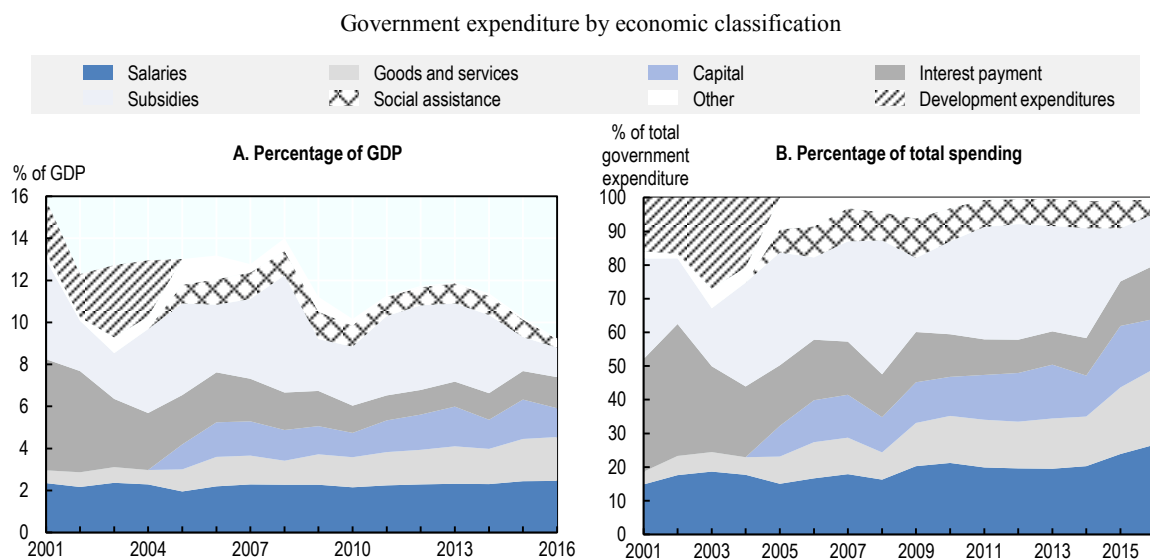
The public services function group is the largest in spending terms, although its allocation shrunk considerably between 2017 and 2018. Allocations to economic services, the second-largest function group, increased from 0.8% of GDP in 2005 to 2.4% of GDP in 2017. As a share of total expenditure, economic spending jumped from 6.5% to 25.4% of total spending over the same period.

The GoI is constitutionally required to allocate at least 20% of its budget (excluding interest payments) to education, which it has achieved since 2009 (Jasmina, 2016^[6]). Two-thirds of education spending occurs at the sub-national level and is thus not captured in Figure 4.2. In total, Indonesia allocated resources equivalent to 3.3% of GDP to education in 2016 (World Bank, 2017^[7]). The expansion of basic education to include senior high school will apply further upward pressure on this allocation.

Public health spending was significantly lower than education spending at 1.4% of GDP in 2017. Total health spending was 3.0% of GDP in the same year, meaning private health expenditure was greater than public.

Figure 4.3 disaggregates central government expenditure by economic classification. Between 2001 and 2016, overall spending declined in line with declining central government spending, and the composition of expenditure changed significantly. In 2016, the largest areas of spending were salaries, goods and services, and capital expenditure; in 2001, the main categories had been interest payments, subsidies and development expenditure.

Figure 4.3. Fiscal space has opened up as interest payments and subsidies decline



The decline in interest payments and subsidies has been an important source of fiscal space. State subsidies shrank from 4.7% of GDP in 2001 to 1.4% of GDP in 2016 (see Box 4.2). Interest payments declined from 30% to 15% of spending over the same period.

However, both subsidy spending and interest payments increased in 2018, with subsidy spending expected to increase further in 2019. Central government spending is budgeted to increase by 12.4% in nominal terms in 2019 from 2018, driven by higher spending on energy subsidies (up 69% in nominal terms from 2018), higher PKH benefits and higher expenditure on PBI JKN, driven both by increased premiums and higher coverage (World Bank, 2018^[8]).

Box 4.2. Spending on subsidies has declined significantly but rebounded in 2018

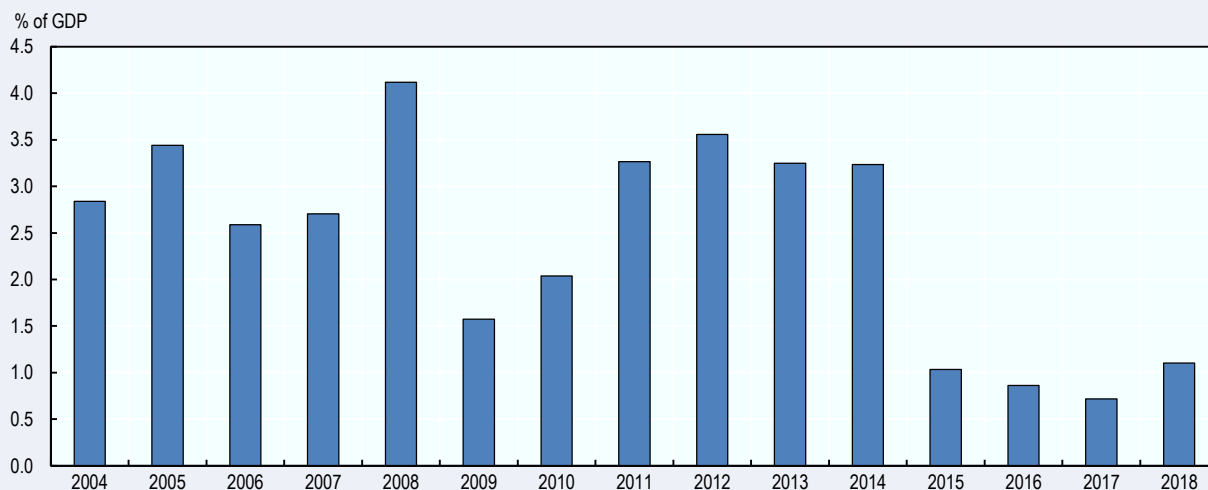
Indonesia's main items of tax expenditure are energy and non-energy subsidies. The former are subsidies for fuel and electricity. The latter comprise nine categories: cooking oil, food, fertiliser, seeds, soybeans, public service obligations, credit programmes, tax subsidies and miscellaneous.

Spending on energy subsidies peaked at 4.1% of GDP in 2008 but declined dramatically after 2014 (Figure 4.4). This decline reflected a strategy to reallocate resources from energy subsidies to other areas, such as health, infrastructure and social assistance. Until 2014, fuel subsidies were the largest component of spending on energy subsidies; thereafter, they declined to a similar level as electricity subsidies until 2017.

Spending on subsidies jumped by an estimated 0.3% of GDP in 2018 due to an increase in the costs of the diesel subsidy (OECD, 2018^[9]) and is set to increase further in 2019 but will remain below pre-2015 levels (World Bank, 2018^[8]). In 2019, fuel subsidies and social assistance spending will be important drivers of real growth in public spending.

Figure 4.4. Energy subsidies declined dramatically after 2014

Spending on energy subsidies as percentage of GDP, 2004-2018



Source: Government of Indonesia Audit Board (2019).

Spending on key social assistance programmes is growing strongly

Social protection spending reflects the fragmented nature of its implementation – by level of government, source of financing and institutional responsibility. This makes it very difficult to calculate an aggregate figure for social protection spending, although programme-level data make it possible to identify trends in total expenditure.

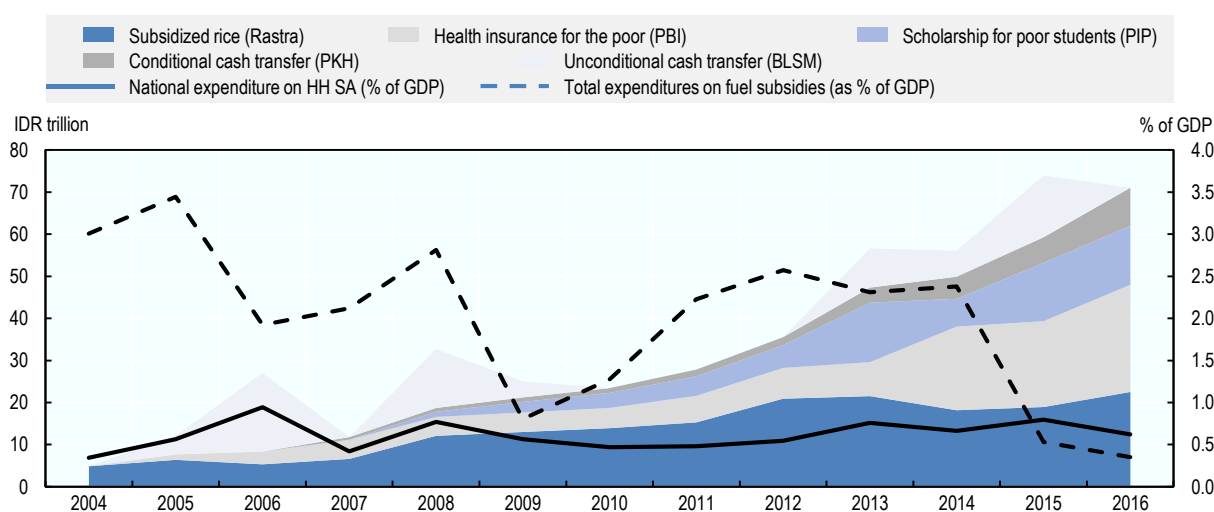
According to the World Bank public expenditure review (2017_[10]), total social protection spending in 2016 was IDR 177 trillion, equivalent to 1.4% of GDP and 15.4% of total government spending. Of this amount, IDR 78.3 trillion was spent on social assistance and IDR 99.6 trillion on social insurance, or 44% and 56% of total social protection spending respectively.

Three important trends stand out. First, that social protection spending is increasingly a budgetary priority: in 2012, social protection spending accounted for 10.7% of total public spending and equated to 1.2% of GDP. Secondly, the disparity between social insurance and social assistance is diminishing: in 2012, social assistance accounted for 36% of social protection spending. Lastly, Indonesia spends significantly less on social assistance than other countries at its income level, on average (1.5% of GDP).

Since 2005, Indonesia has invested significantly in social assistance programmes, helped by the phasing-out of fuel subsidies. In 2010, poverty reduction became integral to the administration of President Yudhoyono, which sought to redesign social assistance programmes to achieve broad-based economic growth and fiscal sustainability. Spending on social assistance has since climbed, reaching 0.7% of GDP in 2015. Although this is lower than social assistance spending in a number of peer economies, the current upward trend is expected to continue, thanks to the reform and expansion of key programmes.

Figure 4.5. Social assistance spending increased as fuel subsidies declined

Spending on selected social protection programmes and subsidies (2004-16)



Note: HH SA = household social assistance. BLSM = Bantuan Langsung Sementara Masyarakat

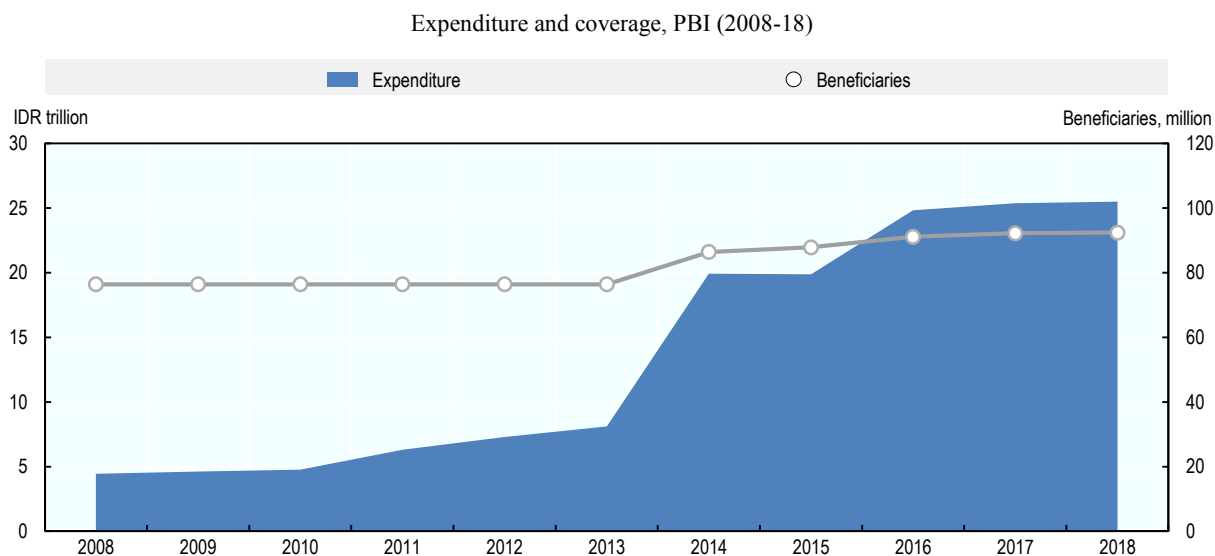
Source: MoF (2017).

The administration that took office in 2015 identified social assistance, in particular the PKH cash transfer, as a mechanism for reducing inequalities of income and opportunity. In the same year, social protection surpassed spending on fuel subsidies for the first time thanks to a major reform in that area (Figure 4.5), although subsidy spending rebounded strongly in 2018. This section examines the allocation of social assistance spending to the programmes identified in Chapters 2 and 3.

Penerima Bantuan Iuran (PBI)

PBI, known as Jamkesmas until 2014, are non-contributory members of the Jaminan Kesehatan Nasional (JKN, national health insurance). The number of beneficiaries increased from 76 million in 2013 to 92 million in 2018. This increase in coverage has been accompanied by strong growth in expenditure (Figure 4.6).

Figure 4.6. Premium subsidies for PBI beneficiaries is rising sharply as coverage grows



Source: MoF (2019).

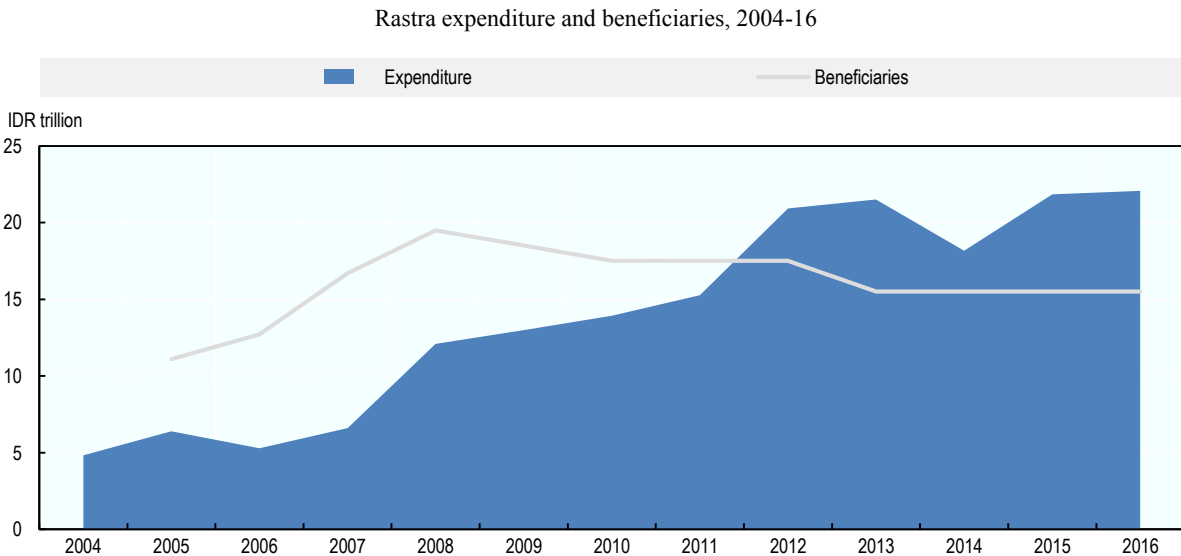
Total programme expenditure in 2017 was IDR 25.4 trillion, equating to 2.1% of government expenditure or 0.19% of GDP. A recent study shows that programme costs are expected to increase to up to 4.5% of total government expenditure by 2030 as the GoI advances towards universal health coverage (UHC) (Dartanto, 2017^[11]).

Enrolment of the poor and near poor, combined with improving health services, represents a significant fiscal challenge. BPJS Health aims to overcome this challenge by incentivising non-poor informal sector workers to join the contributory scheme. To ensure the system's sustainability, this strategy must be accompanied by improved cost control, higher insurance collection rates and activities to promote public health.

Rastra and Bantuan Pangan Non Tuna (BPNT)

Rastra is the second-largest social assistance programme in terms of coverage. In 2016, Rastra expenditure amounted to IDR 22.1 trillion (Figure 4.7), equal to 1.9% of total government expenditure and 0.18% of GDP. A significant increase in expenditure from 2014 to 2015 has been partly attributed to inclusion errors; Rastra's inefficient financial structures are well-known (Shin et al., 2017^[12]).

Figure 4.7. Rastra spending is on the rise but beneficiary numbers are steady



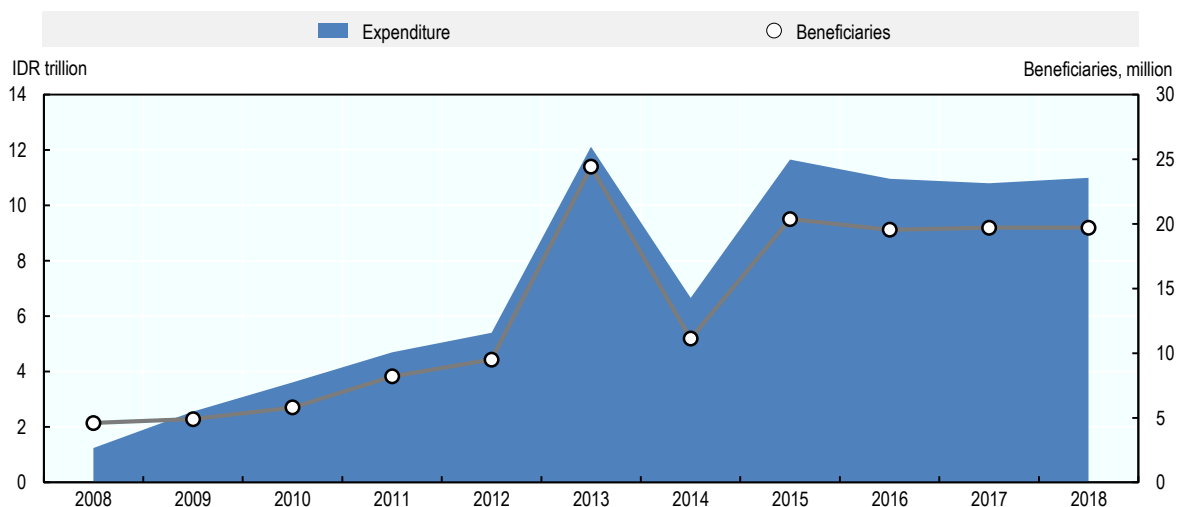
Source: Compiled from MoF (2016) and World Bank (2012) data.

In 2017, the GoI introduced the BPNT (non-cash food assistance) transfer programme for poor households, which is based on e-vouchers and intends to reduce the leakage associated with Rastra. The Ministry of Social Affairs (MoSA) administers the programme, which is intended to gradually replace Rastra. In 2017, approximately 1.4 million households in 44 cities benefitted from BPNT, which had a budget of IDR 1.6 trillion, equal to 0.13% of total government expenditure or 0.01% of GDP.

Program Indonesia Pintar (PIP)

Improving education outcomes is an important objective of social assistance in Indonesia. Multiple programmes are implemented, costing roughly IDR 14.4 trillion and account for 1.2% of total government spending or 0.1% of GDP. Programme Indonesia Pintar (PIP), administered by the Ministry of Education and Culture, is the largest, covering roughly 20 million students. Spending and coverage have grown rapidly since 2000. (Figure 4.8).

Figure 4.8. PIP spending and coverage are on the rise



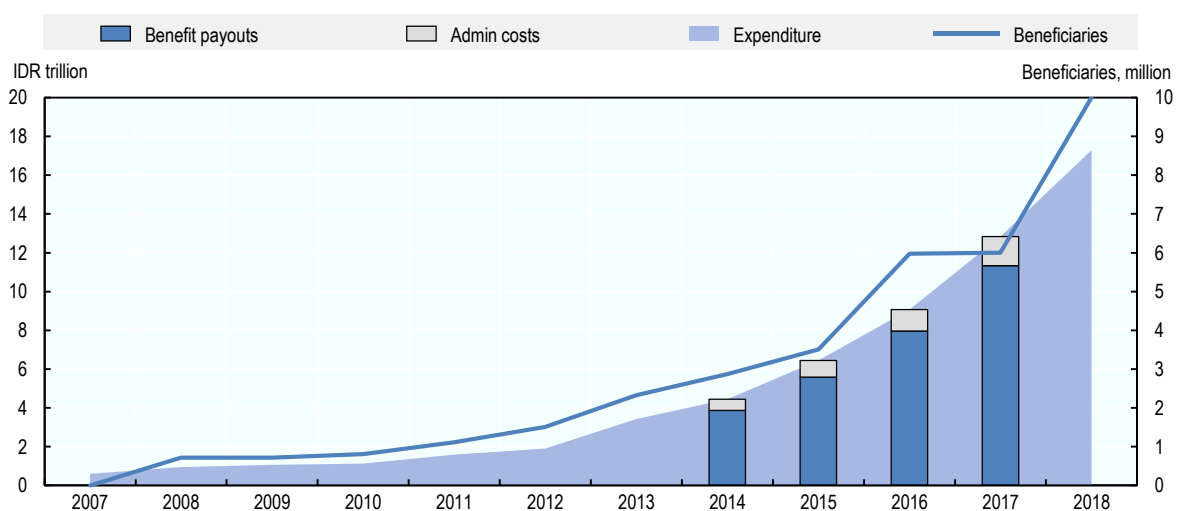
Source: MoF (2019).

Program Keluarga Harapan (PKH)

PKH, a conditional cash transfer programme and is emerging as Indonesia's flagship social protection programme. As modelling in Chapter 3 demonstrates, it is the best targeted and most effective social assistance programme. Piloted in 2007, PKH expenditure has increased significantly since 2012 in line with growth in coverage. Following a recent national scale-up, PKH covered some 6 million households in 2017 at a cost of IDR 12.8 trillion, equal to 1.1% of total government expenditure or 0.10% of GDP (Figure 4.9).

Figure 4.9. PKH spending has increased rapidly

PKH expenditure by type and number of beneficiaries (2007-18)



Source: MoF (2019).

Expenditure on PKH increased further in 2018, when the GoI expanded programme coverage to 10 million households. In 2019, a doubling of benefit levels means it will be one of the main drivers of growth in overall public spending. The World Bank has provided a loan to support the development of information systems required to sustain this scale-up (Box 4.3).

Box 4.3. PKH loan recognises the investment case for social protection

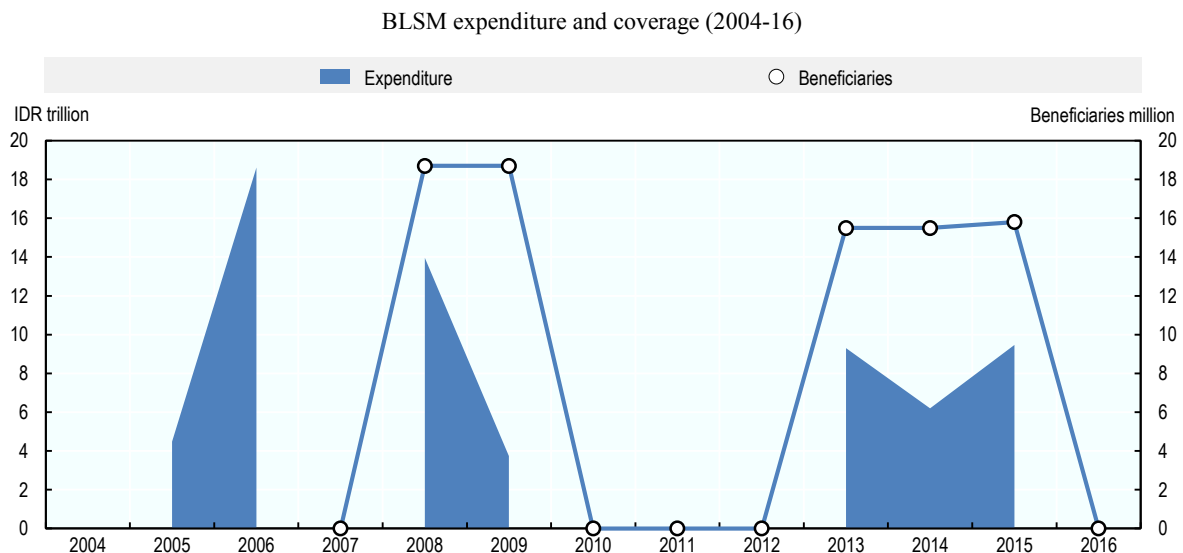
In 2017, the World Bank approved a USD 200 million [United States dollar] loan to help develop the architecture for PKH. The loan programme will last until 2021 and intends to support the increase in PKH coverage through strengthening information systems and delivery mechanisms and improving co-ordination with other social protection programmes (World Bank, 2017^[13]).

Although this amount represents a small proportion of the GoI's intended spending on the programme over the coming years, it is nonetheless notable that Indonesia is borrowing on commercial terms to finance social assistance. This reflects an understanding that social protection constitutes an investment in human capital and thus the country's long-term economic prospects. The loan also demonstrates a mechanism by which donors can support social protection in middle-income countries that no longer access concessional financing.

Bantuan Langsung Sementara Masyarakat (BLSM)

BLSM is a time-bound unconditional cash transfer with one objective: to provide cash assistance to poor households to offset anticipated price inflation related to a specific policy. In effect, its purpose is to reduce the exposure of poor households to economic risks arising from declines in fuel subsidies.

Figure 4.10. BLSM is a time-bound but significant intervention



Source: MoF (2016).

The GoI has intervened through BLSM on several occasions. In 2005-06, for instance, subsidy cuts resulted in household fuel price inflation of over 125%. A similar price-shock occurred in 2008-09. On both occasions, the government disbursed BLSM to prevent increases in poverty. In 2015, an estimated 15.8 million households received IDR 600 000 over two phases, at a cost of IDR 9.5 trillion, equal to 0.9% of total government expenditure or 0.1% of GDP (Figure 4.10).

JKN's success in reaching the missing middle is threatening its sustainability

In 2015, some 70 million non-contributory and contributory JKN members claimed a total of IDR 67.75 trillion, equal to 0.55% of GDP. Almost half of this expenditure (IDR 30.42 trillion) is financed by contributory members, such as formal sector employees, self-registered members (informal workers) and employers. The GoI pays the balance.

There are several concerns with the financial stability of the JKN system. First, the number of beneficiaries exceeds the number of monthly contributors, resulting in a claims ratio of above 100%. This partly relates to selection issues: beneficiaries only need to have been registered for 30 days or more to receive treatment, creating the potential for individuals to register only when they or their households need medical assistance.

Informal workers also make irregular contributions due to the nature of their income. Their average contribution level is also low for the same reason, and most informal workers opt for the lowest monthly premiums.

At the same time, health care availability and quality affect the decision to enrol. In many areas, services are considered suboptimal, causing people to opt out or resist paying higher premiums. Increased use of facilities by newly covered individuals can also strain quality of services.

The GoI aspires to provide UHC by 2019. Even without UHC, BPJS Health's accumulated debt is expected to reach IDR 173 trillion in 2019, unless the existing payment scheme is changed (Table 4.1).

Table 4.1. JKN's deficit is widening

	2014	2015	2016
Beneficiaries (million)	152	162	186
Deficit (IDR trillion)	1.54	4.00	9.79

Source: Dartanto, T. (2017^[11]), *Universal Health Coverage in Indonesia: Informality, Fiscal Risks and Fiscal Space for Financing UHC*, International Monetary Fund (IMF)/Japan International Cooperation Agency (JICA), Tokyo.

Expenditure by labour-related social insurance programmes is lower than spending on JKN and coverage is increasing more slowly. However, the design of the system established in 2015 and overseen by BPJS Labour will have significant implications for the financing and sustainability of social insurance over the long term as the population starts to age.

At present, the majority of labour-related social insurance spending relates to Jaminan Hari Tua (JHT, old age security). Old-Age Security is a defined-contribution provident fund, with employer and employee contributions. Male and female beneficiaries receive a lump-sum pension payment upon reaching the retirement age of 55. JHT expenditure was IDR 16.75 trillion in 2015, equal to 1.42% of total government spending or 0.15% of GDP.

Other insurance programmes include the survivor pension, JKK and a few insurance schemes targeted at specific employment sectors, for example construction workers (both formal and informal), members of the armed forces or civil servants. These individual programmes combined accounted for IDR 1.46 trillion in 2016, equalling 0.13% of total government expenditure and 0.01% of GDP.

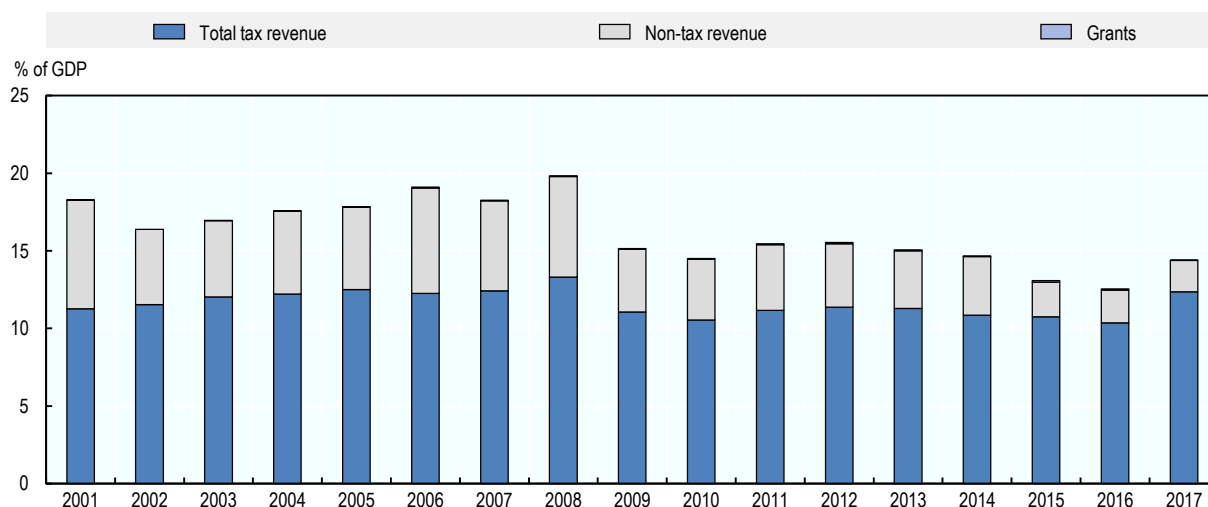
Since 2015, the programme is complemented by a new pension scheme for formal workers, which is run on a defined-benefit basis. This scheme is currently in the accumulation phase, and as such, its costs are relatively low. The GoI is keeping contribution rates and the retirement age relatively low. However, to protect its long-term sustainability, these parameters will both need to increase within a relatively short period of time.

Low revenues are a major constraint on Indonesia's development

Indonesia's low level of domestic resource mobilisation, for a country at its income level, is a critical constraint on its ability to continue scaling up social assistance. It also limits the potential for redistribution through the fiscal framework, which is an important mechanism for tackling income poverty and inequality. The 2018 OECD Economic Survey for Indonesia devotes a chapter to raising public revenue through mechanisms that promote inclusive growth. It provides much greater detail on domestic resource mobilisation than is available here, as well as policy recommendations for enhancing revenues that are relevant for this analysis (OECD, 2018^[9]).

Efforts to increase social insurance coverage can ease the direct burden on public finances. However, they must work in tandem with policies to increase tax revenues through broader formalisation policies. If these function coherently, a virtuous circle is achievable whereby a larger proportion of the population is formally employed and contributing to social security arrangements at the same time as paying more in taxes, with the consequence that workers' livelihoods are protected and the government can afford to spend more on tax-financed social protection for individuals who are unable to work. Of course, taxes and social security contributions can also militate against formalisation by increasing the cost of employment; careful policy design and implementation are critical.

According to Ministry of Finance, tax revenue contributes a large majority of the total state budget revenue: 11.1% of GDP in 2016 versus 2.3% from non-tax revenues (Figure 4.11). The gap between tax and non-tax revenue has steadily increased since 2009, reflecting a gradual decline in the GoI's reliance on income from the oil and gas sector.

Figure 4.11. Government revenues have declined as a proportion of GDP

Source: MoF (2019).

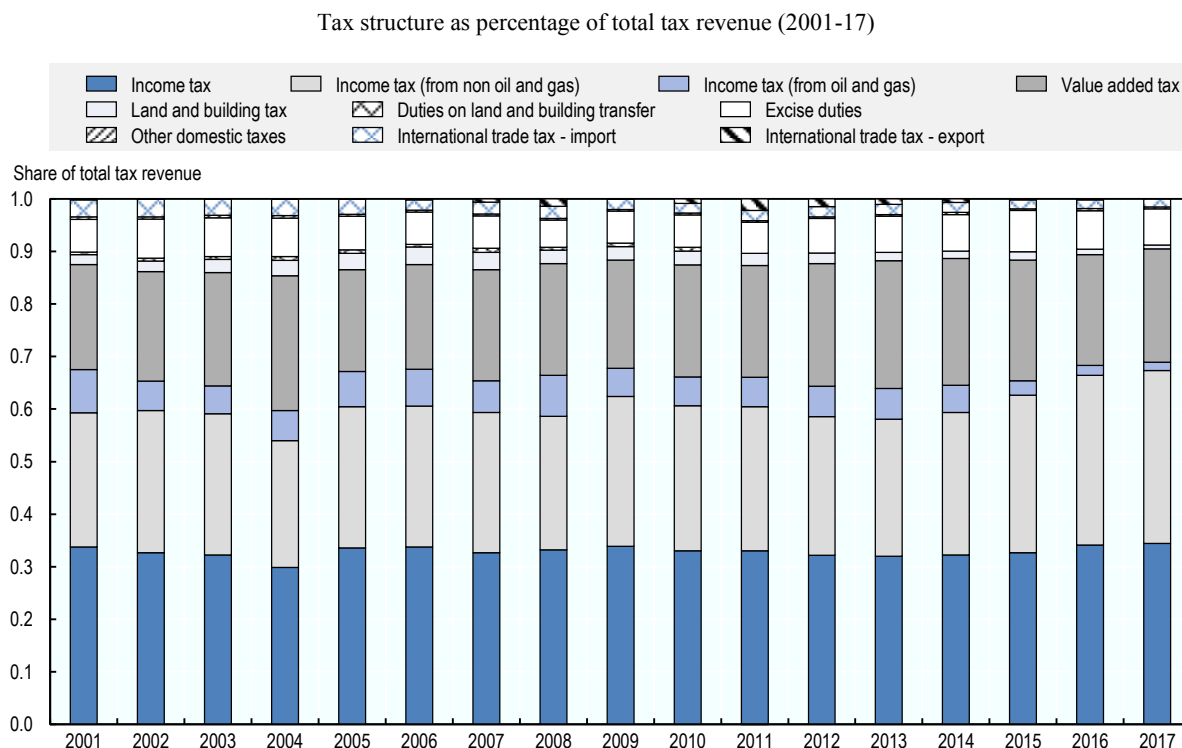
According to *Revenue Statistics in Asian and Pacific Economies 2018*, which allows for direct comparison of the level and structure of countries' tax revenues by harmonising tax data, Indonesia's tax-to-GDP ratio is substantially lower than that of its neighbours (OECD, 2018_[14]). According to this report, Indonesia's tax-to-GDP ratio was equivalent to 11.6% of GDP in 2016, versus 14.3% in Malaysia, 17.0% in the Philippines and 18.1% in Thailand (OECD, 2018_[14]). Indonesia's tax revenues as a percentage of GDP steadily declined since peaking in 2008 (OECD, 2018_[14]), although they recovered in 2018 and are projected to increase further in 2019 (World Bank, 2018_[8]).

Figure 4.12. Tax revenues are very low by regional standards

Source: OECD (2018_[14]), *Revenue Statistics in Asian and Pacific Economies 2018*, <https://doi.org/10.1787/9789264308091-en>.

Figure 4.13 depicts the composition of tax revenues between 2001 and 2017. The share of income tax in total tax revenue collection increased by 1.5 percentage points to 34.1% in 2016, exceeding the pre-2012 levels, after lower collections between 2012 and 2015. Taxes on income from oil and gas declined, from 5.2% of tax revenues in 2014 to 1.8% in 2016.

Figure 4.13. Direct taxes account for over half of tax revenue



Source: MoF (2016).

The potential exists to enhance revenues from VAT, which is a relatively efficient source of revenue from an economic growth perspective. Indonesia can broaden the VAT base by removing a number of exemptions and lowering the VAT registration threshold, which is high relative to OECD countries. Such reforms would raise more revenue without increasing the rate, although it would nonetheless be important to calculate the impact on low-income households of removing the exemptions. Excise taxes on tobacco are also an important source of income (see Box 4.4).

Weak tax compliance contributes to Indonesia's low tax-to-GDP ratio. Between 17.8% and 35.7% of Indonesians aged 15 or over were registered for personal income tax (PIT), which is low by emerging economy standards (OECD, 2018_[9]). The GoI has taken steps to increase tax compliance and reduce tax evasion over the last decade, including multiple bilateral tax agreements and three tax amnesties in 2008, 2015 and 2016.

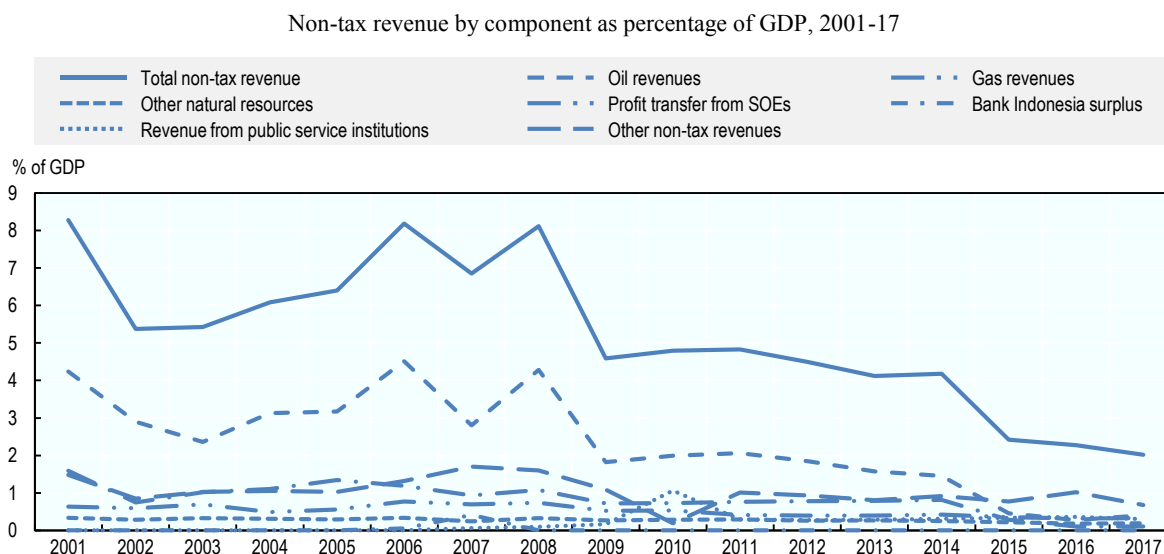
Box 4.4. Increasing tobacco excise taxes for revenues and health

As discussed in Chapter 1, smoking is emerging as a major threat to the Indonesian population's long-term health, and there is a strong case for increasing tobacco taxation. Indonesia has one of the highest rates of smoking and tobacco use in the world – three-quarters of men smoke – and is one of the few countries where smoking rates have increased in the past decade. Taxation has proven a cost-effective means of reducing smoking internationally. Indonesia's tax rate remains below the World Health Organization's recommendation of 70% of the retail price.

In its Economic Survey of 2018, the OECD recommends that Indonesia increase and harmonise excises across tobacco products (OECD, 2018_[9]). At the same time, it is important that higher taxation be accompanied by public information campaigns to increase awareness of the dangers of smoking, as well as tighter regulation of tobacco advertising. In late 2018, the GoI cancelled plans to increase the excise tax on tobacco in 2019, making it the first year in which this has not happened since 2014 (Reuters, 2018_[15]). Smoking is not the only major lifestyle-related health threat affecting Indonesia. With obesity rates also rising fast, there is a case for the GoI to use taxation to influence behaviour, and it is thought to be one of a number of countries in South-East Asia to be considering a tax on sugar-sweetened drinks (OECD, 2018_[9]).

The oil and gas sector generates the majority of non-tax revenue but its contribution has declined as a percentage of GDP since 2001 (Figure 4.14). Other sources include natural resources, profits from SOEs, public service institutions and other non-tax revenues. Non-tax revenues peaked in 2006 at 8.2% of GDP but plunged sharply in 2009 to 4.6% of GDP. Since then, non-tax revenues have remained under 5% of GDP. In 2016, they amounted to 2.3% of GDP. External grants are a small and volatile component, accounting for 0.6% of total government revenue in 2016.

Figure 4.14. Declining oil revenues are bringing down non-tax revenue



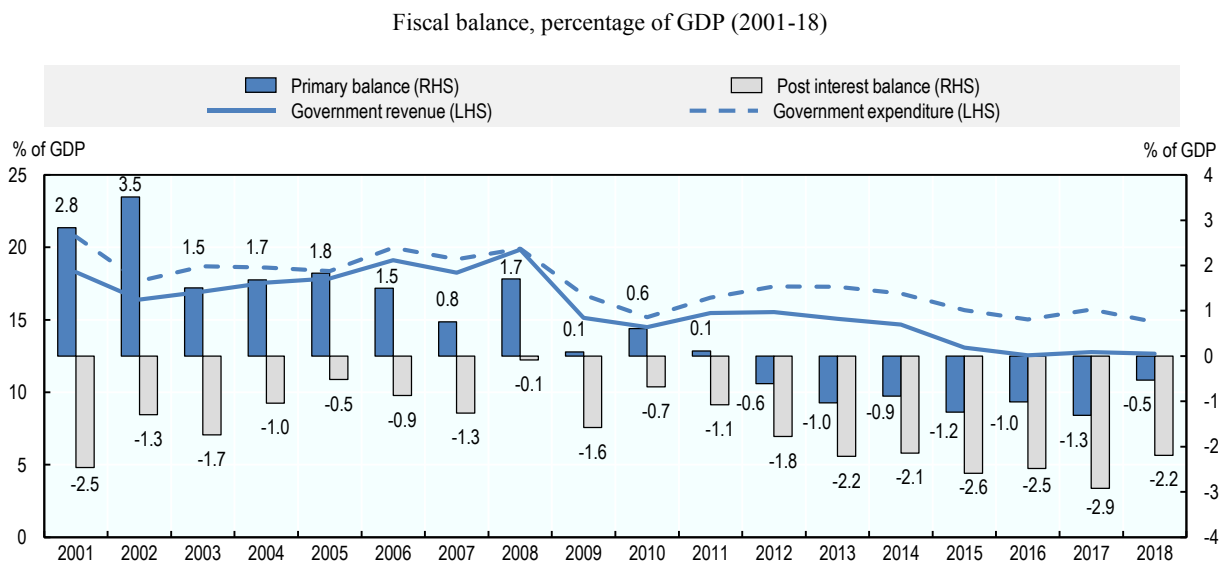
Source: MoF (2018).

Tax buoyancy measures the efficiency and responsiveness of revenue mobilisation in response to growth in national income. Indonesia's tax buoyancy between 2001 and 2016 was 0.84, implying that tax revenues rose at a slower rate than the economy grew over this period. This has been a continuous concern in Indonesia, largely due to the burgeoning informal sector, weak government monitoring and poor law enforcement that make tax evasion possible.

Indonesia's fiscal deficit is narrowing and debt levels have declined

Indonesia is required by law to keep its combined fiscal deficit (central and regional government) below 3% of GDP. The fiscal deficit has gradually approached this threshold in recent years, reaching 2.5% of GDP in 2017 (Figure 4.15), reflecting an expansionary fiscal policy. However, the central government deficit declined to 1.7% of GDP in 2018, giving weight to estimates that the overall deficit will have narrowed to between 1.9% and 2.2% of GDP in 2018 (Reuters, 2019^[16]). The deficit is expected to decline further in 2019 (OECD, 2018^[9]; World Bank, 2018^[8]).

Figure 4.15. The fiscal deficit widened after 2010



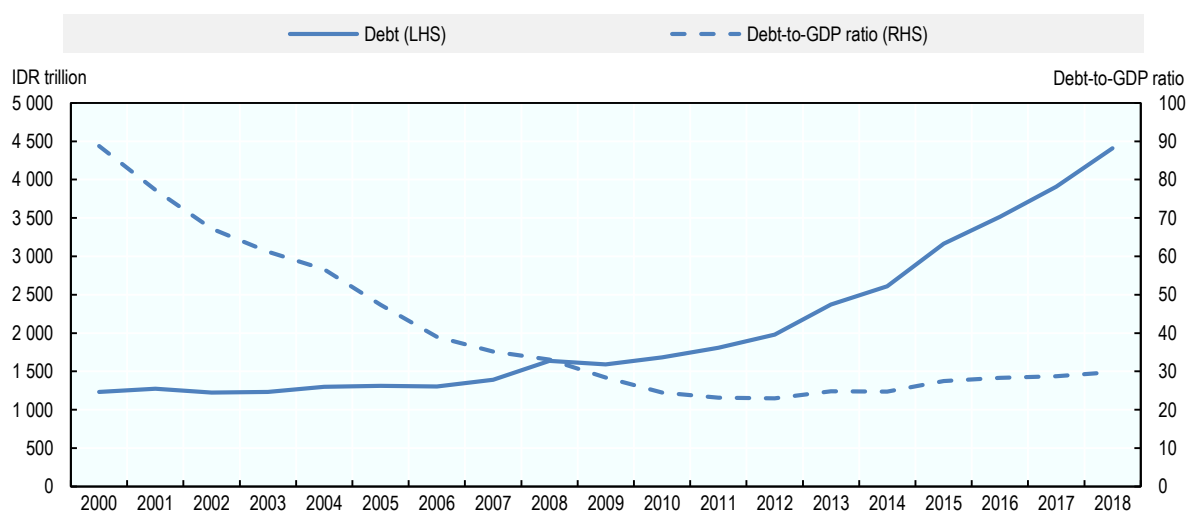
Note: RHS = right-hand side. LHS = left-hand side.

Source: MoF (2019).

Indonesia's debt-to-GDP ratio has declined significantly over the past two decades, from 88.8% in 2000 to 29.8% in 2018 (Figure 4.16). Fiscal discipline, sustained and robust GDP growth, effective debt management and successful negotiations for lower interest rates have contributed to the decline. The GoI also sold several state-owned enterprises to pay off foreign debt in 2003-04 and restructured its foreign debt three times (2003, 2006 and 2008).

Figure 4.16. The debt-to-GDP ratio has declined significantly

Total public debt in absolute terms and as percentage of GDP (2000-18)



Source: Directorate General of Budget Financing and Risk Management (2018).

While the debt-to-GDP ratio declined between 2000 and 2012, the GoI increased borrowing in 2014 to finance planned infrastructure investments. Nonetheless, the current debt-to-GDP ratio remains well below the 60% threshold established by Law No. 17 of 2003 and is lower than that of Malaysia, the Philippines and Thailand.

Recent upgrades to Indonesia's credit rating reflect its strengthening macrofiscal environment. Standard and Poor's Rating Agency, Fitch Ratings and Moody's Investors Service all raised the country's sovereign rating in 2017/18, with the result that it is now rated as investment grade by all three. These upgrades make it easier for Indonesia to attract foreign and domestic investment.

The combined impact of taxes and direct transfers is to reduce inequality

Taxes and social transfers offer governments powerful and flexible tools for achieving core development objectives while promoting social equity. These instruments serve multiple cross-cutting purposes, among them to 1) finance vital government activities; 2) create incentives to align private behaviour with social interests; 3) correct market failures; 4) tackle poverty and vulnerability; and 5) promote a more equitable distribution of income, wealth and other resources.

Fiscal incidence analysis can provide complex evaluations to assess the objective of equity, as often the real burden of taxation falls on individuals who might or might not be directly liable for the payments. For example, corporations pay corporate income tax (CIT) but the incidence ultimately falls on the shareholders, who receive lower after-tax dividends, employees who receive lower wages and consumers who pay higher prices.

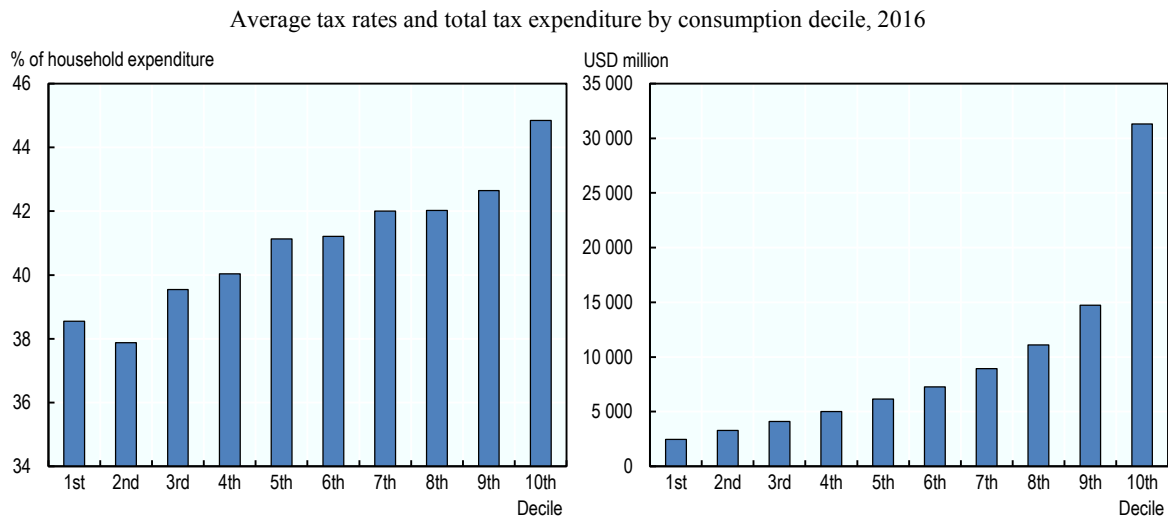
Similarly, the outcomes of government transfers (and social protection programmes more broadly) often involve pathways complicated by targeting errors, opportunity costs and stochastic long-term payoffs. Both supply- and demand-side barriers create challenges for lower-income households to benefit from government expenditure aimed at reducing poverty and inequality.

This review carries out fiscal incidence analysis based on 2016 Survei Sosial Ekonomi Nasional (SUSENAS; National Socio-Economic Survey) data (Statistics Indonesia, 2016_[17]). It simulates the five leading sources of tax revenues from direct taxes (PIT, CIT, property tax) and indirect taxes (VAT, excise tax), which together accounted for over 95% of government tax revenues from 2001 to 2017. Modelling the incidence of CIT, which accounts for about 32% of the tax burden, requires strong assumptions; in this case, the report assumes that the burden is distributed equally between owners of capital and consumers.

To analyse the impact of transfers, the model includes three major government transfer programmes: Rastra, PIP/Bantuan Siswa Miskin and PBI. PKH cannot be modelled because it is not specifically identified in the 2016 SUSENAS.

The total microsimulated tax revenues from the five taxes accounts for 96.6% of total reported tax revenues for 2016. Figure 4.17A demonstrates how the tax burden is distributed across consumption deciles, illustrating the burden as a percentage of household expenditure. The total tax burden is highest among households in the first decile: the effective tax rates reach 38.5% for the first decile, compared with 44.8% for the top decile.

Figure 4.17. The tax system is mildly progressive

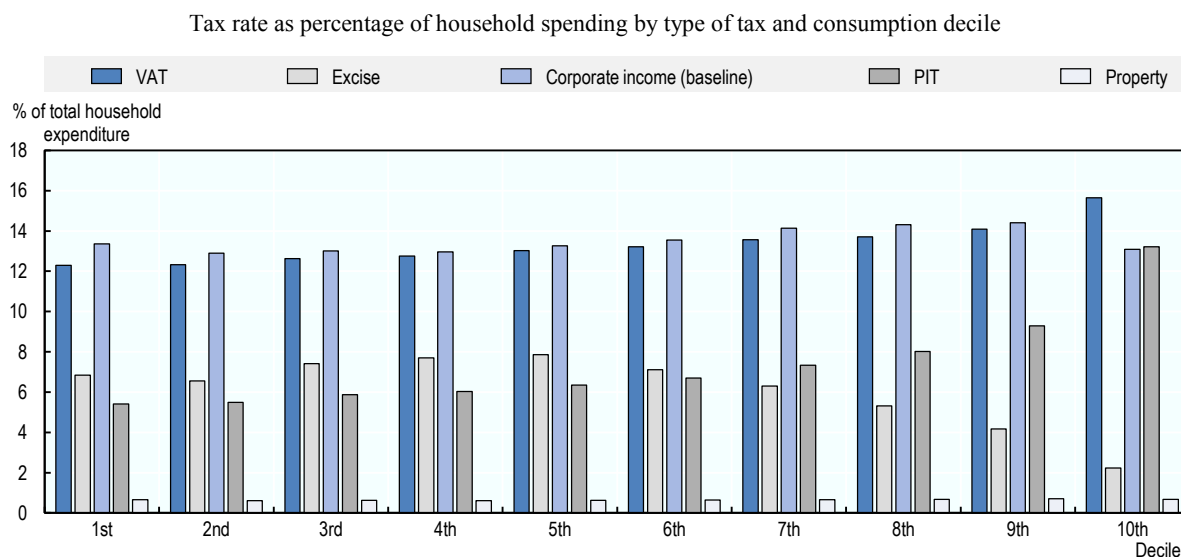


Source: Authors' calculations based on Statistics Indonesia (2016_[17]), SUSENAS <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Individuals at the higher end of the income distribution pay a much larger share of total taxes than lower deciles (Figure 4.17B). The top decile pays a total of USD 31.3 billion, more than the bottom six deciles combined. The highest decile also accounts for 33.2% of the total tax burden, compared with 2.6% for the lowest decile. Given that the effective tax rates do not vary by such a wide margin, this disparity in tax payments reflects a concentration of consumption at the top of the distribution.

Direct and indirect taxes both weigh on low-income individuals (Figure 4.18). The impact of PIT increases with income, showing the progressivity of this instrument, although it is nonetheless surprising to see households in the lowest deciles paying any PIT at all. At the same time, the effective rate of VAT also increases slightly with income, indicating that consumers at higher-income levels consume more goods that are not exempt from income tax. The effective rate of excise taxes, imposed on cigarettes and alcohol, initially increases with income then declines.

Figure 4.18. Direct and indirect taxes weigh on consumption



Source: Authors' calculations based on Statistics Indonesia (2016_[17]), SUSENAS <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

By modelling counterfactuals that eliminate taxes and social protection benefits, this report analyses the distributional impact of Indonesia's taxes and transfers. The simulation assumes the baseline consumption is the final consumption that reflects taxes paid in line with the model above and social protection benefits received.

Counterfactual 1 reports household consumption in the absence of the social protection benefits. Subtracting the household per capita transfer amount from the household per capita consumption in the baseline scenario calculates the adjusted household consumption. The difference is the equity impact of the social protection system.

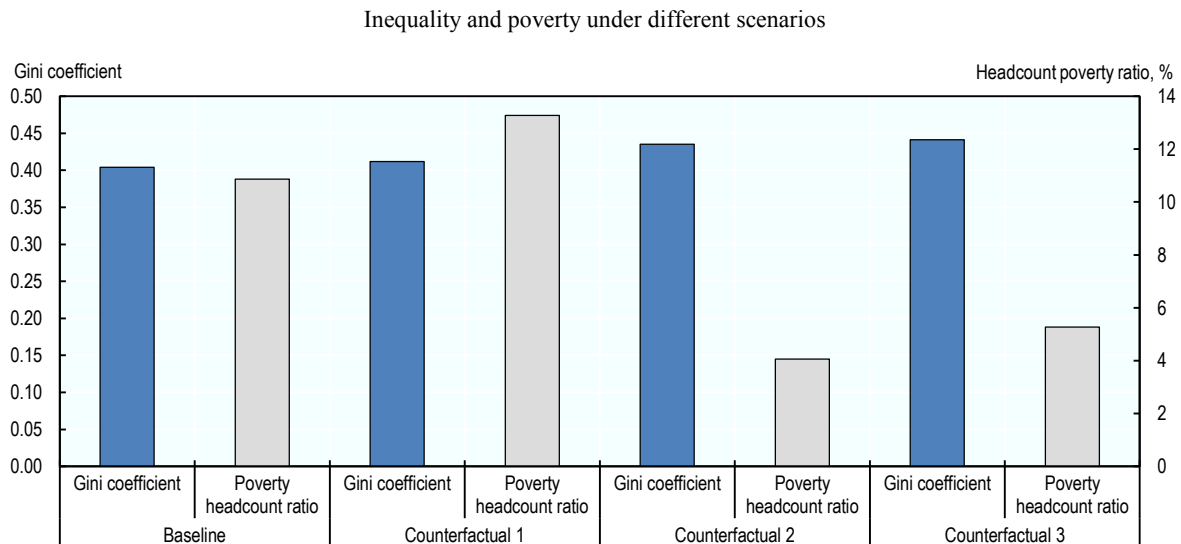
Counterfactual 2 reports household consumption in the absence of the tax system (but with the existing social protection benefits included). The model calculates this by adding the household per capita tax burden to the baseline household per capita consumption, which acts as a rebate of 100% of the taxes that households have paid and that households entirely consume. The difference between the baseline and this scenario represents the equity impact of the tax system.

Counterfactual 3 combines the other counterfactuals by removing the per capita tax burden and the per capita transfer amount for each household. In this scenario, the income aggregate for each household is their market income. Under the simplifying assumption that the marginal propensity to consume is one, the change in per capita income corresponds to a one-to-one change in per capita consumption.

Figure 4.19 shows the impact of taxes and transfers on inequality, as measured by the Gini coefficient. The Gini is lowest for the baseline; it increases from the baseline to counterfactual 1 and increases by a further 2.3 percentage points in counterfactual 2, indicating that the combined effect of taxes and transfers is to reduce inequality (as confirmed by counterfactual 3).

The reduction in inequality is consistent with the results of fiscal incidence analysis using the Commitment to Equity methodology (CEQ, 2017_[18]) and based on SUSENAS data for 2012, which found that the combined impact of taxes and transfers was to reduce inequality by one percentage point (Jellema, Wai-Poi and Afkar, 2017_[19]). This report confirms the finding in Chapter 3 that PKH (which is not included in the fiscal incidence analysis here) has the largest impact on poverty and inequality of any transfer, despite receiving a very low spending allocation. This finding leads the World Bank to conclude that “Indonesia has historically spent most on those programmes and policies that least reduce inequality in the short term, and little on those that have the greatest impact” (World Bank, 2016_[20]).

Figure 4.19. Transfers do not outweigh the impact of taxes on poverty



Note: Counterfactual 1 removes social protection benefits from household consumption; Counterfactual 2 adds households' average tax payments to their consumption and Counterfactual 3 combines both counterfactuals.

Source: Authors' calculations based on Statistics Indonesia (2016_[17]), SUSENAS <https://microdata.bps.go.id/mikrodata/index.php/catalog/769>.

Figure 4.19 shows the impact of taxes and transfers on poverty, as measured by the national poverty line. This exercise is important, since taxes can be both progressive and impoverishing at the same time.

Comparing baseline and counterfactual 1 illustrates the poverty-reducing impact of the transfers. The difference in poverty headcount ratio between the two scenarios is 2.4 percentage points, meaning that 6.2 million individuals would fall below the poverty line without the government transfers simulated here.

In counterfactual 2, when the model transfers the collected tax revenues back to households, the poverty rate decreases from the baseline, from 10.9% to 4.1%, reflecting increased household disposable income and per capita consumption. The result suggests that microsimulated taxes push about 6.8% of the population (17.5 million individuals) below the poverty line. The poverty-increasing impact of taxes is thus larger than the poverty-reducing impact of transfers.

The results of the analysis presented here should be treated with caution, principally because it only looks at social assistance transfers and does not include PKH. These account for a very small proportion of the broader social spending included in the fiscal analysis, which includes in-kind health and education benefits, as well as subsidies. Once these are taken into account, (Jellema, Wai-Poi and Afkar, 2017^[19]) find that the fiscal system succeeds in reducing poverty as well as inequality.

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Chapter 5. Strengthening the social protection system

Indonesia has made great strides towards establishing a social protection system, supported by sustained political backing across administrations, the scaling up of key programmes and the emergence of a strong information architecture. This chapter charts the progress that Indonesia has made towards establishing a social protection system and identifies the key levers for strengthening this system in the future. It also recognises the constraints to systematisation and proposes reforms to the institutions, policies and information systems that underpin social protection as a means of enhancing its capacity to address the challenges identified in the report and underpin inclusive economic growth.

The Government of Indonesia (GoI) is fulfilling the commitment to establish a social protection system articulated in the National Medium Term Development Plan (RPJMN) 2015-2019. Important progress has been made in strengthening coherence and co-ordination across a number of dimensions, including legislation, policies and institutions. There has been a strong increase in spending on key programmes, such as Penerima Bantuan Iuran (PBI) and Program Keluarga Harapan (PKH). Nonetheless, further progress is required to realise the RPJMN's vision of a comprehensive and coherent social protection system covering the entire population as the cornerstone of its inclusive growth strategy.

A minority of the poor population is accessing all the interventions to which they are entitled, and which they need to exit poverty on a permanent basis. Social insurance schemes face important constraints (and difficult financial trade-offs) with respect to increasing coverage. Active labour market policies to increase the skills and productivity of vulnerable workers do not operate at sufficient scale while workers are left vulnerable by low compliance with severance pay and minimum wage legislation, as well as the absence of an unemployment insurance fund.

At the same time, social protection policy makers at a national level must harness the power of sub-national government to address wide variation in local contexts across the country. In addition, ambitions to expand social protection are held in check by a lack of financing. Social protection spending remains very low by regional standards, which is in large part a function of weak domestic resource mobilisation. As a result, it is essential to optimise resources allocated to social protection by creating synergies and enhancing efficiency wherever possible.

This chapter outlines the main dimensions of the social protection system in Indonesia. It then identifies the main challenges to strengthening this system and proposes appropriate policy responses.

The institutional structure for social protection remains fragmented

Indonesia is developing the policy, legislative and information infrastructure for a social protection system. However, the overall system architecture is still characterised by extensive fragmentation and a lack of clear oversight. Efforts to enhance coherence are hampered both by the number of line ministries involved in provision of social protection programmes and by an excess of co-ordinating bodies.

The social protection system is not organised under one central co-ordinating body. The roles and responsibilities of legislative work, co-ordination, supervision, implementation and management are divided across various line ministries and administrative bodies. Furthermore, ministries with little or no experience have direct involvement in poverty-reduction activities.

The Coordinating Ministry of Human and Cultural Development oversees key social policies but it does not guide the direction of social protection specifically. It provides oversight to technical ministries directly involved in the delivery of key social protection programmes such as the Ministry of Social Affairs (MoSA), the Ministry of Health and the Ministry of Education and Culture. It is also responsible for ensuring policy co-ordination and harmonisation of programmes across ministries but not with specific reference to social protection.

The Ministry for Planning and Development (Kementerian Negara Perencanaan Pembangunan, BAPPENAS) is responsible for national development planning and budgeting. It plays a significant role in the planning of social protection programmes with two specific directorates responsible for social protection and poverty alleviation.

Dewan Jaminan Sosial Nasional (DJSN, the national social security council), established under Law No. 40/2004, is mandated to supervise the implementation of a national social security system (SJSN). This legislation empowers the DJSN to formulate general policy and synchronise implementation of the national security system. The DJSN works under direct supervision of the President and consists of government officials, experts in social protection, and members of employers and workers associations.

The DJSN is responsible for overseeing Badan Penyelenggara Jaminan Sosial (BPJS, the social security administrative body). BPJS, established under Law No. 24/2011, is responsible for social security policy development, harmonisation of the implementation of social security schemes, and monitoring social security funds. The BPJS law consolidated social insurance programmes under two independent bodies: BPJS Kesehatan (Health) and BJPS Ketenagakerjaan (Labour).

BPJS Health is responsible for achieving universal health coverage in Indonesia through the Program Jaminan Kesehatan Nasional (JKN, national health insurance). This programme includes both contributory and non-contributory components, thus cutting across the social assistance and social insurance pillars. Within the contributory component are three classes of member: wage recipients, non-wage recipients, and retirees and veterans. Different contribution rates apply for each category.

Under the BPJS Law, BPJS Labour is responsible for managing the old-age benefit, work accident insurance, death benefit and new pension programmes. The social security programmes for workers in the public sector, currently implemented by PT TASPEN and PT ASABRI, are scheduled to merge with the BPJS Labour programmes in 2029.

The National Team for Accelerating Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan, TNP2K) was established by Presidential Decree No. 15/2010 and reports to the Vice President. It is responsible for developing regulations and programmes for poverty reduction, for ensuring synergies across programmes through synchronisation, harmonisation and integration of poverty-reduction initiatives run by various line ministries.

The role of the TNP2K overlaps with the responsibilities of some key administrative bodies including the Coordinating Ministry of Human and Cultural Development, MoSA, BAPPENAS and the National Statistics Bureau. Its status is determined by the degree of support it receives from the President's office.

MoSA is the lead agency for multiple social assistance programmes, including cash transfers and some social services such as rehabilitation and housing support. It does not have direct reporting requirements to DJSN, despite the latter's co-ordinating function for social protection. Since 2015, MoSA has been responsible for managing data on the poor population, specifically for the social protection programmes targeting the poor, a role previously undertaken by Central Bureau of Statistics. This expansion of its workload was not matched with a concomitant increase in resources. While MoSA is responsible for the management and delivery of cash transfer programmes, sectoral programmes and subsidies are managed and run by individual line ministries.

Shared system functions should be expanded

Indonesia has developed a single targeting mechanism for social assistance programmes but does not have an integrated management information system. This constrains the GoI's capacity to monitor and evaluate the functioning of social assistance programmes and to ensure that beneficiaries are receiving all the benefits to which they are eligible.

The absence of a management information system for social assistance is partly a function of fragmentation in the sector, not to mention the challenge of co-ordinating information flows across a country as large and diverse as Indonesia. Numerous programmes exist and responsibility for social assistance programmes at a national level is divided between MoSA, the Ministry of Education and numerous other institutions. Sub-national governments also have an important role in implementation. This situation has made it impossible to co-ordinate information systems as well as meaning that each programme has its own operational processes, monitoring and evaluation strategies, beneficiary lists and budgets (TNP2K, 2018^[1]).

The rapid scale-up of certain social protection programmes has magnified the challenge of establishing and maintaining information systems. This has been a particular problem with PKH. As the World Bank's Programme Appraisal Document for PKH notes, the programme's existing management information system 'was not designed to manage millions of beneficiary families and its performance, capability, and reliability have become so inadequate that many administration tasks cannot be carried out effectively, hampering efficiency, transparency, and accountability of the programme' (World Bank, 2017^[2]).

This situation is made harder by the fact that social assistance programmes do not use a single identification number. An individual might have multiple identification numbers if he or she was enrolled in multiple programmes in addition to national personal and family identification numbers. Box 5.1 explains how a new set of identification cards is helping to improve coherence in this regard.

Only once the scale-up plateaus will it be possible to fully understand the strengths and weaknesses of the PKH information system. At this point, it will be important to implement the action plan proposed by the World Bank to develop an adequate data system for the programme and establish the capacity required to monitor such a system. Meanwhile, MoSA will need to enhance its ability to collect and analyse data from other programmes.

Over the longer term, an ideal end-point would be a single management information system for social assistance. The lack of such a system places considerable financial and administrative strain on individual ministries to continually gather and update data that could be centrally managed with cost-sharing across programme implementing agencies. An integrated database would also simplify and streamline regular monitoring and evaluation through independent agencies.

Meanwhile, social insurance bodies such as BPJS Health, BPJS Labour, TASPEN and ASABRI have more sophisticated information systems that record all information relevant to their various programmes and the key indicators to measure programme risk. However, these are not sufficiently well co-ordinated or used to expand social insurance coverage.

Build on and refine the Unified Database

The Unified Database (UDB) is underpinning the development of a social assistance system in Indonesia. Covering approximately 27 million households (or 96 million individuals) in 2018, it not only serves as a targeting mechanism for a number of social protection programmes but also to ensure that beneficiaries eligible for one programme also receive other benefits to which they are entitled. From the perspective of the beneficiary, the UDB significantly increases the likelihood they will emerge from poverty by ensuring they access to a number of complementary social protection initiatives. From a systems perspective, the UDB ensures coherence between programmes in terms of whom they are targeting and serves as a basis for co-ordination.

However, not all ministries have opted to use the UDB for targeting or beneficiary selection with many, such as the Ministry of Education and Culture, adopting their own processes either due to outdated information in the UDB or due to missing variables that are integral to their targeting approaches. As a consequence, the intended beneficiaries of social assistance programmes often do not benefit from all the programmes to which they are entitled. Implementers of different programmes or local administrations attempt to address exclusion errors that might result from imperfect application of the UDB targeting. However, TNP2K (2018_[1]) finds that “this results in an absence of centralised beneficiary management lists and a targeting system susceptible to bias by local actors”.

Exclusion from one or more social protection programme for which a beneficiary is eligible is a major constraint on the overall effectiveness of the system in reducing poverty. As the World Bank (2017_[3]) notes, “While each individual program is relevant for poverty reduction by creating a transparent pathway for beneficiary households to mitigate a clearly-defined risk, none of these individual initiatives is by design to help all targeted households fully mitigate or absorb all risks.” Equally, the limited resources available to social protection also mean that inclusion errors can significantly reduce the poverty-reducing impact of the system as a whole. As shown in Chapter 3, this is a particular issue with the RastraRastra programme, which absorbs a significant portion of the overall allocation to social protection.

In the future, the UDB will be managed by the Sistem Informasi Kesejahteraan Sosial Next Generation (SIKS NG). SIKS NG will link databases managed by MoSA and other ministries, state-owned banks and BPJS. The regular verification and validation process will involve sub-national government. Online and offline SIKS applications were launched in 2017 and will be updated regularly. The government has identified two critical challenges to ensuring the success of the SIKS NG: lack of administrative capacity at the data entry, verification and validation level and ensuring implementing ministries use the new integrated system for their programmes.

Box 5.1. Social protection cards are promoting access to benefits and financial inclusion

Identity cards have an important role to play in developing a social protection system in Indonesia. Not only can they foster integration between schemes and thus expand coverage but they also have the potential to improve the efficiency of cash-based payment systems and promote beneficiaries' financial inclusion. However, gaps in national registration processes are resulting in the exclusion of poor and vulnerable individuals.

The national identification card, known as the *Kartu Tanda Penduduk (KTP)* is the cornerstone of public administration. All citizens require a *KTP* to access public services. The card (which is valid for life) contains biometric information on cardholders that is stored electronically. The children's identity card (*Kartu Identitas Anak, KIA*) is the equivalent of the *KTP* for children up to the age of 17. Newborn children are supposed to be issued with a *KIA* at the same time as they receive a birth certificate. The objective is for all children should possess a *KIA* by the end of 2019.

The Prosperous Family Card (*Kartu Keluarga Sejahtera, KKS*) is the basis for eligibility for social assistance and is provided to heads of families identified as being poor or vulnerable by the UDB. Giving effect to Presidential Regulation No. 63/2017 on Cashless Social Assistance Distribution, the *KKS* is linked to a bank account, which enables social protection beneficiaries to receive transfers electronically, thereby promoting their financial inclusion. It replaced the social protection card (*KPS*), which was provided to households eligible for the unconditional cash transfer (*BLSM*).

Households with a *KKS* that have children between age 6 and 21 in full-time education should automatically receive the Smart Indonesia Card (*Kartu Indonesia Pintar, KIP*), allowing them to receive the Program Indonesia Pintar (*PIP*). In the same way, holders of the *KKS* should also automatically receive the Healthy Indonesia Card (*Kartu Indonesia Sehat, KIS*), which entitles them free access to healthcare as *PBI* beneficiaries of *JKN*.

The *KKS* is provided by four banks (Bank Rakyat Indonesia, Bank Negara Indonesia, Bank Tabungan Negara and Bank Mandiri). By connecting beneficiaries to the formal banking sector (leveraging the high penetration of mobile technology across the population), the *KKS* contributes to the GoI's commitment to enhancing financial inclusion among the poor and vulnerable. This enables beneficiaries to save and borrow.

The cards not only serve as a means of receiving benefits but can also be used to purchase subsidised goods in special shops (*e-Warong*). These shops are run by groups of beneficiaries enrolled in the *PKH-KUBE* programme in an initiative implemented by *MoSA* with the collaboration of other government agencies, the financial regulatory authority and commercial banks (World Bank, 2017^[3]).

While Indonesia's identification cards hold significant potential as a mechanism for greater systematisation of social protection as well as greater financial inclusion for beneficiaries, it must overcome a fundamental challenge with the *KTP*. Coverage of the *KTP* is not universal; estimates of the number of children in Indonesia without birth certificates range from 29% (or 24 million children) to 47% (*DFAT/PEKKA/PUSKAPA UI, 2015*^[4]). This means that large numbers of children risk exclusion from social protection for administrative reasons. Lack of registration is particularly high among low-income households, with evidence showing the cost of registration to be the principal impediment, especially in remote areas (*Duff, Kusumaningrum and Stark, 2016*^[5]).

A major challenge for the UDB is keeping track with the dynamics of poverty and vulnerability discussed in Chapter 1. Although the stock of poor and vulnerable households might have been relatively stable at 40% over recent years, there have been significant flows between income groups by individuals and households. Moreover, the overall poor and vulnerable population is shrinking as a proportion of the population.

From 2017 onwards, a decree by MoSA requires that the UDB be updated twice per year, in May and November. Sub-national governments can update it at any time. However, households in many parts of the country are difficult to reach and the demands associated with regularly updating the database, both in terms of cost and capacity, are often beyond local administrations. They might also not recognise the value or importance of doing so.

In this context, it is critical that individuals themselves are aware of their entitlements and are able to request enrolment in a programme for which they might be eligible. Indonesia has made progress in this regard through the development of single-window services and on-demand application. These interventions also yield important gains in terms of strengthening the social protection system.

MoSA's integrated referral system (Sistem Rujukan dan Layanan Terpadu, SLRT), which operates at the district level, allows facilitators to identify poor and vulnerable households to ensure they are receiving appropriate social protection support. Following a successful piloting, SLRT is expected to be operating in 150 districts in 2019. On-demand application, which allows individuals to request enrolment in a programme, is a component of the SLRT but is managed by TNP2K. It currently operates in 12 districts. The SLRT is also equipped to deal with grievances (World Bank, 2017^[31]).

Single window services have achieved some notable success in Indonesia in recent years. However, these are typically a mechanism by which local governments can improve access to (and provision of) local services. In this case, the SLRT is intended as a means for local governments to enhance access to national.

Nonetheless, the SLRT has the potential to improve the responsiveness of the social protection system and reduce targeting errors by keeping track of individuals moving in and out of poverty. It can also ensure beneficiaries are accessing the programmes to which they are eligible and, where needed, move beneficiaries from one programme to another.

Clarify and optimise sub-national government's role in social protection

As discussed in Chapter 4, responsibility for social protection provision is shared between national and sub-national government as a concurrent function. Such an arrangement is consistent with other countries, where local administrations not only support the implementation of national social protection programmes and strategies but also monitor their impact and performance and provide reliable information that can inform policy-making at the national level. However, in Indonesia's case, the degree of decentralisation and the variation that exists across the country make it a particular challenge as far as establishing a social protection system is concerned.

Sub-national governments are able to implement their own social protection programmes even though the Ministry of Home Affairs Regulation No 32 of 2011 prevents local governments from providing cash transfers to households on an ongoing basis. As TNP2K notes, "an increasing number of districts and provinces have been introducing their own social protection schemes...there is a danger that this proliferation...will reduce

cohesion and co-ordination within the broader social protection system. Furthermore, challenges with existing regulations restrict local governments' ability to design their own cash transfer programmes" (TNP2K, 2018^[1]).

Another challenge with decentralisation relates to targeting. As with any sample survey, the data that served as the basis for the UDB is imperfect. Moreover, considerable time has elapsed since that survey and, as discussed above, the architecture required to ensure the UDB remains up to date is not yet in place. In this context, sub-national administrations have understandable misgivings about the UDB and are empowered to influence who receives the benefit, meaning they can correct for exclusion errors.

Ad hoc involvement by sub-national administrations in the targeting of benefits for different programmes makes it less likely that beneficiaries access all the programmes for which they are eligible. Moreover, eligibility can also be determined by local political factors, generating inclusion errors and diluting the resources available for poor and vulnerable households. Enforcing common standards for implementation is rarely practical, especially given the challenges related to social workers (also known as facilitators) discussed below. Mechanisms and opportunities for co-ordination between sub-national administrations and the central government are limited.

Although some 88% of social assistance spending is financed centrally, sub-national governments' fiscal autonomy empowers them to contribute to the financing of social protection (Jellema and Hassan, 2012^[6]). In theory, they are expected to top-up social protection budgets to increase benefit payments and finance the operations of facilitators. In practice, these contributions have never been formalised. However, certain sub-national governments implement social protection programmes of their own design, targeted at beneficiaries according to their own criteria.

This has been observed with the Village Funds. Although almost 90% of Village Fund expenditure is allocated to local infrastructure development, there is evidence that village administrations also provide cash transfers and food to households that they consider in need of support, without regard for national registries (Gama, Saget and Elsheikhi, 2018^[7]). Indeed, a household might receive support precisely because they are not eligible for a national social protection programme.

As a result, the implementation of reforms designed by national social protection planners might differ widely from what was intended. This undermines attempts to reduce poverty by expanding a specific programme. As the World Bank (2017^[8]) notes, "entrenched and idiosyncratic operating principles suggest that increasing any single programme's coverage will bring only a small percentage of targeted households a 'full' benefit".

Looking ahead, Indonesia's progress towards universal health coverage has been an international success story but also provides a cautionary tale regarding how tensions between national and sub-national government can delay reform. In the early 2000s, health provision emerged as a key electoral issue at the sub-national government level, which in turn raised the level of political commitment at central government. Subsequent initiatives to enhance health coverage that were driven by national government, including JKN itself, have encountered resistance from sub-national governments reluctant to give up their schemes (Pisani, Kok and Nugroho, 2017^[9]).

Empower social workers to implement and strengthen social protection policies

Social workers, known as facilitators in Indonesia, play a critical role in any social protection system. They have the face-to-face contact with poor and vulnerable households required to ensure they are receiving the holistic support they need (beyond income), and they have unique insight to how well social protection programmes – national or otherwise – are responding to people’s needs and how well such programmes are being implemented.

Social work faces fundamental challenges in Indonesia. It is not universally considered a profession and there are shortcomings in the education and training social workers receive. Consistent with many countries in South-East Asia, policies to elevate the status of social workers and improving their training are required. The GoI, which is the principal employer of social workers, has a role to play in both, by fully recognising and clearly articulating the role of social workers, by implementing regulations that govern their work, and through quality assurance for their training (O’Leary et al., 2018_[10]).

Progress has been made towards addressing these challenges, in part as a consequence of the national and international response to the tsunami in Aceh in December 2004. Nonetheless, the potential of social workers to support the implementation of a social protection system is largely under-utilised. Facilitators are employed by MoSA, not as permanent employees but on the basis of annual contracts, which is a constraint on the development of a large, well-qualified body of social workers in social protection.

The principal responsibilities of facilitators are to ensure that eligible individuals receive benefits and to monitor compliance with conditionalities. As Chapter 2 notes, PKH is placing greater emphasis on supporting families more broadly. This is consistent with emerging evidence that supporting parents is critical for enhancing the cognitive developmental of young children, underlining the importance of embedding cash transfers such as PKH within a broader set of interventions aimed at families as a whole (Aboud and Yousafzai, 2015_[11]; Arriagada et al., 2018_[12]).

At the time of writing, not enough is known about the specific workloads (or the time required to fulfil these workloads) of social workers across Indonesia. It is therefore not possible to assess whether sufficient facilitators are employed or whether they possess adequate skills. All facilitators are supposed to receive centralised training courses when they start, but financial and logistical factors mean this doesn’t always happen. These factors also limit the possibility to provide further training to bring social workers up to speed with social protection reforms. Given the speed with which PKH and other programmes have scaled up in recent years, not to mention the complexity of the overall social protection system, it is not realistic to presume facilitators will be able to keep up.

Continue to consolidate social assistance programmes

The current approach to social assistance is one of targeting (resources to individuals most in need through a number of complementary arrangements that, together, will allow them to exit poverty on a sustainable basis. With the key social assistance programmes meant to be using the UDB and an associated system of cards to designate eligibility, the underlying architecture appears to be in place. However, it is frequently not the case that a poor individual will receive all the benefits to which they are entitled: in 2014 (before UDB was as widely used across social assistance programmes as it is today), less than

30% of families in the poorest decile that were receiving PKH also benefited from PIP and Rastra and were registered as PBI (World Bank, 2017^[2]).

Figure 5.1. Social protection coverage is not comprehensive amongst the poor

Social protection coverage across the five poor clusters, 2016

<p>Cluster 1: [66%] Raskin [45%] No health insurance [32%] PBI [23%] PIP [20%] Social protection card</p> <p>[25%] Extreme poor [25%] No social protection</p>	<p>Cluster 2: [72%] Raskin [50%] Social protection card [42%] PBI [34%] PIP [33%] No health insurance</p> <p>[40%] Extreme poor [16%] No social protection</p>	<p>Cluster 3: [75%] No social protection card [64%] Raskin [45%] No health insurance [30%] PBI</p> <p>[17%] Extreme poor [25%] No social protection</p>
		<p>Cluster 4: [80%] Raskin [40%] PBI [39%] No health insurance [38%] Social protection card</p> <p>[33%] Extreme poor [16%] No social protection</p>
		<p>Cluster 5: [73%] Raskin; [40%] No health insurance; [38%] PBI; [18%] PIP; [33%] SP card [14%] Extreme poor</p>

Note: PKH is not included because it is not identified by Susenas 2016

Source: Susenas 2016.

This picture of fragmented coverage is borne out by the Latent Class Analysis (LCA) carried out in Chapter 1. Figure 5.1 identifies coverage of social protection mechanisms amongst the five poor clusters identified in Chapter 1 using data from Susenas 2016 (excluding PKH, receipt of which was not specified by the survey). It demonstrates significant variation between the different clusters in terms of which social protection programmes they receive (including health insurance). Raskin is the only programme with coverage in excess of 50% in any of the poor clusters. This exercise also shows low coverage of social protection cards.

The challenges inherent to linking poor households to a range of complementary interventions indicate a need to rationalise programmes in alignment with the vulnerabilities identified by the LCA in Chapter 1 and invest in the ones that are most effective in reducing poverty. For example, to address child poverty, there is overlap between PKH and the PIP.

This report supports the recommendation of TNP2K that PKH and PIP be merged. The results of Chapter 3 indicate that PKH is more effective at reducing poverty and support the GoI's decision to continue scaling up the programme. The logic for maintaining both programmes is weakening. However, this is unlikely to be straightforward, given that different ministries are responsible for implementing these programmes and the populations covered by the respective programmes are different (even though by design there should be significant overlaps).

This report also acknowledges TNP2K's proposal that PKH does not serve as a mechanism for providing benefits to poor and vulnerable elderly individuals or those with severe disabilities, since benefits to these groups should be provided by other social protection programmes. However, incorporating a benefit for the elderly within PKH has been a critical means of increasing support for such an intervention and has thus made it more likely that poor elderly individuals will receive some form of public income support.

Universalisation of a child grant would eliminate a number of the institutional and geographical factors responsible for the low levels of coverage currently achieved by PKH. However, the cost would be prohibitive, unless benefits are so low as to have a minimal impact on poverty. It would be difficult to achieve universal coverage of a child grant given the large numbers of children without proper identification, including birth certificates.

Scaling up and better targeting an integrated PKH-PIP benefit to cover the 23 million children registered on the UDB might represent the optimal outcome. This expansion should be accompanied by a concerted effort to enhance access to early childhood education and learning facilities and other complementary interventions.

Prepare for growing pressure around benefits for the elderly

As Chapter 1 discusses, old-age poverty is high and has not achieved the same decline as poverty among children in recent years. Given the challenges inherent to increasing social insurance coverage in Indonesia (discussed below), pressure for more effective social assistance for the elderly is likely to build as Indonesia's demographic transition progresses. This would also be a mechanism for mitigating the disadvantages women face over the course of their lives.

TNP2K proposes a universal pension for all individuals aged 70 and over who are not in receipt of a contributory pension (TNP2K, 2018_[1]). At the present time, this proposal is unlikely to gain traction: the financial implications of such an intervention would be very large and there is a lack of both political and popular demand for the measure. Nonetheless, it is important to prepare the social protection system as a whole for the rapid ageing of the population, rather than relying solely on growth in social insurance arrangements. As such, it is important to consider the scope and design of both contributory and non-contributory arrangements.

Social assistance for the elderly should be harmonised with social insurance arrangements in order to establish a coherent set of public policies for individuals in retirement. TNP2K's proposal that a social pension be provided from age 70 onwards would create a large discrepancy in retirement ages between social assistance and the contributory system (where the retirement age was 56 for men and women in 2018 but will rise to 65 over time).

Taking advantage of the greater consistency of retirement ages across different programmes, Thailand established a voluntary savings scheme, the National Savings Fund, in 2015 by which individuals can supplement the low monetary value of the old-age allowance without jeopardising their access to it. Indonesia's old age savings scheme provides social insurance access to non-wage earners, including low contribution rates for those with low incomes, but members must also contribute to schemes providing survivor benefits and compensation for injury at work. BPJS is considering subsidising these

contributions for the poor and at-risk to enhance the affordability, flexibility and attractiveness of the saving scheme (TNP2K, 2018^[1]).

Box 5.2. Social protection can address systemic gender disadvantages

As Chapters 1 and 3 of this report demonstrate, girls and women in Indonesia tend to be poorer than men at almost every stage in the life cycle. Disadvantages women face earlier in life, for example a lower likelihood of completing education, have a significant impact on their prospects at working age. Female labour force participation is much lower than the equivalent metric for men and women's incomes are lower as a result. The cumulative effect is to leave women extremely vulnerable in old age.

Indonesia's current social protection system does little to address the disadvantages women face over the course of their lives. When considering the future of social protection in Indonesia, it will be critical to ensure reforms are gender-sensitive and mitigate rather than reinforce these disadvantages.

As Chapter 3 notes, promoting social insurance coverage of the informal sector and recognising the impact of child-bearing on women's potential to contribute to such arrangements will be very important in this regard. Higher social assistance coverage among the elderly would also help to reduce women's vulnerability in old age.

Strengthen the contributory system to reach the missing middle

As this review has identified, Indonesia confronts a significant missing middle problem. Although poverty has declined significantly since the Asian Financial Crisis, the proportion of the population classified as poor and vulnerable has remained relatively consistent, at around 40% of the population. Social assistance programmes have predominantly been targeted at households in extreme poverty, while only households at the high end of the income distribution are enrolled in pension programmes. At the heart of the missing middle problem lies the high proportion of workers in informal employment.

Through the SJSN and BPJS Laws of 2004 and 2011, social insurance has been at the forefront of systematisation of social protection. Institutional arrangements for health and labour insurance have been integrated into BPJS Health and Labour respectively, with DJSN providing oversight of both. At the same time, new programmes have been added to broaden coverage of contributory arrangements. However, health and labour social insurance arrangements have very different administrative and financial modalities, which limits the extent to which co-ordination between them is feasible.

Rapid growth in the proportion of the population covered by health insurance has been the major success story of social protection in Indonesia. By using general revenues to subsidise contributions of individuals with limited capacity to contribute, it is on the way to achieving universal health coverage in a relatively short period of time. However, its success has come at a cost: overcoming the missing middle challenge has resulted in adverse selection and behavioural responses outlined in Chapter 3 that are undermining the sustainability of the system.

BPJS Labour has also sought to distinguish between different types of member as a means of expanding coverage, establishing different arrangements for wage and non-

wage workers. As mentioned above, contributions are lower for non-wage workers (who are not enrolled in the new JP scheme) but the GoI does not subsidise pension contributions like it does health contributions.

Although this dual system might facilitate enrolment in at least one public programme, it weakens the coherence of the retirement landscape. If some form of social pension were to be introduced, it would be important that it doesn't serve to further fragment this space; a requirement that social pension recipients do not receive other forms of pension might control costs of universalisation but it would reduce coherence.

Faced with perhaps the fastest demographic transition ever registered (as well as a large-scale informal sector), Viet Nam is making a major push to increase pension coverage. Following China's example, a social insurance reform in 2014 has made it much easier to enrol in social insurance for low-income workers in agriculture and the informal sector on a voluntary basis. However, low contribution rates will translate into low pensions in retirement.

The composition of the informal sector indicates that a differentiated strategy for reaching this group is required. The proportion of the informal workforce classified as employees and own-account workers respectively is very similar; together they account for 85% of the informal labour force. Recent experience from Viet Nam indicates that increasing coverage in small and medium-sized enterprises (SMEs) is critical to reaching individuals in the middle of the income distribution (Castel and Pick, 2018_[13]).

Although Indonesia's SME sector is not as extensive as Viet Nam's, it accounts for 97% of domestic employment (OECD, 2018_[14]). Expanding coverage among these workers would go a long way towards enhancing social insurance coverage in Indonesia and might also promote higher levels of formalisation and tax compliance. A combination of contribution incentives and stronger enforcement are likely to hold the key to expanding coverage amongst Viet Nam's SMEs and might do likewise in Indonesia (Castel and Pick, 2018_[13]).

Increasing social insurance coverage (and enhancing formalisation) will require a broader restructuring of employment legislation in Indonesia. Current severance pay arrangements impose a cost on compliant employers and risk distorting employment decisions. As a result, many employers do not implement these arrangements properly, leaving employees vulnerable to a sharp loss in income in the event they lose their jobs, especially since Indonesia lacks an unemployment insurance scheme. Reviewing these arrangements while incentivising and enforcing employer contributions to social insurance has the potential both to better protect the employee and to improve the functioning of the labour market.

An issue for consideration in this regard is whether Indonesia requires an unemployment insurance fund. Viet Nam has such a fund but it is notable that it does not seem to prevent workers from wanting to access retirement savings when they change job. In the Indonesian context, the provident fund serves the purpose of a precautionary saving arrangement for formal sector employees.

A bright future for social protection but higher funding is needed

A number of the reforms proposed in this report are far-reaching, institutionally disruptive, or difficult to implement. They will require strong political will and technical expertise. Recent evidence indicates that these necessary conditions for reform are falling

into place. Social protection in Indonesia has received strong support from successive administrations since the Asian Financial Crisis. This has been a critical factor behind some the passage of the two landmark social insurance laws and, more recently, the scale-up of social assistance.

The current president, Joko Widodo, has played a key role in raising the profile of social assistance. A presidential election scheduled to take place in 2019 raises the possibility of a change in administration. However, the integration of social protection in key policy frameworks reduces the extent to which the momentum behind social protection would be reversed in that eventuality.

Donors are playing a critical role in supporting the development of a social protection system. Although volumes of official development assistance have declined substantially since Indonesia graduated from the International Development Association in 2009, development partners are supporting the development of social protection system through technical assistance and financing support, exemplified by the World Bank's PKH loan mentioned in Chapter 4.

At present, a lack of financing is the greatest constraint to the effectiveness of social protection. Although social protection is becoming a high budget priority and will even drive higher overall public spending in 2019, Indonesia's tax revenues remain too low to allow for a major scale-up of social protection in the short-to-medium term. Spending will increase in absolute terms but is likely to remain below 2% of GDP. Recent increases in tax revenues will need to be sustained to increase the social protection system's capacity to reduce poverty and inequality.

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Social Protection System Review of Indonesia

Indonesia has made impressive progress in reducing income inequality and improving living standards since the Asian Financial Crisis but the decline in poverty has slowed in recent years while inequality has risen and a large part of the population remains vulnerable. The Government of Indonesia has recognised the potential of social protection to address these challenges and to underpin a long-term development strategy based on more inclusive economic growth. As a consequence, social assistance programmes have grown significantly in recent years while social insurance has undergone major reforms. The Government is gradually realising its vision of a system of social protection, based on comprehensive and coherent coverage for all age groups.

The *Social Protection System Review of Indonesia* charts the evolution of social protection. It explores the current context for social protection and how this is likely to evolve in the future, analyses the extent to which existing programmes are aligned to those needs and how effective these programmes are at reducing poverty. It also examines the financing of social protection. Finally, it proposes policies to enhance the social protection system across a number of dimensions, including programmes, institutions, financing and information architecture.

Consult this publication on line at <https://doi.org/10.1787/788e9d71-en>.

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