CHAPTER

7

Social Assistance

7.1 Context

7.2 Assessing the Quality of Spending

7.3 Recommendations to Improve the Quality of Spending

This chapter is part of the World Bank's 2020 Public Expenditure Review for Indonesia.

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Key Messages

A Indonesia's social assistance system has made impressive progress since 2014, as demonstrated by significant coverage expansion of several core programs and rapid transition to electronic payment methods.

B However, some risks along the lifecycle are not adequately covered. Furthermore, a lack of convergence of social assistance programs among the poorest population suggests that social assistance delivery systems need to be strengthened.

Summary of Recommendations

Policy reforms and adapted program design

A Increase spending on targeted social assistance spending by reducing remaining spending on untargeted subsidies.

B Mitigate several neglected risks along the lifecycle through additional budget.

C Consolidate overlapping social assistance programs, modify program design, and integrate social assistance programs to improve effectiveness.

D Adapt core social assistance programs for rapid response to natural disasters and epidemic shocks.

Strengthen delivery systems

A Enhance institutional coordination with subnational governments and between agencies to improve implementation performance. This coordination must include the improvement in supply side provision, particularly in remote areas.

B Invest in the capacity of the integrated social welfare database (DTKS) to minimize exclusion and inclusion errors through reliable dynamic updating mechanism with the local government and related external institutions.

C Strengthen key delivery systems, such as grievance redress, enrollment, M&E, and payment, for the core social assistance programs.

Further key reading

World Bank. 2017. "Social Assistance Public Expenditure Review". *The report provides an update on a 2012 Social Assistance Public Expenditure Review and seeks to provide evidence of the progress made between 2011 and 2017, together with relevant benchmarks for future reforms and policy planning.* http://documents.worldbank.org/curated/en/535721509957076661/Towards-a-comprehensive-integrated-and-effective-social-assistance-system-in-Indonesia

TNP2K. 2018. "The Future of The Social Protection System in Indonesia: Social Protection for All". *TNP2K recommends revamping Indonesia's social protection system to protect poor and vulnerable citizens through social safety net schemes designed across the life cycle, as well as prevent health and employment related risks through accessible social insurance schemes.* http://www.tnp2k.go.id/downloads/the-future-of-the-social-protection-system-in-indonesia:-social-protection-for-all

World Bank. 2020. "Investing in People: Social Protection for Indonesia's 2045 Vision". *The report reviews both social assistance and social insurance, as well as associated financing strategies and delivery systems to strengthen social protection and prepare Indonesia to achieve its national development goals in the future.* https://www.worldbank.org/en/country/indonesia/publication/investing-in-people-social-protection-for-indonesia-2045-vision

7.1 Context

Social assistance programs are one key class of policy instruments for the Government of Indonesia (GoI) to reduce poverty and inequality. A well-functioning and responsive social assistance system can protect poor and vulnerable households against risks and shocks along the lifecycle in several ways. First, it provides basic necessities that poor households do not access frequently enough, and hence reduces extreme poverty. Second, it can simultaneously assist poor and vulnerable households to absorb and mitigate negative shocks in the most flexible ways. This minimizes negative coping behaviors (e.g., sacrificing productive investments to maintain minimum consumption) and contributes to beneficiaries' human and financial capital in the long run. Third, it can make certain structural policy reforms more palatable, thereby supporting long-term economic growth.

Indonesia has come a long way in developing and consolidating a set of social assistance (SA)[193] policies and programs for the poor and vulnerable. The first generation of SA programs was introduced to mitigate the impacts of the 1997-98 Asian financial crisis. The GoI endeavored to ensure food price stability through Raskin, an in-kind rice distribution program, which was subsequently renamed Rastra (*Beras Sejahtera*, or 'prosperous rice'). The GoI also introduced several SA programs, such as unconditional cash transfers to minimize the negative impacts of energy subsidy reforms (*Bantuan Langsung Sementara Masyarakat*, BLSM, in 2009 and 2013-15), conditional cash transfers to families (*Program Keluarga Harapan*, PKH), health insurance fee waivers (*Penerima Bantuan Iuran Jaminan Kesehatan Nasional*, PBI-JKN), and cash transfers for poor and vulnerable students (*Program Indonesia Pintar*, PIP).

To help reduce poverty and inequality, the GoI has tried to reallocate more resources for SA[194] and expanded several flagship SA programs in recent years. Between 2014 and 2017, spending on regressive energy subsidies fell by 71 percent in nominal terms to IDR 97.6 trillion, while spending on SA rose by 28 percent over the same period to IDR 72.3 trillion in 2017 (Figure 7.1). This increase financed an expansion in coverage of core SA programs, namely PKH, PBI-JKN and PIP. In addition, in 2018, a new cash-for-work initiative (*Padat Karya*) was introduced under the Village Fund (*Dana Desa*) to boost rural employment. Furthermore, the GoI established a unified poverty targeting database (*Basis Data Terpadu* or BDT), currently known as integrated social welfare system (Da*ta Terpadu Kesejahteraan Sosial*, DTKS), to determine eligibility of potential beneficiaries for SA and subsidy programs.

The GoI has also modified the design and delivery systems of several core programs to improve their effectiveness and efficiency. Rastra has been gradually replaced by the e-voucher food assistance program (Sembako, formerly known as *Bantuan Pangan Non Tunai*, BPNT). Both PKH and PIP programs have switched their benefit payment methods to "cashless" payment using bank debit cards. In addition, the implementation arrangements of core SA programs have been revised to give SNGs a greater role in program implementation and, for some programs, in coverage expansion beyond the eligible poor and vulnerable beneficiaries identified through DTKS (see Box 7.1). The Ministry of Social Affairs (MoSA), as per Law No. 11/2009, has developed a process for SNGs to register new poor and vulnerable families into DTKS, or update the registry of existing families.

193 The so-called "social safety net" programs (Jaring Pengaman Sosial) included food assistance, public works, community development, health protection, and school support.

194 In this chapter, social assistance is defined as non-contributory cash or in-kind transfers programs targeted to the poor or vulnerable. SA spending at the central government level comprises spending on 10 major SA programs, as well as remaining MoSA and Social Protection Function expenditure. The 10 programs comprise six core household SA programs (Rastra, Sembako, PKH, PIP, PBI-JKN and cash for work, Padat Karya), and four others: child social services (PKSA), disabled social services (JSPACA), elderly social services (ASLUT) and unconditional cash transfers (BLT/BLSM).

FIGURE 7.1. **Spending on energy subsidies has been partially redirected toward social assistance...**

IDR trillion

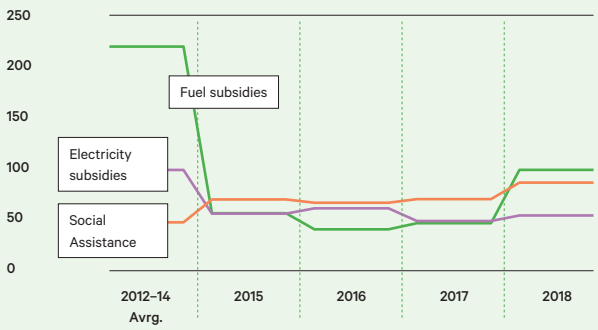
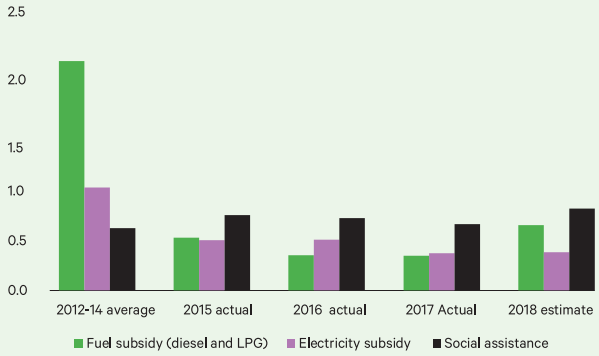


FIGURE 7.2. **...but remains substantial at 1.0 percent of GDP**

Percent of GDP



Source: Ministry of Finance, World Bank staff calculations.
Note: All years refer to audited expenditure data, except 2018 household social assistance spending, which is a World Bank estimate based on preliminary data from the MoF.

BOX 7.1. **Who is responsible for social assistance?**

Social assistance is a shared responsibility between central and SNGs in Indonesia. Law No. 11/2009 on Social Welfare provides the legal framework for social welfare (including SA) policy and program implementation arrangements. In addition, Indonesia has other laws and regulations setting the legal basis for various government agencies to provide some sort of SA to support the poor and vulnerable to meet basic needs. While the poor and vulnerable do often need multiple forms of SA support—in cash and in kind such as food, health services, and subsidized electricity—the coordination between multiple programs implemented by various agencies often is challenging. Furthermore, decentralization also adds the complexity of coordination, as both central and SNGs share the responsibility of the implementation of most, if not all SA programs (see Table 7.1 below).

TABLE 7.1. **Summary of main social assistance programs**

Core program	Description	Number of beneficiaries	Implementing agency
Sembako	Food assistance programs	15.2 million households	Ministry of Social Affairs
PKH	Conditional cash transfer	10 million families	Ministry of Social Affairs
PBI-JKN	Health insurance fee waiver	96.8 million individuals	Ministry of Health, BPJS Healthcare
PIP	Cash transfer for poor and vulnerable students	18.7 million students	Ministry of Education and Culture, Ministry of Religious Affairs

Source: Ministry of Finance. 2018. *Buku Informasi APBN 2019*. https://www.kemenkeu.go.id/apbn2019

Despite making impressive progress, several challenges remain and the efficiency of current spending could be further improved. Despite the overall decline since 2014, spending on poorly targeted energy subsidies has recently increased and remains sizeable (IDR 153.5 trillion, or 1.0 percent of GDP in 2018, see Figure 7.2 and Box 7.2). Further reallocation away from regressive subsidies toward targeted cash and near-cash transfers, such as PKH and Sembako, will improve the overall efficiency of social spending. In addition, there is scope to increase the efficiency of PBI-JKN and PIP through more rigorous targeting practices and stronger beneficiary monitoring practices. Ensuring that core SA programs are making use of the available delivery systems and platforms, such as DTKS and electronic payment systems, will improve implementation performance and efficiency.

7.2

Assessing the Quality of Spending

A Overall Trends: Is Spending Adequate?

B How Efficient Is Public Spending in the Sector?

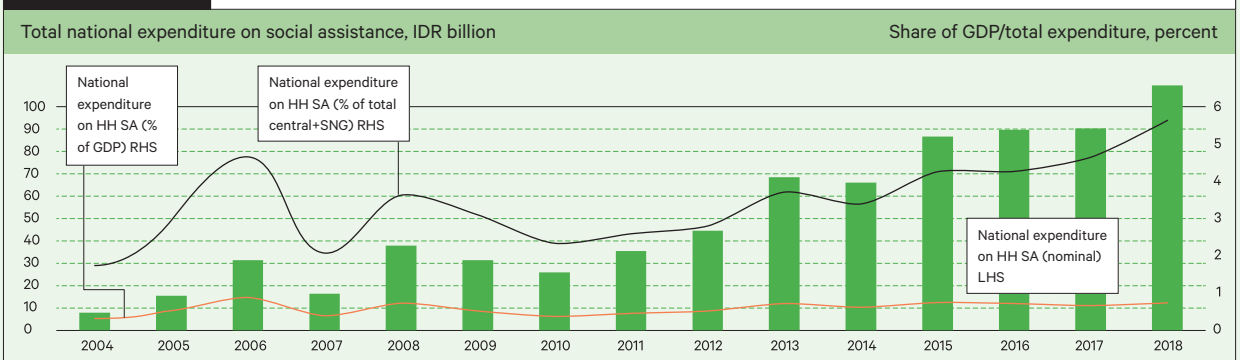
C How Effective Is Public Spending in the Sector?

A Overall Trends: Is Spending Adequate?

SA expenditure has increased significantly in real terms. General government spending on household targeted SA, excluding subsidies, more than doubled in real terms between 2009 and 2018, reaching IDR 85.6 trillion in 2018 (Figure 7.3). Central government manages nearly 90 percent of total national SA spending, comprising 10 major SA programs, with the remainder spent by subnational governments (SNGs).

Nonetheless, total spending on SA remained low as a share of GDP (0.7 percent of GDP) in 2018 (Figure 7.3). This is especially low when compared with the average lower middle-income country, which spends 1.4 percent of GDP on SA. Compared with countries with similar revenue-raising capacity, Indonesia spends less on SA than the Dominican Republic, which spends 1.2 percent of GDP, but more than Pakistan and Sri Lanka (Figure 7.4). Global trends also suggest that SA spending rises as countries become richer.[195]

FIGURE 7.3. Spending on social assistance has increased, but remains low as a share of GDP



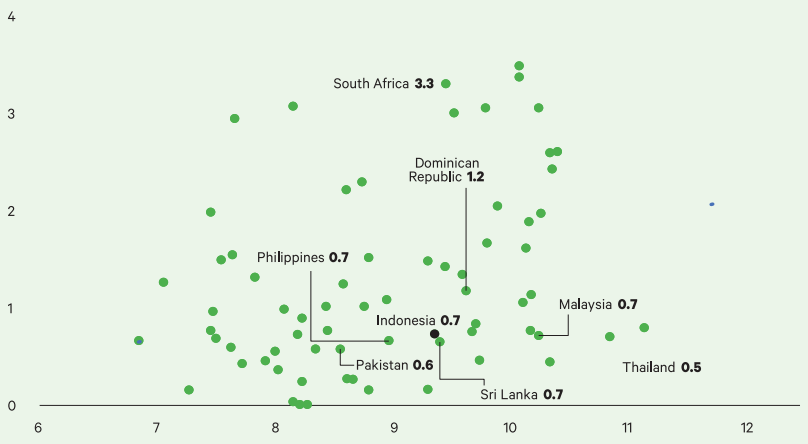
Source: World Bank staff calculations based on MoF data.

Note: Total national expenditure on social assistance consists of spending by the central government and by districts and provinces (SNGs). SA spending at the central government level comprises spending on 10 major social assistance programs, as well as the remaining MoSA and Social Protection Function expenditure (see Footnote 2). At the SNG level, expenditure under the Social Protection Function is used as a proxy for SA expenditure. All data refer to realized spending except for components of 2018 data, where expenditure on PKT and PIP are estimated.

195 World Bank (2018) State of Social Safety Nets. Washington, DC.

FIGURE 7.4. **... and is low compared with other lower middle-income countries**

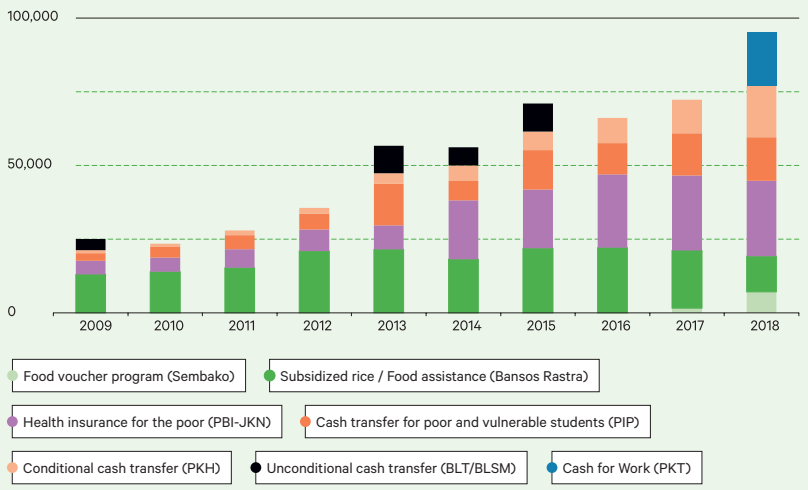
Y-axis: SA spending as a percent of GDP; X-axis: Log GDP per capita in constant PPP terms



Note: Indonesia number reflects 2018 data. Includes PBI-JKN and estimated total SNG spending.
Source: World Bank 2019 ASPIRE and WDI.

FIGURE 7.5. **Central government spending on household targeted social assistance programs, 2009-18**

Expenditure (IDR billion, nominal)



Note: 2009-18 refer to audited actual expenditures except for PIP, PBI-JKN and PKT in 2018, where budgeted numbers are used.
Source: MoF Financial Note and World Bank calculations.

26%

Spending allocations on PBI-JKN increased significantly from IDR 7 trillion in 2012 to IDR 25.5 trillion in 2018, and now account for 26 percent of spending on permanent SA programs

Increases in SA spending over the past decade were mostly directed toward coverage expansions of key, targeted SA programs. The rapid rise in PBI-JKN[196] beneficiaries (previously Jamkesmas) accounts for the lion's share of this increase. Spending allocations on PBI-JKN increased significantly from IDR 7 trillion in 2012 to IDR 25.5 trillion in 2018, and now account for 26 percent of spending on permanent SA programs.[197] The increase is due to the additional 16 million beneficiaries from the introduction of JKN in 2014 and an increase in the per-capita premium. In addition to the PBI-JKN expansion, both PKH and PIP's coverages have also been expanding, with the number of beneficiaries seeing a tenfold increase between 2010 and 2018.[198] Outlays for the two major cash transfer programs (PIP and PKH) in the 2018 budget accounted for 34 percent of spending on permanent SA programs, compared with 18 percent in 2012. In contrast, spending on Rastra has declined with the transition of Rastra to Sembako[199] since 2017. Rastra made up 60 percent of spending on permanent SA programs in 2012, but only 7 percent in 2018. Overall, there has been a shift of permanent-program expenditures toward better targeted and thus more pro-poor programs. SA spending on the disabled and elderly, however, has remained low, at 0.1 percent of total spending on permanent SA programs in 2018. As a result, these groups remain uncovered from significant risks they face.[200]

B

How Efficient Is Public Spending in the Sector?

SA spending has become more efficient in recent years. While outlays on core SA programs have been increasing in real terms (see above), the composition of spending within the sector has improved. As previously mentioned, the GoI allocated nearly 60 percent of its total SA budget to Rastra; now, only 12 percent goes to this program. Although Rastra targeted the 25 percent poorest among the population to receive 15kg of rice a month,

196 In this chapter, the discussion on PBI-JKN focuses on subsidized premium for the bottom 40 percent of the population. The management of JKN and institutional aspect of JKN is discussed in the Health chapter.

197 This refers to the 10 SA programs in footnote 2 (PKH, PIP, PBI-JKN, Sembako, Rastra, PKT + PKSA, ASLUT, JSPACA), excluding temporary unconditional cash transfers (BLSM).

198 The number of PKH beneficiaries has gradually increased each year from 2.8 million families in 2014 to 10 million families in 2018-19.

199 Sembako covers 10 million households as of early 2019 and the GoI plans to phase out Rastra by the end of 2019.

200 Importantly, about 1.2 million elderly living with PKH families are set to receive top up benefits under the 2019 PKH benefit scheme. This will provide an important layer of protection but only for elderly living in PKH families.

FIGURE 7.6. **Beneficiary incidence of major SA programs and subsidies (beneficiaries by class, percent) and total spending on each program/subsidy in 2018 (IDR trillion)**

Percent of total program beneficiaries

Note: Numbers in green at the side of each bar refer to total realized spending on each program or subsidy in 2018, in IDR trillion. Consumption classes are estimated from Susenas, which may not fully capture high-income earners. Those who are vulnerable live between 1 and 1.5 times the national poverty line (PL); the aspiring middle class between 1.5 times the poverty line and 3.5 times the PL; the middle class between 3.5 times and 17 times the PL; the upper class above 17 times the PL.
Source: Susenas 2018, MoF 2018 LKPP Audited, and World Bank staff calculations.

in practice around half of the population received an average of 5kg of Rastra rice a month, since it has historically been divided up equally among villagers (*bagi rata*).

The gradual transition from the ineffective distribution of Rastra into Sembako is an important shift, as it addresses the dilution of the Rastra benefits. Sembako, in contrast, allows only targeted beneficiaries to access selected in-kind benefits. Beneficiaries must be registered in the DTKS database and be in possession of a family welfare card (*Kartu Keluarga Sejahtera*, or KKS) to exchange a monthly cash voucher worth IDR 150,000 for a combination of 10kg of rice or eggs, to be purchased at the discretion of the beneficiary. The allocation of rice and eggs via e-Warong stores or agents with identity validation via the KKS allows for much greater control over the targeting of beneficiaries and makes the full benefit package available to 10 million families.

Conditional cash transfer programs have been the most efficient in targeting poor and vulnerable households. While PKH and PIP target different shares of the population,[201] both are able to allocate 47 and 39 percent of program benefits to the poor and vulnerable parts of the population, respectively[202] (Figure 7.6). Just 7 and 12 percent of total program benefits, respectively, reach the economically secure middle class, who are not targeted to receive these programs. The GoI has recognized PKH as being the more efficient of SA programs and significantly expanded its coverage from 6 to 10 million households in 2018. It has also nearly doubled benefit levels from IDR 1.9 million to around IDR 4 million per family per year in 2019.

However, subsidy spending remains sizeable, with fuel and electricity subsidies making up almost IDR 154 trillion, or 1.0 percent, of GDP in 2018. Counting other non-energy subsidies such as fertilizer (IDR 34 trillion), total spending on subsidies almost reaches IDR 200 trillion. The main subsidies and their allocation by welfare class are shown in Figure 7.6, alongside SA allocations. LPG and electricity subsidies comprise the largest budget allocations, costing IDR 54 trillion and IDR 48 trillion, respectively. However, the poor and vulnerable only consume 15 and 22 percent of these benefits, respectively. The bulk of energy subsidies—39 and 29 percent of LPG and electricity subsidy benefits, respectively—are consumed by the economically secure middle and upper class.

By design, the SA package for the poorest 25 percent of families with children provides reasonably adequate protection. The poorest 15 percent of households receiving PKH receive around 21 percent of median consumption in a direct cash transfer (Figure 7.7); if a household receives PKH, it receives the minimum level of protection. By design, the policy package of SA is well thought out, as adding on PIP, Sembako and PBI-JKN to PKH would render a very adequate package of protection for the poorest 15 percent of households with children of around 36 percent of median consumption. For the same group, however, PIP and Sembako both constitute an average of 7 percent median consumption. Thus, receiving both PIP and Sembako/Rastra (about 14 percent of consumption budget supported), or just one or the other, would not provide an adequate package of assistance.

Poor and vulnerable households without children, however, are less adequately protected. Poor and vulnerable households without children are only eligible to receive PBI-JKN and/or Sembako/Rastra. These households are not eligible to receive any of the main cash transfer programs (PKH and PIP) and can only potentially receive basic food security through Sembako or Rastra. That said, the health services acquired under PBI-JKN are considered generous overall and a household that receives this program is adequately protected in the dimension of being protected from health expenditure shocks.

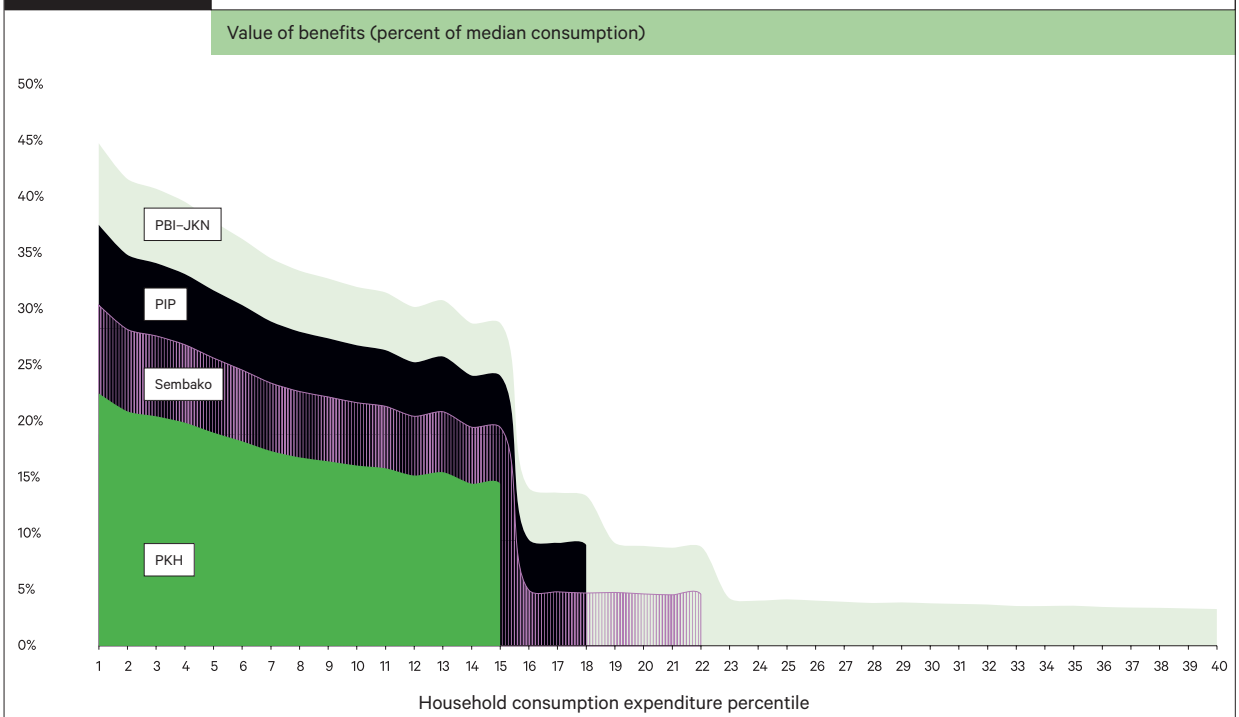
By 2019, cash transfer programs deliver benefits of high value to poor and vulnerable households by design. This is due to the doubling of PKH's benefit level in 2019. Figure 7.7 depicts de jure adequacy of the benefit of the main households targeted SA programs along a welfare distribution. The depiction is de jure in the sense that the cut-off points along the horizontal axis represent groups that the GoI aims to reach with each program; actual allocations stretch further along the welfare distribution. The adequacy of PKH, and Sembako and PIP can be expressed in terms of the value of the cash transfer or food voucher versus household expenditure on consumption. The adequacy of PBI-JKN (even though it is a fee-waiver program with no direct benefits provided) can be thought of in similar terms. Put simply, the value of the PBI fee waiver can be constructed as the value of the premium paid for the household by the GoI that the household would otherwise have paid for itself.[203]

201 PKH targets 15 percent of the poorest households, whereas PIP targets children in the poorest 25 percent of households.

202 In 2018, about 10 percent of Indonesia's population is considered poor and 20 percent is vulnerable. A further 47 percent are aspiring middle class and 23 percent are middle class. If the incidence is recalculated for the bottom 40 percent of the population, 73 and 64 percent of PKH and PIP program benefits accrue to this group.

203 The average value of PBI-JKN in terms of insurance against health shocks is more difficult to measure but is probably much larger than the value of the fee waiver itself.

FIGURE 7.7. **The *de jure* value of social assistance benefits for households with children, 2019**



Source: World Bank Staff calculations from Susenas 2018

In addition, major initiatives to improve the delivery systems of SA programs, such as unifying common processes across key programs, have yielded important efficiency gains. In general, social protection programs share common processes in the delivery chain. This is also the case in Indonesia. Although programs vary greatly, they have a common delivery chain process: *assess potential eligibility ⇨ decide on enrolment and benefit packages ⇨ implement programs.* Given the common steps involved in the assessment stage, unifying this process can yield important efficiency gains. A case in point is the unification of intake, registration and assessment of needs and conditions.

In the past decade, the GoI has made an important effort to develop a platform to target poor and vulnerable populations. The development of the unified database (BDT), in 2011, currently known as the integrated social welfare database (DTKS), was the first major initiative to develop a single database of around 24 million poor and vulnerable households for use by multiple programs. Standardized procedures for targeting and identifying potential beneficiaries were put in place to be adopted by all implementing agencies. An update of the 24 million households contained in the 2011 database was conducted in 2015 and another 2 million households were added into the DTKS via community-led recommendations. The establishment of the DTKS in 2012 yielded direct improvements in the efficiency of the allocation of SA benefits. The allocation of SA benefits is commonly measured through "beneficiary incidence", which looks at the share of beneficiaries of a certain program by income or consumption class. Between 2010 and 2014, the share of total beneficiaries coming from the poorest 20 percent of households improved for key transfers: PKH (13 percentage points), PIP (2.5 percentage points), and PBI-JKN (2 percentage points). These improvements took place during large coverage expansions for PKH and Jamkesmas (the previous moniker of PBI-JKN), which would usually incur a worsening in beneficiary incidence.

However, further efforts are needed to ensure full utilization of DTKS. Although in principle all major SA programs draw beneficiaries from DTKS, PBI-JKN has had to absorb beneficiaries from a SNG variant of the previous program (*Jaminan Kesehatan Daerah*, or Jamkesda). PIP has made use of DTKS in allocating beneficiaries, but not fully—schools are able to recommend additional students to receive PIP, which may in part explain its lower allocative efficiency vis-à-vis PKH. In addition, likely due in part to further expansions of programs, the share of the poorest households receiving PBI-JKN and PKH has declined. Only 32 percent of total households receiving (centrally-allocated) PBI-JKN in 2018 came from the poorest 20 percent of households, compared with 37 percent in 2015. A total of 44 percent of total beneficiaries receiving PKH were in the poorest 20 percent of the population in 2018, compared with 52 percent in 2015. PIP incidence also deteriorated slightly from 38 to 36 percent between 2014 and 2018.

Ensuring the existence of a well-functioning social registry poses challenges. The current poverty targeting database was designed to unify the "access" process that registers and filters potentially eligible beneficiaries for all family-based targeted SA programs. The usefulness of this

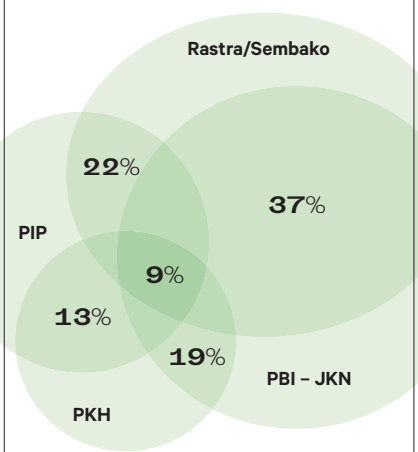
social registry depends on completeness and accuracy of its database, DTKS, which is now updated by local governments. While mechanisms such as the updating exercise via a social registry information system (SIKS NG, the IT system that supports DTKS) (updating mechanism is technically available to all SNGs) organized by the MoSA, the Integrated Referral System (Sistem Layanan Rujukan Terpadu, or SLRT), and while the on-demand application (ODA) have been implemented or piloted, these mechanisms have not yet been able to systematically update DTKS due to their limited scale or sub-optimal implementation. Such mechanisms, operating at the local-government level and managed by the MoSA, are key to ensuring that DTKS is updated frequently enough to address both inclusion and exclusion errors.

Moreover, ensuring the convergence of SA programs, i.e., eligible households receiving multiple programs, remains challenging. Integration of beneficiaries at the household level across programs remains low. Although the poorest 10 percent households are eligible to receive all major SA programs, only 2 percent had access to the four major SA programs in 2014. This share notably tripled to 9 percent in 2018 but remains low nonetheless (Figure 7.8).

Taken together, the array of SA programs provides an adequate benefit level. The value of PIP and PKH taken together accounts for about 27 percent of consumption expenditure for families living below the poverty line. However, currently, about 40 percent of the poorest 10 percent of households with at least one child receive either program, while only 13 percent receive both PIP and PKH, although these households are technically eligible to receive both programs. While a degree of low convergence of SA can be explained by measurement errors in the Susenas survey,[204] the very low share receiving all four programs reflects the need to improve integration and coordination among key programs. While existing policy[205] on the use of DTKS by PKH, Sembako, PBI-JKN and PIP was developed to ensure the same list of potential beneficiaries is used by main SA programs, the implementation result is yet to be optimal due to inconsistent implementation by the relevant implementing ministries and incomplete updating practices conducted by SNG offices through the MoSA's updating exercise via a social registry information system (SIKS NG).

FIGURE 7.8.

Convergence of social assistance programs is still elusive, 2018

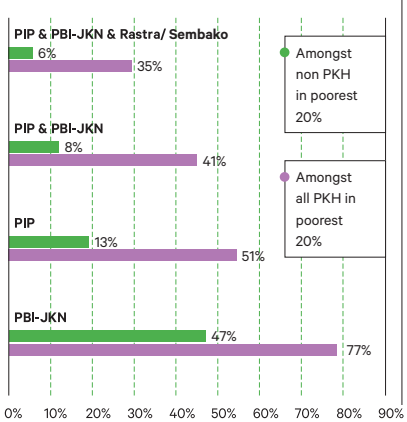


Source: Susenas 2018. The diagram is calculated for the poorest 10 percent of households with at least one child.

FIGURE 7.9.

Convergence outcomes of social assistance for PKH and non-PKH families in the poorest 20 percent of the population, 2018

Percent of total



Source: Susenas 2018

Under PKH, convergence outcomes are markedly better and suggest that policy efforts to integrate SA programs under PKH have been more successful. As shown in Figure 7.9, families that receive PKH are more likely to also receive other programs in addition versus a comparable family (a household in the poorest 20 percent with at least one child). Survey evidence shows that, conditional on participation in PKH, receipt of other SA programs is markedly higher. For instance, in 2018, 77 and 51 percent of the poorest 20 percent of households who are PKH recipients received PBI-JKN and PIP, respectively. For comparable families that do not receive PKH, these numbers are much lower, at 47 and 13 percent, respectively.

In delivering SA, the GoI has also made important headway in terms of unifying payment delivery. In 2017, the GoI released the National Financial Inclusion Strategy, which called for achieving greater financial inclusion through a rapid transformation of cash-based SA payment systems into a cash-less system using one single card (*Kartu Keluarga Sejahtera*, or KKS). Using the banking system (replacing the postal system) to deliver payments has yielded cost savings since transfer fees that used to be given to PT Pos were eliminated. Instead, transfer fees are replaced by interest gained from holding the payments for up to 30 days prior to the scheduled delivery of payments to the beneficiaries. This shift has been successful, with about 18 million beneficiaries for PIP programs being paid via a single bank (BNI), while 10 million PKH recipient families and the recipients of Sembako are paid via a collective of state-owned banks (Himbara). However, restricting payments to only Himbara banks has, at least in certain locations, limited the opportunities of other banks, which may be better equipped to serve the program's needs.

204 Large programs such as Rastra and PBI-JKN have historically appeared to have the same coverage both administratively (from the program side), as well as from survey data; differing only a few percentage points. Programs such as PKH and PIP, which are smaller have larger differences. A key reason for that is that smaller programs are harder to capture using the sampling strategy of Susenas, which is representative at district level, but may survey around 500-600 households on average in a district, at low coverage the chances of capturing the actual coverage of small programs are reduced.

205 Permensos No. 20/2017.

C

How Effective Is Public Spending in the Sector?

This section assesses the effectiveness of core SA programs in achieving their intended outcomes, i.e., to reduce poverty and inequality. The impact of PKH and Rastra is well-studied, whereas there is less robust evidence on the impact of PIP, PBI-JKN and the newly-introduced BPNT/Sembako, and no known evidence on the effectiveness of other SA programs.

Impact evaluation evidence suggests that PKH has a strong positive impact on household consumption and human development outcomes. PKH's initial positive impacts have continued as the program has matured (see Box 7.2). The recent drop of almost a half a percentage point in the poverty headcount has been attributed in part to the expansion of PKH. The decision to double PKH's benefit level in the 2019 budget was made based on the micro-simulation finding that additional spending in a benefit-level increase would yield a stronger reduction in the poverty rate than expansion in coverage.

Rastra faced several challenges that limited its effectiveness in ensuring the food security needs of poor and vulnerable households and motivated the transition to Sembako. The effectiveness of the Rastra program has been well-studied due to its large coverage and historically weak targeting accuracy, which led to lower effectiveness.[206] In theory, the Rastra benefit package was commensurate with the actual food security needs of poor and vulnerable households. Eligible households had the right to purchase 15 kg of rice per month at a price roughly 80 percent below market price. In reality, as previously mentioned, actual purchases as reported by households, however, were less than one-third of the official allocation of 15kg. As a result, the value of the benefit actually received was only about 2 percent of poor households' expenditure.[207] The evidence on Rastra's performance and overall lack of effectiveness motivated the GoI's decision to reform its delivery system by introducing and gradually transitioning to a cash voucher program, Sembako.

Early survey evidence shows Sembako is more effective than the previous Rastra program. With Sembako, only tar-

BOX 7.2. The effectiveness of PKH

Program Keluarga Harapan (PKH), or the Family Hope Program, was launched in 2007 as a pilot. An impact evaluation using a randomized, controlled trial approach was designed to compare two groups of households, which differ only in whether they received a "treatment"—in this case, the PKH program—or not. Two evaluations have been conducted since: (i) a mid-line (2011) evaluation after about three years of exposure to the program; and (ii) an end-line (2013) evaluation[208] after about six years of exposure to the program. The results from both evaluations suggest that, similar to most of CCT programs, PKH would encourage beneficiaries to utilize education and health services, while also providing income support. The evaluation results and potential poverty impact simulations[209] contributed to the GoI's decisions to increase the coverage and benefit level of PKH. Statistics Indonesia (BPS) also attributed the decline of about half a percentage point in the poverty rate of 2017 partially to the expansion of PKH to 6 million beneficiaries. Key findings from the two evaluations on PKH carried out in 2011 (mid-line) and 2013 (end-line) are as below:

1. PKH improves welfare and increases consumption of protein-rich food. The mid-line evaluation showed that PKH beneficiaries experienced a 10 percent increase in average monthly expenditures used mainly to buy high-protein foods and to cover health costs. While the end-line evaluation results did not find significant evidence on overall consumption impact, it did find that children aged 18 to 60 months were 10 to 11 percentage points more likely to have consumed eggs. PKH has a substantial impact on increased utilization of health and education services. In the end-line survey, it was shown that PKH led to a 13- to 17-percentage-point increase in medical professional assisted delivery. Impacts on immunization were found to comprise a 5-percentage-point increase. Interestingly, at the mid-line evaluation, PKH improved neonatal visits by 7.1 percentage points but it had no significant impact on outpatient visits or increased intake of iron tablets. Contrary to the mid-line results (with increase of almost 10 percentage points), there appeared to be no significant impact of PKH on post-natal visits to health facilities as found in the end-line results.[210] On education, the end-line results show PKH halving the share of children aged 7 to 15 who are not enrolled in school. For junior secondary school, the enrolment among PKH children was increased by about 8 to 9 percentage points.

2. PKH has also shown a major impact on stunting that requires cumulative investments. The end-line results show that stunting among children aged 0 to 60 months in PKH beneficiary families witnessed a decline of about 9 to 11 percentage points, representing a 23- to 27-percent reduction in the probability of being stunted. Severe stunting declined by about 10 percentage points, representing a 56 to 62 percent reduction. Both boys and girls benefited from decreased stunting and severe stunting, although the point estimates are slightly larger in magnitude for boys than for girls.

Source: Authors

206 World Bank (2012) and (2017) Social Assistance Public Expenditure Review. TNP2K, 2015. Raskin: The challenge of improving program effectiveness. Jakarta: Government of Indonesia.

207 Furthermore, Rastra rice does not always meet Bulog's own quality standards. Rastra rice is expected to meet a "medium" quality standard (good rice condition; free of pests) and beneficiary households have the right to reject and return below medium quality rice for exchange. However, monitoring throughout 2012, indicated that only 37 percent of villages received medium quality (or above) rice.

208 Cahyadi, N. et al. (2018) Cumulative Impacts of Conditional Cash Transfer Programs: Experimental Evidence from Indonesia. NBER Working paper series.

209 Preceding simulations focused on coverage expansion impacts and estimated similar impacts on the poverty head count. World Bank (2018) Increasing PKH Benefit or expanding PKH Coverage – Poverty forecasting modelling. Unpublished presentation.

210 The end-line report noted possible explanations as a prevailing belief among mothers that if their delivery went fine, there was no need for post-natal checkups and that some women noted the difficulty in arranging appointments with health care professionals.

geted households identified by KKS ownership and validation of identity using a PIN will able to purchase 10kg of rice or a quantity of eggs at controlled distribution points called e-Warong. March 2018 Susenas survey evidence suggests that among about 800,000 Sembako beneficiaries purchased an average of 8kg of rice at an e-Warong in both January and February 2018, the early phase of Sembako implementation. Of these beneficiaries, about 500,000 also purchased an average of 13 eggs each month. Certainly, a successful implementation and scale-up of Sembako to reach 10 million families should continue to help maintain the effectiveness of the GoI's flagship food distribution program, while also boosting nutrition.

Further evidence is needed to establish the effectiveness of PIP. There is limited information to measure the effectiveness of the PIP program in promoting enrollment and the completion of basic education. Further research should examine drop-out rates for program beneficiaries between SD and SMP levels, and from SMP to the SMA level of schooling, to establish how well PIP is able to facilitate completion of schooling. In terms of program design, several potential issues remain to be addressed, including the low benefit levels to cover the full out-of-pocket cost of schooling and the continuing lack of a facilitation structure leading to no accompaniment for program beneficiaries, and little information-sharing, as well as scarce pathways for grievance redressal. To address these, a process evaluation and potentially an impact evaluation of PIP could be conducted. Other options to strengthen the program's implementation could include stricter targeting procedures, using only DTKS and monitoring attendance, or schooling completion for PIP beneficiaries.

PBI-JKN targeting outcomes have worsened and can be improved. PBI-JKN implementers have focused largely on beneficiary expansion and may not be paying enough attention to implementation strengthening. PBI-JKN targeting outcomes have worsened and PBI-JKN monitoring and evaluation (M&E) systems are not yet able to focus on health service usage and outcomes at the PBI beneficiary level. Local PBI nominations are not very progressive, and these nominations lower the overall allocative efficiency and therewith effectiveness of the overall PBI-JKN program. Going forward, M&E systems should be able to monitor bottlenecks in benefit uptake and access. In addition, much like PIP, grievance redress systems appear to be weak, while existing communication efforts have not been effective in addressing the lack of information to beneficiaries, as well as health service delivery points on the ground.[211]

211 Ibid.

Recommendations to Improve *the* Quality *of* Spending

A *Policy reforms and adapted program design*

B *Strengthened delivery systems*

7.3

Going forward, SA spending quality can be further improved through continued policy reforms, adapted program designs, and strengthened delivery systems. While Indonesia's SA system has made significant and impressive progress during the past five years, as demonstrated by the large coverage expansion of several core programs, as well as the implementation of electronic payment reform, additional policy reforms regarding under-covered risks, further adaptation of program design, and continued strengthening of program delivery systems, are needed to improve both the effectiveness and efficiency of SA spending.

A *Policy reforms & adapted program design*

Overall, the GoI should consider further reallocating spending away from untargeted subsidies toward SA. While SA spending has been increasing, it remains low as a share of GDP compared with middle-income country and regional peers. To better address risks along the lifecycle and to progressively expand the coverage of social safety net beyond the poor and vulnerable, the GoI should consider ways to increase the allocation of the budget to targeted SA programs. This would be possible through the savings generated from reforming the remaining regressive energy and non-energy subsidies by improving their targeting performance. As displayed by global, as well as Indonesian, evidence,[212] spending on untargeted subsidies is far less efficient than targeted spending on SA programs, and induces overconsumption behavior, which further increases their fiscal cost.[213] The electricity subsidy reform, by limiting the subsidy to 450 volt-ampere (VA) and 900 VA users who are registered as welfare beneficiaries, paved the way for other subsidy programs to follow suit. The reform of 3kg LPG subsidy program for residential consumption should proceed without further delay. Three pilots of different LPG distribution models were implemented in 2019 to test the technology options for beneficiary identity authentication. The GoI will decide which operation model should be adopted in 2020 for the whole program. The use of DTKS, even if partial, would promise major increases in the efficient and pro-poor allocation of government spending on 3kg LPG.

The GoI can spend additional resources on SA to mitigate neglected risks along the lifecycle, particularly related to the elderly and young children. Poverty among the elderly (age over 65) is highest among age groups, while pension coverage is extremely low at 10 percent.[214] Without official social insurance or assistance programs in place to support the elderly, this part of the population is at significant risk of becoming poor. Similarly, with only 30 percent of

212 World Bank (2016) The incidence of fiscal policy in Indonesia. World Bank Jakarta.

213 Energy subsidies have a negative impact on the environment and lead to higher GHG emissions, weaken the current account through imports of petrol products, and do not provide incentives to energy companies to improve efficiency. Implicit energy subsidies also weaken the balance sheets of state-owned fuel and electricity companies and lead to increased fiscal risks from contingent liabilities.

214 World Bank (2017). Indonesia Social Assistance Public Expenditure Review.

children in poor households accessing early childhood education (*Pendidikan Usia Dini*, or PAUD), these children are less able to maximize the potential for learning at an early age. The lack of reliable and affordable child-care services also prevents productive women from returning to the job market. Investments via new or existing programs that help poor and vulnerable households cover the risks of poverty in old age (via a social pension) and harness the opportunity of learning from a young age (by subsidizing access to PAUD) will promote further poverty reduction both in the short and longer term.

Consolidating PIP and PKH and re-designing the "combined" program would improve spending efficiency. One consolidation proposal[215] is to integrate PIP with PKH's education component, given that the two programs have very similar objectives of keeping children in schools, and it would be more efficient to integrate the two programs. Indeed, PIP can benefit from PKH's stronger systems in terms of outreach to the poorest and most vulnerable, M&E, grievance redressal, and family centered facilitation. In addition, PIP can be used to modify PKH's education conditionality design to achieve more desired results. For example, to increase enrollment and the transition to senior secondary school (SMA) education among the children from the poor and vulnerable families, a "graduation bonus" can be created for those children who enroll in senior secondary school and can be disbursed after successful graduation. Another variation of this award approach can be used to incentivize learning outcomes. For example, if beneficiary children can achieve the top 10 percentile in the national standard exams, a special achievement benefit could be added to their PKH benefit. The Ministry of Education and Culture needs to be involved in the implementation of the modified PKH education component.

In the longer term, the GoI should foster the integration of SA programs where possible. In the longer term, the GoI should look to establish a singular framework for SA, with formalized roles and a better-defined purview of each of the executing agencies in health, education, social insurance, planning poverty, and crisis monitoring and response. In addition, the social registry should include stronger links to program-specific beneficiary operations management systems (such as PKH or PIP), the civil registry and tax databases, to name a few. Direct and two-way links to program beneficiary operation management systems would ensure better convergence outcomes at the household level.

215 TNP2K (2018) The Future of the Social Protection System in Indonesia: Social Protection for All.

B Strengthened delivery systems

The central government should improve coordination with SNGs and encourage them to improve the implementation of SA programs. While the core SA programs are centrally funded and managed, SNGs have an important role to ensure the effectiveness of these programs. This is due to three reasons:

1. SNGs are uniquely placed to coordinate between the programs on the demand side and the supply side under their management. For example, PKH is not going to function well if its beneficiaries cannot access local health, nutrition, and education services, or if these service providers do not cooperate with respect to compliance verification. The supply-side constraint in remote areas cannot be eliminated without significant and persistent efforts by SNGs. **It is critical that SNGs are encouraged to take strong ownership of core SA programs and are at least partially accountable for program implementation performance.**

2. SNGs were directly involved in Rastra implementation and are responsible for selecting qualified e-Warong operators for Sembako. While the central budget allocation for PKH covers the expense of human resources and their training, SNGs are expected to cover operational expenses related to transportation, office space and office supplies, and the tool kits used for structured life skills education, called Family Development Sessions. Not all districts allocate adequate local budget to support PKH implementation, which contributes to the variation in program implementation performance across locations. SNGs are directly involved in Rastra/Sembako implementation by distributing subsidized rice at the community level for Rastra or selecting qualified e-Warong operators at the community level for Sembako. **The roles and responsibilities of SNGs in terms of SA program implementation need to be formulated by a government regulation rather than a MoSA regulation.**

3. SNGs are responsible for updating DTKS via MoSA's updating exercise via a social registry information system (SIKS NG) and to convey citizens' demand and grievances via SLRT. To provide appropriate incentives for SNGs to execute their functions, the central government can consider two instruments, namely minimum service standards (*Standar Pelayanan Minimal*, or SPM) and the DAK transfer from central to SNGs. The newly proposed Social DAK starting in 2020 could supplement SNGs' own resources devoted for national priority programs, particularly if it is linked with performance or results.

To be more effective and efficient, the GoI should improve the delivery systems of SA programs and regularly update DTKS. All programs should adhere to the same common standards in beneficiary intake, registration, payments and grievance redressal systems. Indonesia's social registry, DTKS, needs to ensure dynamic updating via the SNG updating exercise and the SLRT functionality, and hence serve as a common platform for beneficiary intake and registration. In turn, it needs a standard procedure to safeguard data quality in addition to ensuring that all SNGs are able, both fiscally and technically, to include the newly poor and vulnerable. The coverage of DTKS should be allowed to increase beyond the poorest 40 percent to help better address targeting errors in both directions—excluding families or individuals when they are eligible or including families

or individuals when they are not eligible to receive a program. A DTKS with larger coverage would also help SA programs to expand more easily beyond the existing beneficiaries in the time of large-scale natural disasters, including the COVID-19 pandemic emergency.

M&E of all SA programs, especially PIP and PBI-JKN, needs to be improved to identify implementation gaps. Leakage to the middle and rich class is highest for PBI-JKN and so PBI-JKN implementers should ensure full use of DTKS and should strengthen M&E practices to study benefit take-up and health-care service utilization specifically for the poor and vulnerable recipients of the fee waiver. With stronger M&E practices, implementers can then address barriers to benefit take-up and the quality of health services received, together with health-service providers and SNGs.

Despite progress in recent years, the government-to-person (G2P) payment scheme for SA programs can be improved. Since the issuance of Presidential Regulation No. 63/2017 on Non-Cash Social Assistance Programs, PKH and Sembako have transformed their benefit payment methods. Having a transaction bank account is not sufficient for SA program beneficiaries to be financially included. Both financial literacy and appropriate financial products offered to the poor and vulnerable are equally important in achieving the financial inclusion objective. Furthermore, the current G2P approach limits the participation of many bank and non-bank financial service providers. As a result, some beneficiaries may not have easy access to Himbara banks and the benefits of digital transaction beyond receiving payment have not yet materialized. Going forward, it is essential to develop a shared payments delivery system to achieve greater effectiveness and efficiency. An integrated G2P digital payments system would strengthen the performance of SA programs by moving away from single delivery channels coupled with specific service provider and access points. Furthermore, this integrated G2P platform should eventually empower beneficiaries to choose the service provider based on their preference and provide choice of cash-out/in transactions at any financial service point, irrespective of the service provider used.

The GoI should also consider adapting core SA programs for a more timely and effective response to natural and health-related disasters. Recent earthquake and tsunami shocks provide reminders of Indonesia's high-risk exposure to natural disasters. While multiple government agencies provide disaster response assistance to disaster-affected populations, these forms of assistance have been mostly designed and operated separately from core SA programs, and often not disbursed or executed in a timely manner due to the rigid process required for budget reallocation. In the aftermath of disaster shocks, a wide range of households face significant economic losses. Without a systematic and timely response, disaster-affected households face prolonged periods of destitution, and may not fully recover from the loss of their livelihoods. More timely response could be provided via SA programs to disaster victims for meeting their basic needs as well building back their livelihoods better, should SA programs and the relevant delivery systems be adapted. For example, a cash transfer program can be adapted relatively easily after a disaster to: (1) temporarily expand its coverage to include disaster victims that were not recipients before the disaster; and (2) increase its benefit level to compensate for additional needs due to the disaster. The current COVID-19 pandemic has heightened the advantage of adapting social assistance program for better disaster response. To protect the poor and vulnerable as well as informal sector workers that are negatively affected by the COVID-19 pandemic, the GoI has swiftly introduced multiple temporary social assistance interventions, including leveraging both PKH and Sembako for quick implementation. Within weeks both programs are starting to provide top-up benefits while expanding the coverage to include more recipients. The MoF has developed a Disaster Risk Financing and Insurance Strategy, which aims to establish a dedicated pooling fund to more efficiently manage a budgetary allocation for disasters. Furthermore, the strategy calls for protecting households and the poor through SA programs that are directly linked to the pooling fund for predictable post-disaster assistance. Meanwhile, Bappenas is developing the strategy for adaptive social protection to establish a framework to enable SA programs adapt the design needs to become more flexible. In addition, the GoI needs to ensure that DTKS can be used for swift data collection on the disaster-affected population to undertake needs assessments. Furthermore, the strategy calls for protecting households and the poor through SA programs that are directly linked to the pooling fund for predictable post-disaster assistance. To ensure better disaster response, both SA program design and program delivery systems need to be adapted. For example, to top up the benefit level of existing SA program beneficiaries and temporarily expand programs to cover new beneficiaries, the program design needs to become more flexible. In addition, the GoI needs to ensure that DTKS can be used for swift data collection on the disaster-affected population to undertake needs assessments.