Policy Brief 5

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Inter-Regional Inequality Facility

sharing ideas and policies across Africa, Asia and Latin America

Social Safety Nets | Indonesia

Objectives

Between 1970 and 1996, Indonesia was one of the most rapidly growing economies in the world. Absolute poverty fell by around 50 percentage points, and gains in education and health standards were substantial. Nevertheless, systems of social protection remained largely informal, based on families, friends, and communities. When therefore Indonesia sank into economic crisis in 1998, large numbers of people were pushed into poverty. In response, the government introduced a new, more formal, social safety net. Its overall purpose was to help the poor and the newly poor cope with the impact of the economic crisis. In particular, it set out to:

- ensure the availability of food at affordable prices;
- supplement households' purchasing power through employment creation;
- preserve access to critical social services, particularly health and education;
- sustain local economic activity through regional grants and small-scale credits.

Details

The safety net programmes introduced in 1998 had five main elements. A food security programme allowed poor households to purchase 10kg of rice per month at a highly subsidized price. An employment creation programme provided work for unemployed and/or dismissed workers on labour-intensive government projects. An education programme provided monthly cash grants of between US$10 and US$25 to poor households with children in school. A health programme provided poor households with free medical and family planning services at government health centres, and nutrition supplements to pregnant women and young children. Finally, a community empowerment programme provided funds of between US$1,000 and US$100,000 to village communities, for uses decided at the local level but mainly involving physical infrastructure and subsidised credit. The total budget for the programme in 1998/99 amounted to approximately US$1,140 million, equivalent to approximately 1.2% of GDP.

Lessons Learned

The experience of social safety nets in Indonesia offers certain lessons to other countries. First, developing an effective targeting mechanism is crucial. In Indonesia, a large number of the poor were simply not covered by the programmes, and there was substantial benefit leakage to the non-poor. Second, there must however be some allowance for local flexibility. In Indonesia, local-level pressure for deviations from centrally-determined eligibility criteria was overwhelming, and in all likelihood actually improved targeting. Finally, long-term poverty alleviation strategies, such as micro-credit, are unsuitable as a social safety net during a crisis. In Indonesia, households receiving subsidised credit during the crisis were in fact more likely to be below the poverty line, most likely because they needed to set aside some of their own income to supplement the credit received. A more rapid positive impact on household consumption is required instead.

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Background

Before the onset of the economic crisis in mid-1997, Indonesia was one of the most rapidly growing economies in the world. Between 1970 and 1996, absolute poverty fell by around 50 percentage points, accompanied by substantial gains in education and health standards. By early 1998 however, the country was suffering from the combined effects of currency, financial, economic, and political crises. The social impact of the crisis was substantial: poverty increased from 15 percent in mid-1997 to 33 percent by the end of 1998, an increase of approximately 36 million people (Suryahadi et al. 2003). As the crisis worsened, mass rioting occured in the capital Jakarta and in other cities, culminating in May 1998 in the fall of the government.

Prior to the crisis, government run safety net programmes were almost non-existent in Indonesia. The general poverty strategy included: (i) spending on social services, e.g. health, family planning, and education; (ii) development programmes aimed at increasing productivity, e.g. subsidised credit, and (iii) some small programmes for very specific disadvantaged groups (e.g. disabled, orphans). There were compulsory social security and health insurance schemes for employees in medium and large enterprises, the public sector and the military, but they did not extend to the informal sector where around 65% of the Indonesian labour force was found. To help protect the traditionally poor as well as the newly poor due to the crisis, the government established in 1998 a set of social safety net programmes.

Details

The safety net programmes introduced in 1998 covered five major sectors: food security, employment creation, education, health, and community empowerment.

Food Security (OPK)

The purpose of this programme was to ensure that the poor had access to the staple food, rice, at an affordable price. The programme was introduced in July 1998 in Jakarta, and then expanded to the whole country. Each eligible household was allowed to purchase 10 kilograms of rice per month at a highly subsidized price of Rp.1,000 per kg, compared to an average market price of around Rp.3,000 per kg. The amount which could be purchased at the subsidised price was increased to 20 kilograms in April 1999, but was subsequently reduced to between 10 and 20 kilograms in April 2000.

Planned coverage for the OPK programme was 12.8 million households. The budget for the programme in 1998/99 was Rp 4,450 billion (US$445 million), which was to be financed entirely from the national budget. The programme was implemented by the National Logistics Agency (BULOG), an existing government agency responsible for the stability of supply and prices of food in the country since the early 1970s. At the local level, the programme was implemented by village authorities.

Originally, only households in the lowest official poverty classification – referred to as *keluarga pra-sejahtera* (KPS), or 'pre-prosperous', households – were eligible to participate in the programme. However, the coverage of the programme was later expanded to include the second lowest category, referred to as *keluarga sejahtera I* (KS I), or 'prosperous I', households. These official classifications are created by the National Family Planning Agency (BKKBN), on the basis of around 20 household welfare indicators. Households that are not, for one reason or another, registed with the BKKBN may still participate in the programme if they are deemed eligible by local community or village leaders.

Padat karya (employment creation)

The second safety net programme involved employment creation, through labour-intensive public works projects. This was directed mainly to urban ares, but some rural areas that experienced harvest failures were also included. There were no explicit eligibility criteria for this programme, but there was implicit targeting or 'self-section' by setting the wage rate at a lower rate than the prevailing local wage rate. Planned coverage for the programme was 12.7 million person-days, at a budget of Rp.2,066 billion (US$ 207 million).

Education scholarships

The third safety net programme included scholarships for students from poor families to stay at school. The scholarships provided cash of Rp.10,000, Rp.20,000 and Rp.25,000 per month (approximately US$10, US$20 and US$25) for primary (grades 4, 5 or 6), lower secondary, and upper secondary school students respectively. To be eligible for a scholarship, students must have been from poor families – again defined as those in the BKKPN categories KPS or KS I – and not in receipt of any other scholarship.

Planned coverage for the programme was 6% of all primary school students, 17% of lower secondary students, and 10% of all upper secondary school students. The budget for the programme in 1998/99 was Rp.1,138 billion (approximately US$114 million), which was to be financed by a combination of the national budget and external resources provided by the Asian Development Bank and the World Bank. Block grants were also provided to schools in poor communities to help them to continue operating.

Scholarship funds were allocated so that poorer schools received proportionally more scholarships. Within each school, scholarships were allocated to individual students by a school committee, consisting of the principal, a teacher representative, a student representative, the head of parents' association, and the village head. Recipients were selected using a range of administrative criteria, including household data from school records, the family's BKKBN status, the size of the family, and the likelihood of the student dropping out of school in the absense of a scholarship.

Free health services (SSN-BK)

The fourth component of the safety net programme included free medical and family planning services at government primary health centers *(Puskesmas)* and hospitals. To be eligible, households must again have been in BKKPN categories KPS or KS I, although other poor families not registered with the BKKPN could also be eligible if recommended by local village leaders. The programme also included free food supplements for pregnant women and for children under three years old.

The planned coverage for this programme was 7.4 million households, and its budget for the financial year 1998/99 was Rp.1,043 billion (US$104 million). This was financed by a combination of the national budget and resources provided by the Asian Development Bank. To implement the programme, health providers in each region were allocated a lump-sum fund, based on the predicted number of poor people to be covered.

Community empowerment (PDM-DKE)

The fifth and final component of the safety net programme was a community empowerment programme. The amount of money distributed ranged from around Rp.10 million (US$ 1,000) for relatively well-off communities to around Rp.1 billion (US$ 100,000) for the poorest communities. Each community was given full authority to use the funds at its own discretion, to be decided through the village governing body known as the Village Community Resilience Institution (LKMD). The majority of communities used the funds for physical infrastructure development and maintenance, or revolving funds through subsidized credit schemes.

Impacts

Coverage and targeting

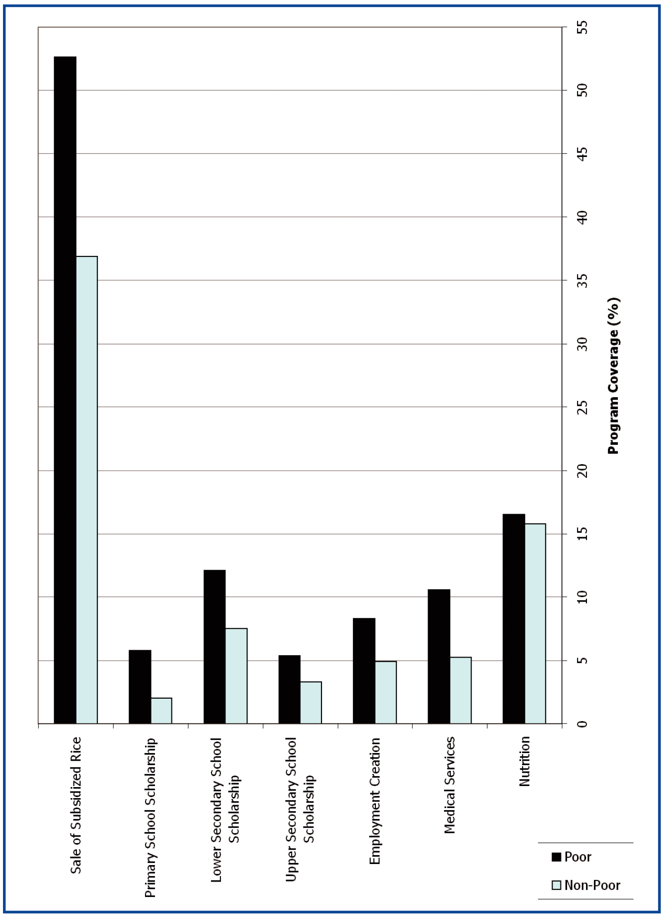
Figure 1 summarises the national-level coverage of the safety net programmes detailed above based on evidence from the National Socio-economic Survey (Susenas). This evidence differs from that presented in official Government reports, which is typically based on eligible participants rather than the actual participants.

The OPK programme stands out as the programme with the highest level of coverage. More than a half of all poor households in Indonesia reported receiving the benefits of this programme, while more than a third of non-poor households also reported receiving the benefits. At the other end of the scale, the scholarship programmes for primary and upper secondary schools had the lowest coverage, with only around 5 percent of poor students reportedly receiving scholarships. Overall, Figure 1 indicates the simultaneous occurrence of a large degree of under-coverage of the poor ('type 1' targeting error) on the one hand, and of leakage of benefits to non-intended beneficiaries ('type 2' targeting error) on the other hand.

A number of reasons can be identified for the relatively weak targeting performance of the safety net programmes. First, for the OPK programme, local village leaders often did not adhere to the list of eligible households. They argued that the BKKPN categories were not an accurate reflection of those in need, and also that the targeted distribution of the benefit was inconsistent with the spirit of community solidarity and self-help. Whether this was justified is a matter of debate. On the one hand, it is possible that some of what is recorded as going to those who are 'non-eligible' is not really mis-targeting, but is a justifiable local correction of the official eligibility criteria. However, it is also possible that local social pressures led to a more uniform or equal distribution simply as the only allocation that is perceived to be 'fair'.

Second, local politics also appeared to play some role in the way village leaders distributed OPK rice. Anecdotal evidence exists of local leaders abusing their discretion in the OPK, as well as other social programmes. The village leaders are generally directly elected by the people, and there are as a result inherent needs for them to maintain support bases. Relatedly, villages with higher social network activity have been found to have higher levels of participation in the various programmes (Alatas *et al.* 2002), which may be because community monitoring and supervision is higher in such cases.

Figure 1 Coverage of social safety net programs in Indonesia



Third, there are some villages which simply did not receive their subsidised rice allocation, and others where poor households simply did not have the available cash to buy the rice in bulk, even at the subsidised price.

Fourth, there were various problems in targeting the employment creation programme. In some regions, the wage rate was set at a higher rate than the prevailing local wage rate, thus inducing those already working and not among the poor to participate. There is some anecdotal evidence that participants in the programme were not actually required to work, reinforcing the problem. Reports from the field also indicate other shortcomings such as nepotism in the selection of beneficiaries.

Finally, for health services much of the problem stemmed from the fact that health providers received lump-sum grants from the national government to provide free health services, rather than an amount depending on the amount of free services provided. In some cases, when a provider thought that the value of the services performed had already exceeded the funds received, it would turn away eligible households or demand payments from them. In addition, some poor people thought that the quality of services provided free by health providers was of lower quality, and therefore chose not to use them.

In sum therefore, all programmes were plagued by the problems of targeting. It should be kept in mind, however, that the programmes were designed hastily and implemented in a chaotic situation.

Benefits for households

In terms of the benefits actually received by households participating in the safety net programmes, Sumarto *et al.* (2005) found that, in general, programme participation increased household consumption levels. Participating in the OPK programme increased per capita household consumption by 4%, while participation in one of the scholarship programmes increased per capita household consumption by 10%. Participation in the OPK programme also reduced the probability of a household being below the poverty line (in the survey year), by 3%. These estimates were based on the analysis of panel data, which serves to increase their accuracy and reliability.

There were certain exceptions. Participation in the subsidised credit programme in fact increased the probability of a household being below the poverty line (in the survey year). This however has more to do with the nature of a credit programme. Since participants in this programme were supposed to use the credit funds for productive purposes, it is quite possible that they also set aside some of their own income to supplement the credit received. As in the very short-term these investments were yet to yield returns, their probability of being poor in the short term is higher. Nevertheless, it does imply that subsidised credit is not a suitable crisis programme, where a quick positive impact on household consumption is required.

Lessons learned

The safety net programmes were designed to cope with the Indonesian economic crises offer seven lessons which may be of benefit to other countries.

- First, because informal coping mechanisms relying on families, friends, and communities are insufficient to mitigate the worst effects of a major crisis, real spending on formal social safety nets during a time of crisis must rise.
- Second, all programmes were plagued by the problems of targeting. A large number of the poor were simply not covered by the programmes, and there was substantial benefit leakage to the non-poor. This was partly due to the fact that the safety net programmes were hastily designed and implemented. However, developing an effective targeting mechanism suited to country specific conditions is crucial.
- Third, up to date, complete, and accurate data is vital. When the crisis hit Indonesia, there was no well-designed, publicly accessible real-time information system to guide efforts to mitigate the negative effects of the crisis. The data collected should be based on rigorously tested proxy indicators of welfare, and collected annually based on localized efforts to ensure accuracy and minimize cost.
- Fourth, institutional commitment, supported by clear objectives and simple design is crucial. Implementation in the regions depends upon the capacity of local government and local community groups. At this level, clear targeting criteria and a reliable decision-making process are central to the effectiveness of the programme.
- Fifth, there must be some allowance for local flexibility. The OPK programme worked well because it had a simple design, and used the National Logistics Agency's distribution channels. But pressure at the local level for a 'fairer' distribution of the rice was overwhelming, since the 'almost poor' or the 'newly poor' families had no entitlement to the subsidized rice. In all likelihood, the emergence of flexibility during the implementation of the programme actually improved targeting.
- Sixth, most long-term poverty alleviation strategies are unsuitable as crisis social safety nets. This is especially true of micro-credit. Not only are new businesses unlikely to be successful during a crisis, but the expansion of credit in an 'emergency' fashion can undermine the slow, patient, and painstaking groundwork that successful micro-credit programmes require. Furthermore, once people perceive that credit is a 'transfer' rather than a 'loan', the programmes are quickly abused through the widespread allocation of credits to powerful local individuals.
- Finally, for employment creation programmes to be effective, wage rates should be set below the prevailing market rate. This will allow for the element of 'self selection' since only those in serious difficulty will be willing to work for the low wages being offered, while at the same time maintaining incentives to take up regular jobs when available.

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