

Indonesia

Restructuring of the social security system (Part 5)

ILO PROJECT INS/00/M04/NET

Developing social assistance



**International Labour Organization
Social Security Policy and Development Branch
Geneva, July 2003**

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1. Executive summary

1.1. This report looks at the feasibility of developing a more long term system of Social Assistance in Indonesia following on from the Social Safety Net measures introduced on an emergency basis after the 1997 Asian economic crisis. The Social Assistance report is part of the larger ILO project (INS/00/MO4/NET) looking at the development of the social security system in Indonesia. The report combines the findings of several sets of consultations with social partners and other stakeholders in 2001 and 2002.

1.2. The report concludes that Indonesia will need to have some form of longer-term ongoing Social Assistance programme. However, the existing ad hoc Social Safety Net programme, while an innovative response to the crisis, has an inadequate administrative framework, and in practice is not well targeted. Evaluations of each of the main component Social Safety Net programmes have identified high levels of “leakages” to groups not intended to be the recipients of assistance, and many of the poor not receiving assistance. Ongoing funding sources for assistance are also not clear.

1.3. There are considerable constraints on the feasibility of developing a more systematic process of Social Assistance in Indonesia on a national basis. These include the nature of Indonesia’s developing economy, with most of the labour force in the informal sector, limited revenue sources, lack of any national administrative structure which could adequately control a Social Assistance programme, major geographic diversity, and the more recent moves to devolve more power to regional and local governments.

1.4. A number of options for administering and funding an ongoing Social Assistance programme are discussed in this report. The most promising options would seem to involve some negotiated arrangements between central and local governments within the framework of a national social assistance programme. In practice this would mean considerable diversity in programmes at the local level.

1.5. Recommendations on ways to develop this approach are included in the report.

International Labour Standards and Social Assistance

There are no International Labour Standards which relate specifically to social assistance but Recommendation 67 concerning Income Security represents an important source of guiding principles. Thus in paragraph 1

- Income security should relieve want and prevent destitution by restoring upto a reasonable level, income lost through inability to work (including old age) or to obtain work by reason of the death of a breadwinner
- Income security should be organised as far as possible on the basis of compulsory social insurance but where this is not possible provision should be made through social assistance with a presented scale for certain categories such as dependent children, invalids and widows.

2. Introduction

2.1. The Indonesian background

2.1.1. Prior to the 1997 economic crisis Indonesia had very little in the way of central government expenditure which could be classified as Social Assistance. Government expenditures in the social area were concentrated on what could be regarded as development spending, particularly education and health and community development, though these outlays did produce gains for the lower income groups. However, direct poverty relief as such was not viewed as a core responsibility of the central government. The Indonesian tradition is that relief of extreme poverty is largely the responsibility of the extended family and village community, plus assistance from alms and private charity, with NGOs also playing some role.

2.1.2. The traditional non-involvement of the central Government in direct Social Assistance spending conformed to a pattern which is common in low income developing countries. It also reflected major social and economic considerations specific to Indonesia.

- Indonesia entered the New Order period of Government (1967 to 1998) with extremely high and pervasive levels of poverty. As late as 1970 a full 60 per cent of the population were below the national poverty line, which in turn was set well below the current international poverty line of US\$1 per day. With the majority of the population being poor, there was less focus on the poorest within this group.
- Indonesia's main poverty reduction strategy during this period consisted of economic development. This worked extremely well over the period prior to the crisis, and by 1996 the proportion of the population below the national poverty line had declined to just over 11 per cent. However, many people who had moved above the poverty line were only above it by a small margin, and vulnerable to economic downturns. This vulnerability was particularly so for many of those who had migrated to urban areas to take advantage of the previously expanding economic opportunities. Before the onset of the 1997 crisis these people in general were not part of the groups who were poorest by Indonesian standards, though they were to experience the main initial impact of the 1997 crisis.

2.1.3. Prior to the 1997 crisis it was also becoming clear that those left below the poverty line were increasingly the most vulnerable – for example the handicapped or disabled or the unsupported elderly – plus people in the remote outer areas of Indonesia. These groups were less likely to exit poverty through the general process of economic development of Indonesia as a whole than had been the case for the mainstream groups in the population.

2.1.4. The Social Safety Net measures which emerged after the 1997 economic crisis were mainly an ad hoc response to the sudden re-emergence of poverty amongst many who had previously experienced rising living standards. The measures were put together at speed, and were uneven in their impact. Administrative delivery mechanism issues, governance problems, and substantial leakages of assistance to non-target groups were evident along with the achievements of these programmes.

2.1.5. The 1997 crisis acted as a precipitant for the substantial involvement of the central government and supporting layers of provincial and local government in direct poverty relief. It also focussed attention on the fact that the Indonesian population has been transiting from a predominance of rural extended families and communities reliant on semi-subsistence agriculture to provide for their needs, to a more urban pattern with predominant reliance on a cash economy. This shift in pattern will require more formal systems of social protection, including some forms of Social Assistance. The longer-term issue for Social Assistance policy is to determine which approaches are feasible in Indonesia, will reach the intended target groups, and will result in a sustained reduction in poverty.

3. The 1997 crisis and the social safety net

3.1. The 1997 economic crisis reversed the previous downtrend in poverty. By late 1998 over 24 per cent of the population were again below the national poverty line. Most Indonesians experienced real income losses as price inflation outpaced nominal income gains. Some sections of the community did experience real income gains (for example exporters whose prices were fixed in hard currencies), but most groups experienced real income declines:

- there was a massive decline in average real wages as price rises deflated the real value of money wages. General inflation was 78 per cent in 1998, while food prices rose by 118 per cent. Despite increases in money incomes, real wages fell by about one third in 1998. Mean consumption levels fell 24.4 per cent nationally. Those in urban areas fell 33.9 per cent, and in rural areas by 13.4 per cent. The distribution of the consumption cutbacks was skewed, and median consumption fell only 1.5 per cent, with the median urban reduction being 5 per cent. It is difficult to explain this pattern but it appears to be a combination of severe consumption cutbacks by those most affected by the crisis and precautionary cutbacks in discretionary spending by some other previously affluent groups; with the more traditional rural dwellers and hence the median being less affected. Significant groups of mainly urban or other non-farm households moved from relative affluence to poverty as a result of the crisis, and this group affected the mean average drop in consumption more than the median;
- there are some indications that many households sold or pawned assets to cope with the impact of the crisis; and
- in general urban areas were worse affected by the crisis than rural areas, though rural Java soon experienced the flow on effects of the downturn in the cities.

3.2. Per capita daily food consumption in Indonesia fell from 2,019.79 calories in 1996 to 1,849.36 in 1999. Protein consumption per capita in grams fell from 54.49 to 48.67. The national Poverty index which had dropped to just over 11 per cent in 1996 rose to over 24 per cent in December 1998.

3.3. The sudden precipitation of large groups back into poverty and the worsening of the position of many of those already in poverty generated the first major involvement of the Indonesian Government into poverty relief through Social Assistance measures. These measures known collectively as the Social Safety Net took several forms:

- the initiative reaching the largest number of people, even if in small measure, was the rice subsidy programme, known technically as the Special Market Operations programme (OPK). This allowed the target poverty households to buy 10 (later 20) kilograms of rice per month at a price of Rp. 1,000 per kilogram. At the time average market prices were of the order of Rp. 2,500 per kilogram;
- a second set of initiatives involved special employment creation programmes, (Padat Karya) which were also to be targeted to the poor and those who had lost employment;
- a third programme extended scholarships designed to encourage children from poor families to stay on in school, and provided additional grants to schools;
- in the Health sector additional grants were given to Health centres, and low income people were to be given Health cards which enabled them to access some free health care. An associated nutrition programme provided higher quality foods for babies and their mothers, also in theory targeted to poor households; and
- community development grants were also given to some poor communities, and associated small loans. At a subsequent stage some cash grants were made under this programme.

3.4. In addition to these programmes there were also some other poverty relief programmes provided by NGOs, including some food for work programmes.

3.5. Part of the cost of the Social Safety Net programmes was financed by external loans from the World Bank and ADB, particularly in the period from 1998 onwards. This of course accumulates debt, which must eventually be repaid by the Government of Indonesia. It also raises the issue about what domestic sources of funds would fund any future Social Assistance programmes once the loan funds run out.

4. The size of the social safety net initiatives

4.1. Measuring the size of the Social Safety Net initiatives is somewhat problematic, since the measure depends on what is included in the coverage. A number of the measures announced as part of the Social Safety Net such as additional grants to schools were expansions of existing activities rather than entirely new activities for the central government. Also, some assistance from outside came in kind rather than cash. Irwan, Rahman, Romdiati and Suhaini estimated the size of the outlays including the rice subsidy at Rp. 15 trillion in 1998/99, and Rp. 11.9 trillion in 1999/2000. Statistics Indonesia (BPS) using a wider definition estimated the outlays at Rp. 17.9 trillion in 1998/99, Rp. 20 trillion in the year 2000, and projected Rp. 14.6 trillion for 2001.

4.2. Ministry of Finance statistics which cover cash outlays on subsidy through the regular budget show that non-oil subsidies rose from Rp. 0.2 trillion in 1996-97 to a peak of Rp. 25 trillion in 1999-2000:

Figure 1. Non-oil subsidies from the regular budget

Year	Trillion Rupiah
1996-97	0.2
1997-98	11.3
1998-99	4.1
1999-2000	25.0
2000 (9 months)	8.6
2001 (proj)	12.5
2002 (plan)	13.9

4.3. However, these figures include some items (credit subsidies and electricity subsidy) which may not strictly be part of the Social Safety Net since their main target groups were not the poor. They also exclude spending of external loan monies channelled through the separate Development Budget. In fiscal 2001 for example a further Rp. 2.2 trillion of subsidies was budgeted in this way, pushing the year 2001 planned total to Rp. 14.7 trillion. The apparent “fall” in spending 1998-1999 reflects the fact that loan monies for the Social Safety Net from the World Bank and ADB at this juncture went through the Development Budget rather than the regular budget. However, the tailing off of Social Safety Net spending after the year 2000 seems to reflect a real decline. Whichever the definitions and measures used, two things stand out in relation to the size of the Social Safety Net expenditures:

- in total size the amounts spent were of medium-large rather than massive in relation to the size of the Indonesian economy and budget. The peak BPS estimate of Rp.20 trillion spending in fiscal 2000 represent about 2 per cent of GDP. The peak non-oil current subsidy expenditures recorded by the Ministry of Finance in 1998-99 were about 2.6 per cent of GDP. For fiscal 2002 the ratio is expected to be 0.8 per cent of GDP.
- all of the Social Safety Net measures together were smaller than the outlays on the Oil Products subsidy, the main benefits from which go largely to middle and upper income groups rather than to the poor. This was estimated at Rp. 53.8 trillion for fiscal 2001, or at about 3.7 per cent of GDP. In the 9 months of fiscal 2000 the Oil subsidy was 5.2 per cent of GDP. For fiscal 2002 the Oil Products subsidy is still expected to be Rp. 32.3 trillion or 1.9 per cent of GDP.

4.4. The non-oil subsidies have come down from their peak levels as the worst of the crisis has eased. Oil subsidies are also planned to be phased out by the year 2004.

4.5. Indonesia currently has a deficit budget situation, with the year 2002 deficit projected at Rp. 43 trillion, or about 2.5 per cent of GDP. The budget deficit reflects current economic difficulties, and the escalation of external debt service costs following the depreciation of the Rupiah after the crisis. It also

reflects the costs of revenue sharing with the regions and the subsidy programmes. The ongoing oil subsidy represents 75 per cent of the projected 2002 deficit figure. The non-oil subsidies represent about 32 per cent of this figure. However, the electricity and credit subsidies together are 21 per cent of the deficit. The remaining non-oil subsidies which include most of the locally financed Social Safety Net measures represent only 11 per cent of the deficit.

5. Effectiveness of the social safety net programmes

5.1. The Social Safety Net programmes were set up at speed in the context of a situation where no adequate central government administrative network existed to deliver the programmes, and where the governance arrangements of the local channels which were actually used were often problematic. Consequently what was achieved at the local level often did not fully reflect the intentions of Government at central level. This was reflected in many in the target groups not receiving assistance, and in significant “leakage” away from the intended target groups to others. For example in the case of the rice subsidy programme many local communities seem to have simply shared the assistance amongst all households. In some areas also there were manifestations of what Indonesians call KKN (Corruption, Collusion and Nepotism) in the allocation of assistance.

5.1. The rice subsidy programme

5.1.1. The rice subsidy programme operated at the local level with rice supplies being distributed to districts in relation to the estimated poverty incidence, and in turn being distributed to villages or counterpart lower level subdivisions of urban areas where actual allocations took place. The poverty measure initially used was based on the Indonesian Family Planning Association (BKKBN) classification of households, with the target group being the lowest of the 4 classifications used by Family Planning. These “pre-prosperous” (i.e. poor) households were characterised by the absence of one or more of the following criteria for economic reasons:

- ability to eat at least twice per day;
- main floor area not dirt;
- had change of clothing for work and other activities;
- able to seek medical assistance for sick children, and family planning services for contraceptive users; and
- able to practice the principles of the family religion.

5.1.2. The evaluation by the SMERU Research Institute indicated that the rice subsidy programme did reach and assist many poor households. However, there was a significant degree of “leakage” and mis-targeting. Just over half (52.6 per cent) of the households in the bottom 20 per cent of the population in terms of consumption levels received some assistance from the programme. However, three quarters of recipients were “non-poor” households in terms of SMERU consumption criteria, and most of the rice subsidy outlay went to these “non poor” groups, or at least to households outside the bottom 20 per cent in terms of consumption standards.

5.1.3. It should be noted that the SMERU analysis showed relatively poor correlation between the Family Planning classifications and the lowest 20 per cent of households classified by consumption levels. There were a number of reasons for this:

- some of the households which were asset poor on BKKBN criteria (e.g. because their dwelling had a dirt floor) were not in fact the lowest category in terms of ability to fund current consumption;
- some households which had not been poor at the time the BKKBN lists were drawn up had subsequently fallen into poverty because of the crisis;
- some households which were not in the lowest consumption group on the SMERU criteria were in fact financing their current consumption levels by assets sales or borrowing; and

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- some types of households (e.g. single people) did not feature in the BKKBN lists. A problem also in some areas was the lack of a local identity card by poor households, often leading to assistance not being provided to those households. However, in some areas these households were included.

5.1.4. The poor correlation between the different measures of poverty, and the small margins between many categorised as “poor” or “non poor” led to some modification of allocation guidelines, involving agreement that people in the second from bottom BKKBN group could also be included in the distribution. In practice however the distribution went wider than these two groups while missing many households which were actually poor

5.1.5. The rice subsidy programme achieved some of its objectives, particularly in helping very large numbers of people during the worst of the crisis, but was poorly targeted in terms of normal social assistance criteria of need, with the local distribution mechanism only partly responding to central government priorities.

5.2. Education assistance and the scholarships programme

5.2.1. A second set of social safety net initiatives took place in the education area, with the objective of preventing large dropouts from school participation during the crisis. The families of children going to school in Indonesia are required to pay some fees, and in previous economic crisis situations withdrawing children from school had been one way poor families coped with a reduction in income.

5.2.2. The education response took two forms:

- some additional block grants were made to the poorest 60 per cent of schools in districts; and
- scholarships were made available which were supposed to be targeted on the poorest students who were at risk of dropping out from school.

5.2.3. The extra block grants seem to have helped the schools faced with escalating costs, though some commentators have suggested that the longer run effect was for “normal” funding to be subsequently trimmed.

5.2.4. The major focus of the programme however was on scholarships for poor students. The target was to provide assistance to 6 per cent of primary students, 17 per cent of lower secondary students, and 10 per cent of upper secondary students. At least half were to be girls.

5.2.5. Allocation of scholarships was done through local school committees comprising the headmaster, a teacher representative, a parent’s association representative, the village head, and a local community association representative.

5.2.6. The SMERU evaluation showed that in practice:

- only 4 per cent of primary students rather than the target 6 per cent received a scholarship grant, while 71 per cent of the grants went to children from non-poor households. Only 5.8 per cent of children from poor households received, scholarship grants;
- for lower secondary schools the scholarship grant rate was 8.4 per cent compared with the 17 per cent target. Again 71 per cent of grants went to children from non-poor households, and 12.2 per cent of children from the poorest households received grants; and
- for upper secondary school students the grant rate was only 3.7 per cent compared with a target rate of 10 per cent. Again 71 per cent of grants went to children from non-poor households, and programme coverage amongst poor students was only 5.4 per cent.

5.2.7. In some instances students appear not to have received the full amount of the grant.

5.2.8. Overall the scholarship programme had some impact on the children of poor households, particularly at the lower secondary school level, but large leakages occurred to non-target groups where most of the funding ended up.

5.2.9. At its worst the school participation rate dropped by only one and a half per cent, and subsequently recovered. The scholarship programme played some role in this satisfactory outcome. However, larger factors may have been the strong commitment of parents to the value of education (in contrast to reactions during earlier economic downturns). The UNDP CBS study in 1999 also identified the flexibility many schools displayed in trimming school costs or allowing textbooks to be borrowed. Also, because of the long boom which preceded the economic crisis, more households had assets which could be sold or pawned to cover real income reductions for a period.

5.3. Special employment schemes

5.3.1. The third main social safety net programme was a collection of special employment schemes run by up to 16 government departments and agencies, and collectively described as Padat Karya. This was an amalgam of different types of schemes, including some works schemes which had existed prior to the crisis. These had diverse objectives, including upgrading urban infrastructure and increasing participation of women in productive employment.

5.3.2. There was no single set of principles underpinning these schemes, though they were supposed to hire the poor and those who had become unemployed, and to pay local minimum wages.

5.3.3. The SMERU evaluation for 1998-99 indicated that 5.6 per cent of households had at least one member who participated in a Padat Karya programme. For poor households this was 8.4 per cent and non-poor households 4.9 per cent.

5.3.4. The programmes did pick up numbers of the poor and those who had lost jobs, (though the quantitative magnitude of households reached was much smaller than the coverage of the rice subsidy programmes). However, a number of problems emerged in the operations of many of these programmes. This included hiring of non-target people, paying wages which were well above local minimums (and hence attracting people out of other employment), and in some cases people being paid for work which was not actually done. The overall value to the community of the work carried out was not always clear.

5.4. Health assistance

5.4.1. Another social safety net priority area was health care for the poor, where there were fears that the economic crisis would force poor households to abandon modern medical services, reversing the previous decades of improving health status and access to medical care.

5.4.2. The response was the JPS-BK programmes for the health sector. For some of the programmes the targeting criteria for access to a health card was also the Family Planning “pre-prosperous” group of households, though this was later made more flexible. Initiatives included subsidies for medicines and imported medical equipment, additional operational support funds for community health centres, free medical and family planning services, and supplementary food for pregnant women and children under three years old.

5.4.3. In the early stages attempts were also made to set up Health Maintenance Organisations, but this programme was subsequently curtailed.

5.4.4. As regards the health cards, the SMERU evaluation showed that 6.3 per cent of households used their health cards to obtain free medical services, including 10.3 per cent of the poor and 5.3 per cent of the non-poor. This suggested significant leakage.

5.4.5. The survey also found that some cardholders did not use their cards when obtaining health services. The SMERU evaluation did not clarify the reasons for this in the survey questions and responses themselves, but indicated that this may have been because of the desire to obtain better quality medical services than were available from the public health service providers to whom the cardholders had access.

5.4.6. The special nutrition programme reached 15.9 per cent of all pregnant women and children under three. For the poor the participation rate was 16.5 per cent, and for the non-poor 15.8 per cent. 79 per cent of beneficiaries were non-poor. In effect there was virtually no skew in favour of the poor in this programme. However, significant numbers of people were assisted, and pregnant women are a group where nutrition risk is higher than average even amongst the non-poor.

5.5. Community development grants

5.5.1. Community development grants aimed at transferring some savings on the Oil Products subsidy into cash grants to the poorest families in the poorest villages.

5.5.2. The SMERU evaluation in two areas only indicated that this programme actually did get grants through to poor people, and had a more transparent selection process than some of the other programmes, possibly because of the involvement of NGOs. However, the programme did not actually seem to do much for self-reliance or community development. There were also problems over administrative costs and access by people with poor transport access.

5.5.3. The conclusion was that “quick fix” programmes of this sort were not a desirable long run way to proceed with community development.

5.6. Summary on social safety net programmes

5.6.1. The combined Social Safety Net programmes had a positive effect on outcomes for the poor and those most impacted by the crisis, but most were poorly targeted with high or very high degrees of leakage to the non-poor, with many of the poor missing out on allocations. Lack of effective governance and administrative delivery mechanisms, and differences in local and central perspectives on how funds should be allocated meant that only parts of the original government objectives of the programmes were met. This is not surprising in view of the speed with which programmes were put in place in response to the crisis. However, it also suggests that much better planning and targeting and better governance mechanisms would be needed for any longer run Social Assistance system.

5.6.2. It should be noted that not all government officials accepted the SMERU assessments of the degree of miss-targeting and leakages from the Social Safety Net programmes. Two arguments were frequently advanced to defend the ongoing programmes. The first was that the degree of targeting had improved since the initial SMERU assessments were done. The second was that there were only moderate differences in economic situation between the official “poor” and their “near poor” neighbours. Hence assistance flowing to the “near poor” groups should not be regarded as leakage or mis-targeting.

5.6.3. It is also suggested that there are very real limits on the extent to which centrally determined priorities can actually be delivered at the local level in Indonesia, and that objectives of any Social Assistance programme cannot be set at too ambitious a level.

5.6.4. Overall, several of the Social Safety Net programmes form a good foundation for a longer term Social Assistance delivery system. The problems associated with them are largely problems of

implementation and control rather than in the basic approach adopted. For example, Health Cards are an excellent way of targeting health assistance to the poor. The practical problems lie in ensuring that the health services that the cards are supposed to provide access to actually exist at an adequate level; and also in ensuring that the cards go to the poor and needy rather than to others.

6. Other anti poverty measures

6.1. One other anti poverty measure taken by the authorities was the de facto relaxation of restrictions on informal sector traders in the urban areas. This led to the growth in the numbers of stalls and mobile carts (kaki lima) in the urban areas. In some areas pedal cycle taxis re-emerged. The growth in this informal activity helped to provide employment, but also made pedestrian movement on congested sidewalks and lanes more difficult. In Jakarta the problem has seen some moves to enforce regulations against some of these informal sector activities.

6.2. However, there may be other “pro-poor” options for encouraging such informal sector employment. For example there are many boarded up building sites in Indonesian cities, the result of building projects cancelled or deferred following the 1997 crisis. Informal sector traders could open these up to temporary use while they are not required for construction.

6.3. More generally, the main anti-poverty stance of the Indonesian government is expected to be economic development. Within this, priorities are expected to be promoting economic opportunities for the poor, facilitating empowerment, and enhancing security. This last area includes social security. Outside of the formal sector, social security for the poor is seen by Bappenas as:

- supporting existing schemes in community institutions and extended family efforts; and
- providing better mechanisms and schemes to assist the poor when there is an economic downturn, drought or other natural disaster.

6.4. This categorisation indicates that the Social Safety Net is seen largely as temporary and episodic rather than permanent. However, the Task Force set up by the Indonesian Government may come up with longer-term strategies which extend the temporary Social Safety Net concept into a longer term Social assistance framework to meet the changing needs of Indonesian society. Options which might be considered are set out later in this text.

7. Social safety nets and social assistance

7.1. Social Assistance is assistance in cash or kind targeted to the poor or other groups deemed to be in need of assistance because of their disadvantaged situation. Targeting involves an assessment of the social and financial situation of the groups receiving assistance.

7.2. Using this definition, many of the measures included in the Social Safety Net programme should not be regarded as Social Assistance, even if they have other merits from a development perspective. For example additional bulk grants to schools and additional allocations to hospitals are part of education and health policies rather than Social Assistance. Similarly the electricity and credit subsidies do not seem to have involved the element of targeting on the poor which characterises Social Assistance.

7.3. Of the measures included in the Social Safety Net programmes (and putting to one side the issue of “leakages”), the following parts of the Social Safety Net programmes would seem to meet normal criteria of definitions of Social Assistance:

- rice subsidies to the poor;
- additional food for poor pregnant women, babies, and children;
- health cards giving the poor free medical treatment from public facilities;
- educational scholarships for student from poor families; and
- cash grants to poor people.

7.4. In addition, Special Employment at minimum wages for unemployed people has a Social Assistance dimension, though it is more usually classified as an Active Labour Market Policy. In an Indonesia context it also has a potential community development dimension when the Special Employment schemes are used to develop community infrastructure. The use of well-designed Special Employment schemes has a particular attraction over and above “passive” forms of Social Assistance because it allows those households with potential earners to work for their own support, while at the same time providing additional facilities or services to the community.

7.5. There are of course some problems from a wider poverty reduction strategy in focussing too heavily on Social Assistance based on need. Firstly, many elements of traditional Social Assistance do little to build capacity for self-support. Hence, it is understandable that the Indonesian authorities would wish to give major emphasis to those forms of Social Assistance such as targeted Education and Health assistance which tend to build long run capacity. Secondly, the quality of the services to which the poor are given free or subsidised access is also important. Hence improving the quality of hospitals, health centres and schools which the poor and others use also has an impact on the poor, even though it cannot be classified as Social Assistance.

7.6. More generally, Social Assistance is the bottom layer or safety net of an anti-poverty programme. The larger components consist of economic development, including social investments in health and education which build capacity to be self supporting, plus the expansion of social insurance coverage. As a bottom layer, Social Assistance can be expected to focus mainly on those who lack the long run capacity to be self-supporting, plus those who are temporarily in poverty. The former group in particular have problems which cannot be addressed by capacity building approaches.

8. Unmet needs

8.1. Before going on to consider what a medium or longer term Social Assistance policy in Indonesia might cover, it is useful to consider some of the unmet needs which may be growing in scale.

8.2. The traditional Indonesian Government response to poverty focuses on expanding economic opportunities, and more recently on providing temporary relief to those affected by the economic crisis. However, this approach presupposes that individuals or at least families and households can normally solve their own problems. This may not be true for some groups in the population.

8.3. There are a number of areas where assistance policy is still to address unmet needs in the Indonesian population:

- one area is the growth in the number of elderly people. Life expectancy at birth in Indonesia rose by 24 years between the early 1960s and 1999, climbing from 42 to 66 years. With a time lag, this rise in survival rates is feeding into the growth in the numbers and proportion of older people. Traditionally dependent elderly people have been cared for by their extended families, with urban migrants often returning to their rural villages of origin. However, with a rising proportion of older people in the population and the long-term urbanisation of much of the population, the proportion of indigent elderly without a rural family to return to can be expected to rise. The problem is compounded by the tendency for those formal sector workers who are Jamsostek Old Age Benefit Fund members to withdraw their contribution balances when they become unemployed. This depletes a potential source of assistance for part of the aging population;
- in the longer term specific policies to deal with the problem of indigent elderly will need to be developed. In the medium term, this group may be a large and growing claimant on any general Social Assistance measures for the poor; and
- a second group consists of the disabled and others unable to work because of their physical or mental impediments. To the extent that this drags down the total capacity for self- support of their household, Social Assistance may be needed. At this stage there is not even a permanent disability benefit in the formal insured sector. This may be where the approach should start.

8.4. If a longer term Social Assistance structure is to develop, these two areas at least will need to be addressed.

9. Scale of funding needed

9.1. A major consideration in estimating the potential cost of a more systematic Social Assistance strategy aimed at raising households above the national poverty line is the numbers of people who would need to be assisted and the average amount that would need to be provided in Social Assistance. This of course will vary with the household composition of the poor, and the varying amounts of Education and Health assistance, and food subsidies or cash grants included in the Social Assistance “package” received by each poverty household.

9.2. As background it may be noted that the rice subsidy at 20 kilos provided an income equivalent subsidy equal to about Rp. 30,000 per month to those who received the full allocation. Temporary grants to occupational injury cases for two years have been Rp. 50,000 per month

9.3. Different sources provide different estimates of the current measure of the national poverty line in terms of current monthly Rupiah costs. The ADB JPS uses a figure of Rp. 39,807 per capita per month, while the Ministry of Health uses Rp.37,220 per month. These figures of course are not adjusted for variations in household composition and need, or rural urban differences. However, using a rounded up figure of Rp. 40,000 per month implies that a household of 4 people would on average need Rp. 160,000 a month to be just above the national poverty line. This is still well below alternative international poverty measure estimates.

9.4. Currently about 10 million households are regarded as being below the national poverty line and another large group are “near poor” and might be included in a wider social assistance policy, particularly for Health and Education assistance.

9.5. To estimate what poverty relief for the first group only would cost, it is necessary to make some assessment of the average “poverty gap,” the difference between the actual income of poor households and the minimum target income. For example, if the average “poverty gap” was Rp. 50,000 per month per household, closing this gap would cost about Rp. 600,000 per year, or about Rp. 6 trillion per year for 10 million households.

9.6. In practice however Social Assistance may have to go to a wider group, particularly for Health and Education assistance, and part of the assistance to the poorest groups may be on top of minimum income need estimates to recognise development needs. For example, if the Social Assistance package cost an average of Rp.100,000 per month for the 10 million poorest families, and Rp.50,000 per month for the next 10 million “near poor” families, the total cost would be Rp.18 trillion per year.

9.7. These are relatively substantial amounts of money for a government with fiscal funding problems, though part of this cost is already included in the budget in the form of existing Social Assistance measures. Rp.6 trillion is about 0.4 per cent of GDP, while Rp.18 trillion is equal to about 1.2 per cent of GDP.

9.8. Proposed total allocations for domestically financed non-oil subsidies in fiscal 2002, some of which goes on Social Safety Net programmes, are estimated at Rp. 13.9 trillion. However, the Oil Products subsidy which benefits mainly middle and upper income groups is projected at Rp. 32.3 trillion in fiscal 2002. This suggests that there is scope for subsidy re-allocations in a pro-poor manner.

9.9. For international comparative purposes it should be noted that Rp. 50,000 was equal to about US\$5 at 2001 exchange rates, and Rp. 100,000 was then about US\$10.

10. Characteristics of effective social assistance systems

10.1. Before considering the extent to which a more formal social assistance system is feasible in Indonesia, it is helpful to consider the features which tend to characterise well functioning social assistance systems. These include:

- a broad social agreement on who should be helped and in what circumstances;
- well designed policies which are far as feasible limit assistance to those individuals and households not capable of supporting themselves from employment, and do not “draw in” people who could support themselves from their own efforts;
- a source of funding which is sufficient but not too costly for the national economy;
- an accurate means of identifying the poor and needy at the local level; and
- an efficient and honest administrative system for delivering assistance to those defined as eligible.

10.2. On these criteria, Indonesia is not particularly well placed currently to implement a longer term Social Assistance system covering the whole nation:

- there appears to be agreement that the people most affected by the 1997 economic crisis and the internal refugee situations should receive at least short term assistance. Beyond this the degree of community support for public funds being used for helping other poor people is less clear. Comments at the various workshops and in other consultations indicated somewhat more support for “developmental” types of assistance for the poor (Education, Health, Job Training, and loans to start up small businesses) than for other types of social assistance. However, some of the long term poor represents categories of people who cannot be assisted by developmental measures alone;
- the particular Social Safety Net policies adopted after 1997 were innovative and for the most part practical and sensible if problems associated with targeting are put to one side. However, the very varied social and economic situations in different parts of Indonesia may require somewhat different policies. For example, a rice subsidy is of little use in regions where the staple foods are yams or tapioca. Similarly, in urban areas where people do not have their own land or housing, cash assistance may be more practical than food subsidies;
- central government has a difficult fiscal situation which makes funding ongoing Social Assistance difficult. Further, the use of external loan funds to pay for part of the Social Safety Net measures is not sustainable in the longer term. Eventually these loans must be repaid, which then doubles the burden. Options for funding Social Assistance on a longer term basis include use of money currently allocated to the Oil Products subsidy; new taxes such as a cigarette and tobacco tax; contributions from Provincial and District governments; and contributions from NGOs and charities;
- central government has no accurate way of identifying the poor at the local level. The government has fairly good information on the incidence of poverty in various regions, but this does not extend to knowing sufficient about which individual poor households need and deserve assistance. This requires local knowledge of the situation, circumstances and capabilities of individuals and households; and
- finally, the high degree of “leakage” associated with the Social Safety Net programmes indicates that an accurate and efficient delivery mechanism in Indonesia does not currently exist. There is no central government organisation currently in existence which could efficiently deliver social assistance at the local level. Accordingly, other options need to be considered.

11. Possible strategies for Indonesia

11.1. There are a number of possible strategies for the Government of Indonesia to adopt in relation to the Social Assistance for the assisting the poorest people. The main options are:

- do nothing and spend no Government funds on Social Assistance. In effect this means relying wholly on the traditional Indonesian support from extended family, village, charity, and NGO assistance. It would mean phasing out the present Social Safety Net measures as the immediate crisis recedes;
- have no formal scheme, but rely on “ad hoc” measures when particular crises strike, for example economic crises, refugee problems, or floods;
- make social assistance the legal responsibility of Provinces or Districts, but provide no central government funds;
- set up a Government of Indonesia Social Assistance Agency funded by the budget, and with local offices throughout Indonesia;
- add Social Assistance to the duties of JAMSOSTEK, the existing Social Insurance/Provident Fund scheme;
- rely on micro-credit and related schemes;
- “contract” with Provincial and district governments to deliver assistance, with each layer of Government providing some of the funds; and
- “contract” with NGOs to deliver social assistance.

11.2. Comments on each of these options follow.

11.1. Do nothing

11.1.1. A simple option is for the Government to do nothing to provide Social Assistance, and not require Provinces or Districts to do anything either. Instead extended families, villages, charitable giving and NGOs would be expected to help the poor in the traditional Indonesian manner.

11.1.2. This option may seem tempting in the light of the difficult fiscal situation, and the many other competing demands for funds.

11.1.3. Doing nothing was a realistic option a generation ago when most Indonesians still lived in villages, and before the massive growth of cities and the increasing dependence on the cash economy. The doing nothing option also recognises that economic development is the main route out of poverty and low incomes. However, in current circumstances it would mean that Indonesia did nothing to soften the hardship experienced by many, either long term, or because of the impact of the economic crisis or of other emergency situations such as those of internal refugees or flood victims.

11.1.4. It is considered that this option is not realistic in the light of Indonesia’s current situation. Nor is it realistic for the longer term. In practice also the Government of Indonesia has not found it possible to do nothing when crises emerge.

11.1.5. At most but not all of the ILO consultations there was agreement that some form of public social safety net was needed. Only in one consultation it was suggested that Social Assistance would make the poor lazy. For the larger groups supporting the idea of Social Assistance there was also agreement that the

“leakages” problems needed to be dealt with. There was less agreement on what the form of assistance should be.

11.2. *Ad hoc* measures only

11.2.1. A second option is to have no formal social assistance schemes on an ongoing basis, but to introduce ad hoc emergency measures whenever a particular crisis strikes. This approach is perhaps rather close to the current Social Safety Net approach in Indonesia.

11.2.2. This approach is possible, but does nothing to help the long term poor in between the crises affecting other people.

11.2.3. A further problem is that the use of this ad hoc approach on a large scale basis in the post-1997 “Social Safety Net” saw major problems of poor targeting and wastage of money. While the Social Safety Net initiatives did help many poor people, and eased the severity of the crisis, many poor people missed on help, while large amounts of aid “leaked” to people who were not supposed to receive assistance.

11.2.4. Continuation of this ad hoc approach with hasty measures put in place each time a new crisis emerges can be expected to lead to a recurrence of the same problems of poor targeting and wastage of assistance. Without any regular system for assessing need and policing the expenditure of monies, there is little chance that targeting will get any better.

11.3. Make provinces or districts responsible

11.3.1. A third option is to make Provinces or Districts legally responsible for providing Social Assistance to poor people, but with no attached central government funding.

11.3.2. This approach would require a law which defined local social assistance obligations. A decision would need to be made as to whether the responsibility would be with the Province, or with the District.

11.3.3. This approach is possible, and compatible with the decentralisation of Government. However, in practice it would tend to mean that the richer provinces or districts might set up their own systems, while the poorer provinces or districts would do little or nothing for the poor.

11.3.4. Almost inevitably this would lead to pressures from the poorer areas for government assistance, and pressure from all areas for the central government to cede further tax bases to the provinces or districts to allow them to fund social assistance activities.

11.3.5. It is possible that even in rich areas funds raised by new local taxes may be diverted to other local priorities rather than to social assistance.

11.3.6. However, this is a possible road to travel down. It would institutionalise a lack of any national minimum living standard support.

11.4. Government of Indonesia Social Assistance Department

11.4.1. A model which is used in some developed countries is to have a Government Social Assistance Department with offices in all districts dealing directly with poor families, assessing their need for assistance, and providing assistance in cash or kind.

11.4.2. Of the options, this seems amongst the least realistic for Indonesia at its present state of development. There is no Indonesian Government network capable of administering this at present, and building up such a network would take many years. It would be extremely expensive to set up offices in over 4,000 districts and sub-districts, and providing mobile teams to cover all villages and localities. The approach is incompatible with a shift towards devolution and decentralisation of Government. Also, the costs of the approach would fall solely on the budget of the Government of Indonesia.

11.4.3. Several of the options discussed would require a central government department which funded or part-funded programmes delivered by others.

11.5. Make Jamsostek the Social Assistance Agency

11.5.1. Jamsostek, the existing Social Insurance/Provident Fund is also not a plausible delivery mechanism for a Social Assistance scheme. The needs based targeting of Social Assistance is incompatible with the contributory basis of Jamsostek programmes. Further, Jamsostek has only around 100 offices, and does not have the administrative capability to deliver targeted programmes at the local level.

11.6. Rely on micro-credit

11.6.1. A sixth option is to rely on micro-credit to help the poor, with the aim that small development loans would move them into self sufficiency. Government would provide some seed funding, with the funds eventually becoming self-sustaining.

11.6.2. Micro credit is a useful approach, and can be expected to help some people. However, micro-credit schemes go best when they are developed locally from the “bottom up” and are likely to be less successful when attempted as a government “top down” approach. Without an effective pre-existing network of micro-credit banks through which to channel funds, it is likely that the same “leakages” which plagued the Indonesian Social Safety Net measures would also be replicated in any Government “top down” approach to micro credit.

11.6.3. Two other comments also need to be made. One is that many long-term poor households whose adult members are disabled or elderly or sick may not be good candidates for micro-credit. Secondly, micro credit alone cannot be expected to deal with major economic downturns such as the 1997 Asian crisis.

11.6.4. Overall, micro credit is a supplementary approach which can help some poor people exit poverty rather than something which can solve all social assistance needs.

11.7. Contracting with Provincial or District Government

11.7.1. A seventh approach is to share responsibility between the Government of Indonesia and Provinces or Districts through a partly devolved “contracting” arrangement involving a “shared cost” approach.

11.7.2. This option would mean that central government would provide a framework law, and part of the funding to Provinces or Districts. In turn, to get this funding the Provinces or Districts would have to provide the balance of the funding from their own revenues, and meet government criteria about the targeting of the funding. A degree of variability in the level and forms of assistance delivery could be negotiated to take account of variations in local conditions. For example, rice subsidies would not be used in areas where yams or cassava were the staple foods, and cash payments might play a larger part in cities.

11.7.3. The amount of central Government assistance could be in proportion to the number of poor people in the area. Knowledge about variations in aggregate poverty rates by area is one of the issues upon which the Government of Indonesia has reasonable good statistics which could be used as the basis for a “sliding scale” of grants to local areas.

11.7.4. This approach would mean that poor areas would get more assistance in relation to the size of their total population than rich areas. It would also mean that if rich areas chose to provide a more generous level of social assistance than any national minimum standard, then they would have to pay for the extra out of their own revenues.

11.7.5. To make this system work it would be necessary to have regular evaluations and audits to ensure that funding was being used for the approved purposes. Government funding could be reduced or withheld in the event of substantial irregularities occurring.

11.8. Contracts with NGOs

11.8.1. A possible variant to using provincial or local governments is to contract with NGOs to deliver assistance funded in part or whole by Government in particular areas or districts. There is a partial precedent for this in the use of National Family Planning Agency data in several of the Social Safety Net schemes.

11.8.2. The viability of this approach depends on the existence of effective NGOs in particular areas, and their impartiality and efficiency in delivering assistance.

11.8.3. Because NGOs cannot raise local taxes, the approach might require a higher level of government funding than a “shared cost” approach with local government. Some NGOs could contribute part of the resources required.

12. Administrative improvements

12.1. Apart from the “do nothing” option, all of the options will require improvements in the machinery of government for delivering social assistance. In this area as in many other areas of Indonesian public administration, the weakness of administrative systems, in some cases aggravated by KKN (corruption, collusion and nepotism) means that good intentions backed up by funding are not translated into equivalent levels of effective action. Weaknesses in governance ability appear to exist in all levels of Government in Indonesia, whether central, provincial, or district.

12.2. Some approaches which are likely to help improve Governance, particularly for devolved programmes, include the following:

- a contractual basis for delivering the programmes, with explicit provision to withhold or reduce allocations from central government if subsequent evaluations show that programme targets are not being achieved;
- co-contribution requirements from subordinate levels of Government;
- inclusion of adequate administrative cost funding in the budgets allocated;
- training for workers involved;
- wide public dissemination of the criteria upon which programme eligibility is to be based;
- requirements for consultation with and participation of local people in the decision making process on programmes;
- involvement of NGOs and community organisations in vetting the allocation process;
- public reporting on how the money has been spent, including at each district and local level;
- inclusion of adequate audit and evaluation provisions, and
- prompt prosecution and punishment of cases of fraud.

12.3. It is also suggested that authority to make allocation decisions and authority to release funds be located separately. Thus for example if funds were held at the district level in the name of a village or locality, the actual allocations would be made at local level by the duly constituted local allocation authority. The district level would check that these allocations were made in terms of the programme criteria before funds were released, but could not allocate funds to other purposes. The dual accountabilities would reduce the tendency for funds to be diverted to other purposes. There would also need to be an appeal mechanism to a higher level of government to deal with conflicts between the different authorities.

13. Feasible types of social assistance

13.1. As noted the Social Safety Net measures showed that several types of programmes funded at central government level can be delivered down to the local level in Indonesia, even if the targeting performance of the schemes has been weak with high leakages. These programmes include the rice subsidy, the education and health assistance measures, and some special employment arrangements.

13.2. It is not considered currently feasible to set up an Indonesia-wide cash social assistance scheme. However, it is possible that this approach could be considered in some of the more advanced provinces or districts of provinces. In the longer run cash grants and benefits are likely to be a rising component of Social Assistance. In the short term it is best to concentrate on those things which have a reasonable chance of being achieved. More generally, it is probable that local initiatives could come up with other options which are cost-effective provided the programmes are operated with good governance.

13.3. Some of the criteria for better operation of existing programmes are suggested by the evaluation reports. For example special employment schemes should focus on local development priorities and pay no more than the local minimum wage. In areas where physical infrastructure is adequate, the focus could shift to things such as revolving funds for small business development.

13.4. Overall, it is suggested that core Social Assistance for the period ahead could include the following:

- rice subsidy or its equivalent for the poor;
- other food assistance for young children and nursing mothers in poor families;
- health cards for the poor giving access to free treatment in public facilities and free or subsidised medicines;
- education scholarships for children for poor families; and
- cash grants on a periodic payment basis to poor households where the local capacity to run such a system exists.

13.5. In addition, special employment programmes would seem to be an important mechanism with a Social Assistance dimension. These could be programmes meeting local infrastructure development priorities, but conditionally funded at least in part by Central Government. Wages could be local minimum wages, or in some cases a percentage of these in some areas, or “food for work” programmes. These latter two variants may have to be considered in provinces where the announced minimum wage is not the actual minimum paid in the informal sector but an objective for formal sector wages.

13.6. It should also be noted that in some parts of Indonesia rice is not the staple food. In these areas either the use of local staple (e.g. yams), or else a cash grant to the poor which is the equivalent of the rice subsidy.

13.7. Other options could be developed by agreement between the central government as main funder and the provincial and district authorities as administering agents and co-funders of any programmes.

14. Funding sources

14.1. Some of the Social Safety Net Programme has been funded by loans from International Agencies, particularly in the middle period of peak spending. This is not a stable long run basis for funding Social Assistance. The Government of Indonesia must eventually repay loans. Hence a more sustainable source of finance needs to be sought, particularly if Social Assistance is to be expanded or take a longer-term form. Apart from any grant aid which can be obtained from abroad, this will need to be a domestic revenue source.

14.2. Much of the discussion on domestic funding of Social Safety Net programmes in Indonesia has focussed on redeployment of at least part of the subsidy now allocated to petroleum products. In the 2002 draft budget this was allocated Rp. 32.3 trillion, or about 1.9 per cent of estimated GDP. Non-Oil subsidies amounted to Rp. 13.9 trillion, plus a further Rp.2.2 trillion in the Development budget. When the Oil Products subsidy rate was trimmed, part of the money was reallocated to social assistance programmes. The objective was to seek to shield the poorest people from the cost impact of the rise in prices for oil products.

14.3. While reduction or removal of oil product subsidies would have some cost impact on all Indonesians, the main impact would fall on middle and upper income groups who are the major users of these products. The SMERU Household Consumption study has shown that this is true even for Kerosene, with the higher income groups being the biggest users.

14.4. Redeploying the Oil subsidy money to fund improved Social Assistance is clearly an option, although it is recognised that there are other potential claims on this money including deficit reduction. Apart from redeployment of some part of the Oil Products subsidy, other options for funding additional Social Assistance include:

- additional taxes on products which are not favourable to health, for example cigarettes and tobacco;
- redeploying funds from the electricity subsidy (Rp. 4.6 trillion) and the credit interest rate subsidies (Rp. 4.4 trillion);
- co-contributions from Regional and District Governments to cover part of the cost of Social Assistance programmes in their areas as part of the conditions for receiving central government grants. This would also give them an incentive to contain costs and look for efficiency in the programmes. Contribution formulae could be developed which required the least contribution from the poorest provinces and the largest co-contributions from the richest provinces; and
- local contributions from some of the people benefiting from some of the programmes, for example Health Insurance. However, the poorest people would not be able to contribute.

14.5. It is understood that current intentions are to target centrally provided assistance for social safety net purposes according to the assessed numbers of poor people in each province. This has a strong logic to it. It would also mean that over time as poverty reduced, the amount of real transfers needed for existing programmes would reduce. This would free up resources for other objectives. However, while national poverty data provides a good basis for funding allocations to regions, districts, and some lower geographic levels, it does not solve the second problem of who is to get the assistance at the local level. This is the more difficult problem of targeting.

15. Data for targeting

15.1. Discussion with some officials produced the view that there is little data available to central government which could assist in more accurate targeting of Social Assistance to individual households. However, some other people consulted expressed the view that there is actually a very large volume of data on households collected by a variety of agencies in Indonesia. A problem was that much of this data was never shared between agencies. This raises issues of co-ordination between agencies which is largely outside the scope of this report.

15.2. A further problem is that if administrative data collected for other purposes was known to be the basis of Social Assistance allocations to individual households, there would be a tendency for the data supplied to become less reliable.

15.3. Overall, it seems probable that even without official statistics local communities have a very good idea as to who is poor and in need of assistance. The more difficult problem is that local views on who is deserving of assistance and local priorities for spending may be very different from those of the Central Government. The governance criteria set out earlier are intended to help reduce the discrepancies.

16. Summary

16.1. Indonesia is in a social and economic situation where it can no longer rely solely on traditional relationships to deal with problems of poverty and loss of livelihood. At the same time the public authorities have limited financial capacity to provide Social Assistance to the poor, and lack effective administrative channels to ensure accurate targeting of what assistance can be provided. There also appears to be little social consensus on future directions for Social Assistance, though a majority view that something needs to be done.

16.2. Some of the problems now requiring Social Assistance interventions can be more effectively resolved by extending the scope and coverage of the contributory Social Insurance/Provident Fund system run by Jamsostek for formal sector workers. However, this will resolve only part of the problem at Indonesia's current level of economic development. Nearly two thirds of the employed work force in Indonesia is in the informal sector, and there are some other groups' individuals and households who lack the means to support themselves even in the informal sector.

16.3. At a Roundtable meeting on poverty relief at Bappenas sponsored by the ILO in November 2002, drafts of Poverty Reduction Strategy Papers (PRSPs) were presented in which the importance of social protection in poverty reduction was stressed. It was further asserted (and largely supported) that such social protection should be 'Social Protection for All', not just the privileged formal sector workers. This suggests that there is a groundswell among policy-makers in favour of social assistance. Certainly this ILO Report on the feasibility of introducing Social Assistance, and further ILO Reports in the project series on the feasibility of introducing Unemployment Benefit Insurance and Extending Social Security Coverage to Excluded Groups will assist in the formulation of strategies for improving the scope of social protection in Indonesia. However, the realization of the 'Social Protection for All' aim is some way off.

16.4. The Social Safety Net measures adopted by the Indonesia authorities after the 1997 crisis were innovative, and did assist many poor people. However, the weakness of the administrative delivery systems meant that there was a high degree of "leakage" of assistance to people who were not supposed to be receiving it.

16.5. In the long run Indonesia will have to face up to the need to have some form of ongoing Social Assistance system. However, the mechanism by which this system should eventually be operated and funded is more open to question.

16.6. Given the present trend to decentralisation and devolution, and also the need for local knowledge about family and household situations, publicly funded Social Assistance would seem to require the involvement of Provincial or District authorities. In order to accommodate this in some form of national minimum living standards objectives, an option may be some form of "contracted" programmes between central Government and other levels of Government involving sharing of programme costs and local delivery of assistance on the basis of agreed programmes.

16.7. These considerations suggest that:

- a social assistance policy for Indonesia should be a broad framework set at national level within which a number of options could be developed at the local level. Funding from Central Government would be related to the poverty level in each region or district, and ideally would involve co-contributions from the devolved levels of government. Ongoing central government assistance would be conditional on specified programme objectives being met. From this perspective centrally provided funding for Social Assistance would not be part of devolved funding allocated as of right to districts and provinces, but "contractual" funding supplied in order to meet agreed Social Assistance needs;

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- at this stage of its development feasible core components of a Social Assistance strategy should be those parts of the Social Safety Net programme which have been workable in practice. These include Rice and Food subsidies for the poor, Health Cards and Education scholarships for poor families, and special employment on local development projects at minimum wages. To this can be added some wider possibilities of the more advanced local areas using more direct cash assistance benefits to those unable to support themselves; and
 - feasible funding options include a redeployment of part of the Oil Products subsidy; eventual excise taxes on Oil Products; redeployment of the funding for the electricity subsidy and credit subsidies; some additional taxes, notably on tobacco products; and co-contributions from local administrations.

17. Recommendations

That Central Government:

1. **Note** that Indonesia will need to develop a longer term Social Assistance policy as part of its objectives of improving Social Protection
2. Consider restructuring the present Social Safety Net programmes into a “contracted” and partly devolved Social Assistance programme jointly funded by Central Government and Provinces or Districts.
3. Agree that the programmes should have some national minimum requirements, with local authorities being able to negotiate additional elements which suited local circumstances.
4. Decide whether the appropriate partners for the programmes should be the Provinces or the Districts.
5. Agree that the per capita allocation of the Central Government component of programme funding should be in proportion to the local poverty percentage, with poorer areas receiving more per capita than richer areas.
6. Agree that continuation of Central Government Funding should be subject to the findings of regular independent evaluations and audit of local programmes.
7. **Note** that possible sources for the Central Government component of the funding required are:
 - reallocation of some of the Oil Products Subsidy money; and
 - specific taxes such as a tax on tobacco products.
8. **Note** that provinces or districts may press to have further tax bases devolved to them to the extent that they become liable to fund Social Assistance
9. **Note** that whatever the administrative delivery arrangements finally agreed upon, efficient programme operation will require:
 - good programme design, so that people capable of supporting themselves are not drawn into the Social Assistance system;
 - funding of the administrative costs of programme delivery;
 - proper training of the staff responsible;
 - wide public information on programme eligibility conditions;
 - regular publication of information on allocation of assistance;
 - public scrutiny of programme delivery;
 - regular audits and evaluations; and
 - prompt prosecution and punishment of fraud.

18. Annexes

18.1. Annex 1. Terms of reference of the study on the feasibility of introducing social assistance

Within the framework of the ILO project: “Restructuring of the Social Security System INS/00M/NET/001,” the International Expert on Social Assistance will assess the feasibility of introducing a social assistance scheme in Indonesia _ establishing a permanent social safety net which would seek to meet the basic social needs of the poor including, in particular but not exclusively, income protection and access to health care.

In collaboration with the Chief Technical Adviser, and with the support of national consultants, the International expert will undertake the following specific tasks:

1. analyse existing poverty reports and consult with national experts, scholars, communities, NGOs and responsible Government officials to determine whether a basic social protection package could be identified to meet the basic needs of the most vulnerable;
2. carefully define the scope of the social protection package and the basis on which entitlement could be determined i.e. the criteria which would determine the entitlement and how this could be done; and
3. consider the administrative feasibility in relation to the need to ensure accurate targeting;
4. Identify and develop alternative strategies for establishing a social assistance system for the poor; and

In collaboration with the Social Budget Study:

1. estimate the cost and source of financing; and
2. consider the affordability of the scheme in relation to other social priorities.

18.2. Annex 2

Statistics

Table 1. The national poverty measure in Indonesia

Old measure

Year	Numbers (millions) below the poverty line	% of population below the poverty line
1970	70.0	60.0
1976	54.2	40.1
1978	47.2	33.3
1980	42.3	28.6
1981	40.6	26.9
1984	35.0	21.6
1987	30.0	17.4
1990	27.2	15.1
1993	25.8	13.7
1996	22.6	11.4

New 1998 basis measure

Year	Numbers (millions) below the poverty line
1996	34.5
1998 Dec	49.5
1999 Feb	48.4
1999	37.5

Sources: 1970 to 1996 UNDP 1997 "The Indonesian Economic Transition and the end of Poverty". After 1997 SMERU and Statistics Indonesia.

Note. The National Poverty Measure is based on an ability to afford an average household food consumption of 2100 calories per day per household member, 90 per cent of which are provided from grain, plus a basket of non-food items.

The Indonesian national poverty measure in 1996 equated to the equivalent of US\$ 0.55 per day in urban areas and \$0.40 in rural areas. An alternative measure of US\$ 1.0 in urban areas and US\$0.80 in urban areas would have produced a poverty percentage of 57.3 per cent in 1996 compared with the national measure of 11.3 per cent.

Table 2. Per capita daily food consumption in Indonesia

Year	Calories	Protein (grams)
1993	1,879.13	n.a.
1996	2,019.79	54.49
1999	1,849.36	48.67

Source: Expenditure for Consumption in Indonesia 1996 and 1999.

Table 3. Medium and large manufacturing enterprises listed by statistics

Year	Number	Enterprises delisted	New listings
1998	22,243	2,526	1,656
1999	21,412	2,642	1,551
2000	22,574	215	1,144

Source: Bappenas (Statistics Indonesia).

The statistical discrepancy represents enterprises delisted which were subsequently re-instated. Delisting can occur either because the enterprise closes, or because it falls below the employment size level used to classify it as a medium or large manufacturing enterprise.

Table 4. State budget summary

Item	Trillions of rupiah		% of GDP	
	2001 proj.	2002 plan	2001	2002
Revenue				
Domestic taxes	185.3	216.8	11.9	12.8
International trade taxation	11.0	12.6	0.7	0.7
Non tax revenues	100.7	72.7	6.9	4.3
Total	286.0	289.4	19.5	17.3
Expenditure				
Current expenditure	213.4	195.0	14.5	11.5
Development expenditure	45.5	47.1	3.1	2.8
Total Central Government	258.8	242.1	17.7	14.3
Revenue sharing	20.2	23.2	1.4	1.4
General allocation fund	60.5	66.4	4.1	3.9
Special allocation fund	0.7	0.8	---	---
All expenditure	340.3	332.5	22.2	19.6
Overall balance	-54.3	-43.0	-3.7	-2.5
Source: Ministry of Finance.				

Table 5. Composition of revenues

Item	Trillions of Rupiah		% of GDP	
	2001 proj	2002 plan	2001	2002
Taxes				
Income tax				
Oil and gas	25.7	14.6	1.7	0.9
Other	69.2	87.3	4.7	5.2
Value added tax	53.4	69.9	3.0	4.1
Land and building tax	5.1	5.9	0.3	0.4
Duties on land and building transfers	1.2	2.2	0.1	0.1
Excises	17.6	22.3	1.2	1.3
Other taxes	1.9	1.9	0.1	0.1
Total domestic	174.3	204.2	11.9	12.1
International trade taxes				
Import duties	10.4	12.2	0.7	0.7
Export duties	0.6	0.3	--	--
Total	11.0	12.6	0.7	0.7
Total taxes	185.3	216.8	12.6	12.8
National resource revenue				
Oil	57.9	37.9	3.9	2.2
Gas	17.4	13.6	1.2	0.8
General mining	0.9	1.1	0.1	0.1
Forestry	3.0	2.9	0.2	0.2
Fisheries	0.3	0.3	---	---
Total	79.4	55.9	5.4	3.3
Profits from SOEs	9.0	8.2	0.6	0.5
Other non-tax	12.3	8.6	0.8	0.4
All revenue	286.0	289.4	19.5	17.1

Source: Ministry of Finance.

Table 6. Indonesian Government routine expenditure (trillions of Rupiah)

Year	Personnel	Material expenses	Regional expenses	Interest & amort.	Subsidies	Other
1996-97	14.553	8.109	9.358	27.941	1.416	1.732
1997-98	17.269	8.999	11.061	31.112	20.413	0.756
1998-99	23.216	9.862	13.074	54.581	32.684	2.669
1999-2000	32.719	10.765	17.485	42.735	65.916	4.621
2000 (9 mths)	29.990	9.047	17.593	53.329	59.725	11.996
2001 projected	38.206	9.909	-----	89.570	66.269	9.433
2002 draft	40.665	11.589	-----	86.981	46.239	9.543
2002 draft % of spending	20.900	5.900	-----	44.600	23.700	4.900

Source: Ministry of Finance.

Table 7. Composition of subsidy expenditure from regular budget (trillions of Rupiah)

Year	Oil	Electricity	Food	Fertiliser	Interest	Other	Total
1996-97	1.416	---	----	0.186	---	---	1.602
1997-98	9.814	---	10.599	0.708	---	---	21.121
1998-99	28.607	1.930	1.535	---	---	0.612	32.684
1999-2000	40.923	4.552	18.164	---	2.033	0.244	65.916
2000 (9 mths)	51.135	3.928	2.213	---	1.930	0.519	59.726
2001 proj	53.774	4.727	2.435	---	4.923	0.400	66.269
2002 draft	32.289	4.640	4.696		4.413	0.200	46.234
Percentage allocation							
2002 %	69.800	10.000	10.200		9.500	0.400	100.000

Source: Ministry of Finance.

Table 8. Estimated composition of social safety net subsidies in year 2001

Item	Trillion Rupiah
From regular budget	
Food	2.4
Electricity	4.7
Credit programme	4.9
Other including medical	0.4
Sub total	12.5
From development budget	2.2
Total	12.5
Of which food	
Regular budget	2.4
Development budget	0.3
Total	2.7

Source: Ministry of Finance.

Table 9. Estimated total outlays on social safety net including donor and loan funds

Year	Trillion rupiah
1998-99	17.9
1999	20.0
2000	14.7

Sources: 1998-99 and 2000 BPS (Statistics). 1998 Ministry of Finance.

Table 10. Funding of development expenditure

Funding	Trillion Rupiah		% of GDP	
	2001	2002	2001	2002
Rupiah funding	21.7	22.8	1.5	1.4
Project funding with foreign loans	23.7	24.4	1.6	1.4
Total	45.5	47.1	3.1	2.8

Source: Ministry of Finance.

18.3. Annex 3

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18.4. Annex 4

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