

Social Protection in Indonesia:

Achievements and Challenges

The Macroeconomic Environment

- Macroeconomic developments: growth likely to be much the same as 2018, inflation subdued, rupiah stronger. BI will possibly loosen monetary policy.
- But the latest budget outturns published by the World Bank Quarterly (4/2018) show an increase of 43.6 per cent in subsidies in the 2019 budget compared with that for 2018.
- Reducing or removing subsidies will be an important challenge for the new administration, but the impact on the poor could be minimised by increasing cash transfers under a reformed Program Keluarga Harapan or PKH, and by implementing other reforms to the existing social protection system.
- This survey will examine the social safety net policies which began in the aftermath of the 1998 crisis, and have proliferated in recent years, and discuss which reforms are most likely to be both politically feasible and effective in their impact.

The Sembako Problem

- It will also discuss how the promises made by Jokowi during the election campaign can be implemented. Of particular interest is the “Sembako murah” pledge which refers to the prices of the nine staple commodities which have a high weight in the expenditures of low-income households. They are rice, cooking oil, sugar, chicken, beef, eggs, corn, red onions and soybean.
- Although the president wants domestic prices of these staples to be ‘cheap’, in fact in several cases, most notably rice, they are well above price prevailing on global markets. This is also true of other foods including fruit and vegetables, consumption of which among poorer households is much lower than most health experts consider desirable.
- Poor diet is in turn linked to other health problems in Indonesia which have attracted considerable international attention in recent years, including child stunting (low height for age) and wasting (low weight for height). According to a study published by a group of UN agencies in 2017, Indonesia has a high percentage of stunting and wasting among children under five, compared with neighbouring countries

What do we know about poverty and income distribution?

- Household expenditure surveys have been carried out in Indonesia since the 1960s, although they have only been national in coverage since the late 1980s.
- The problems with the *Susen*s surveys and especially the large gap between *Susen*s figures on household consumption and those from the national accounts, have received some attention in recent years.
- Over the last decade the consumption survey is carried out twice yearly; a large sample of 300,000 households is sampled in March and a smaller sub-sample of 75,000, drawn from the large sample, is surveyed again in September. The figures suggest that the *Susen*s data on household expenditures at the national level has in recent years been less than half of the national accounts data.

Why the disparity?

- The disparity is greater for non-food than food expenditures, which suggests that under-reporting is greater for expenditures such as housing and transport. This supports the argument that main reason for the disparity is that the better-off households in urban areas are difficult to enumerate, either because they are too busy to spare several hours filling in a form, or if they do cooperate do not give a full account of their expenditures. In addition there may be problems with the *Susenas* sample, which is skewed towards the middle and lower income groups.
- While there are valid reasons why the national accounts data are likely to be higher than household survey data (the national accounts data include an estimate of the rental value of owner-occupied housing and the contribution of the non-profit institutions serving households), a disparity of more than 50 per cent is usually considered to result from understatement in the household survey data.
- The extent of understatement does appear to be greater in Indonesia than in neighbouring countries (Thailand, the Philippines, Vietnam).
- If the problem is largely caused by understatement on the part of richer households, then the poverty estimates based on *Susenas* may be reasonably accurate, but if there is understatement on the part of the poorer households, then there might be problems.
- Inequality estimates are clearly flawed if the better-off households are excluded from the sample or they understate their expenditures.

Explaining the Growth in Inequality

- Several explanations have been suggested for the growth in inequality. As Indonesia urbanises, the more highly skilled professional workers move into jobs where salaries are set by international standards, while most of the rest of the labour force are employed in sectors where remuneration is determined by domestic supply and demand.
- Many Indonesians are trapped less productive work in services, where remuneration remains low.
- Minimum wages in Indonesia are claimed to be high by Asian standards but affect only those workers in regular wage employment in the public and private sectors.
- The Gini coefficient is much higher in urban than in rural areas, where there appears to have been little increase in recent years. This suggests that as Indonesia continues to urbanize, inequalities will also increase. This reinforces the need for more emphasis on social protection policies for the poorer groups in both urban and rural areas.

Impact on Policy Debates

- In spite of the fall in income poverty in recent years in Indonesia, the government and many non-government groups have been worried about Indonesia's performance on a range of non-monetary indicators relating to both education and health. Several recent studies have shown that, for a middle income country, Indonesia seems to be doing rather badly on several human development indicators, especially those which include health variables.
- These studies have produced composite indexes of human capital which have been used to rank countries across the globe. The World Bank Human Capital Index, published in 2018, ranked Indonesia at 87 out of 157 countries; this was lower than several other Asian countries with similar or lower per capita GDP including Sri Lanka, the Philippines and especially Vietnam.
- While all these indicators have their problems, the overall message for Indonesia is not encouraging. On a range of health and education/skills indicators, the country should be doing better.
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Provision of Health Services

- Health facilities were expanded under Suharto; the number of clinics (*Puskesmas*) and village health posts (*Posyandu*) grew rapidly after the mid-1970s. But trained staff were often in short supply and even basic medicines and equipment were not always available. In recent years it has become clear that health clinics (*Puskesmas*) are unevenly spread across the country, and there are wide variations in the quality of the care they offer.
- According to Ministry of Health figures, in 2018 only about 40 per cent of all *Puskesmas* had the five categories of staff considered necessary for full preventive health services. Many of the village level facilities (*Posyandu*) have become inactive in recent years. The results of these developments in terms of maternal mortality and early childhood development will be discussed further below.
- What impact have the social protection policies had on health indicators?

2017 Data on Social Protection

- An analysis of total expenditures on government programs aimed at assisting those individuals and families considered relatively deprived (*tidak mampu*) carried out by TNP2K found that in 2017 the total amount was Rp 203 trillion or 1.5 per cent of GDP. But 58 per cent of this amount went on subsidies for LPG, electricity and fertiliser. These benefit large numbers of households (54.9 million in the case of the LPG subsidy) many of which are not poor in the sense of being below the official poverty line
- . It has been estimated that 40 per cent of the electricity subsidies and 72 per cent of the LPG subsidies benefit non-poor households (TNP2K 2018: 118-9). The fertiliser subsidy has also been criticised for poor targeting; it has also been claimed that a substantial amount of subsidised fertiliser have leaked to larger farms and plantations, especially in the palm oil sector.
- The cheap rice policy which was introduced after the 1998 crisis, and has gone through several name changes (OPK, Raskin, Rastra) has been criticised both for poor targeting and for other failures, including the often poor quality of the rice, and the fact that many beneficiaries received less than the 15kg they were entitled to each month and had to pay a higher price than the stipulated Rp 1600. The program will in fact be discontinued in its present form and combined with the non-cash food aid program (BPNT).

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Targeting Issues

- Other programs such as those designed to help poor families purchase houses may be better targeted but benefit only a relatively small number of people. This is also true of the scholarships which fund poor students to attend university. The Healthy Indonesia Program reached 96 million people; it paid for health insurance for people judged to be too poor to pay the premia for the National Health Insurance fund (JKN).
- But many of the people receiving this assistance would not have been below the poverty line in their province. The government agency (BPJS) which administers the JKN has been running a deficit in recent years; it is argued that much of this deficit is the result of non-poor households using health facilities.
- The most tightly targeted program was probably the conditional cash grants to poor families (PKH), which reached 6.2 million beneficiaries in 2017. But given that around 25 million people were estimated to be below the poverty line in Indonesia in 2017, it is clear that many poor people were excluded (TNP2K 2018a: 74).
- The PKH will be expanded this year to 10 million households. Further reform proposals are discussed below

Lack of Integration and Small Scale

- In a review of programs intended to support early childhood development, the World Bank (2017: 30) pointed out that 'despite the multitude of interventions, programs are neither integrated nor implemented at scale' which reduces their impact.
- This criticism would appear to apply to other programs as well. Several reforms to the existing system are already in the pipeline, and others have been suggested by TNP2K. The *Beras Sejahtera (Rastra)* program is to be terminated and incorporated into the BPNT (*Bantuan Pangan Non Tunai*) program which is already being implemented in 44 towns.
- The coverage will be expanded and around 25 per cent of the population will receive a card which will allow them to buy both rice and eggs in shops (e-warung) up to a limit of Rp 110,000 per month.
- Can this policy be implemented in more remote areas?
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Combining PKH and PIP

- Another proposal which has been put forward by TNP2K involves integrating the school scholarships (PIP) and the cash grants (PKH). These two programs have a similar target group, although in 2017 the school scholarship program reached over 18 million children compared with only 6.2 million benefiting from cash grants.
- It is suggested that the government replaces both programs with a child benefit of Rp 200,000 per child per month paid to mothers, up to a maximum of three children. If this proposal is adopted, families with three children could receive over seven million rupiah per annum
- If targeted to families in the bottom two or three deciles, family benefits of this magnitude could have a significant impact on consumption levels (they would increase by 15 per cent for the bottom decile and 8.7 per cent for the next decile).
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Food Issues

- Food security is a crucial component of social protection policy, especially in Indonesia where there is still widespread evidence of poor nutrition especially among children. Stunting and wasting in children appears widespread, affecting at least 30 per cent of the under five age group, and there is much medical evidence that poor nutrition in early childhood affects cognitive development (Rokx, Subandoro and Gallagher 2018: 6-7).
- The food security problems in Indonesia centre around rice policy, and broader food availability issues, which in turn lead to a discussion about greater reliance on food imports. Since 2015 food imports have been increasing; over two million tons of rice were imported in 2018.
- But agricultural policy has in recent years been plagued by problems; responsibility was devolved to districts after 2001, but the evidence indicates that in many regions farmers are not receiving adequate services.
- Irrigation systems are in need of rehabilitation but who is responsible? Where should the budget come from? What is the role of PU?
- R and D in the foodcrop sector has been neglected, as have extension services

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Rice availability issues

- Rice availability and the rice price is important in Indonesia, because the poor still spend around 26 per cent of total expenditure on rice. It has been estimated that a 40 per cent increase in the domestic price of rice leads to a 3.2 per cent increase in the headcount measure of poverty. In fact over the years from 2010 to 2018, the wholesale price of rice in Indonesia has climbed by 70 per cent. Over these years the headcount measure of poverty has in fact fallen, although probably by a lesser amount than if the price of rice had been stable, or risen less rapidly.
- The reasons for the rapid increase in rice price after 2010 are complex, and cannot be attributed simply to rising protection, as the domestic price of rice was already close to twice that of the ex-Vietnam price in 2010 and the differential has not changed much since then. The reason would seem to lie partly with the depreciation of the rupiah, which also affects the price of other important food staples in Indonesia, including corn, wheat, soybean and meat.
- Supply factors may also affect the trends since 2010. How much rice is in fact being produced in Indonesia? Until 2015, the CBS used figures from the Ministry of Agriculture, although over the years several observers have raised doubts about the reliability of these figures, especially relating to harvested area.
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Rice prices more stable since 2016

- In 2018, the CBS published results of a major survey of rice production in fifteen provinces which demonstrated what many observers have long suspected, that planted and harvested area of rice is much less than the official statistics have claimed. This in turn means that rice production figures are overstated. The 2018 estimates put production of paddy (*gabah kering giling*) at 56.54 million tons, which converts to 32.42 million tons of milled rice. Consumption availability of rice is estimated at 29.57 million tons or around 112 kg per capita.
- The difference between production and consumption of around 2.85 million tons in 2018 was presumably added to stocks, together with imports which have fluctuated in recent years but reached 2.25 million tons in 2018.
- These stocks were used for the *Beras sejahtera* program, and also to stabilise domestic prices in the run up to the election in April 2019.
- In fact domestic price rises between 2016 and 2018 have been modest, at under five per cent over two years. This compares with rises of more than eight per cent per annum from 2010 to 2016. The government now appears to be using rice imports to stabilise domestic prices, albeit with domestic prices pegged at a much higher level than the international price.
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The Health Sector: Underfunded and Neglected?

- Health sector spending has risen as a proportion of total government spending since 2103. But it is still low relative to GDP (Less than one per cent). The Ministry of Health budget was 111trillion in 2018; 21 trillion goes to the healthcard program whose direct benefit to the poor is doubtful. Johar et al (2017) found that only access to outpatient care in Puskesmas is pro-poor; access to most other facilities both public and private tends to benefit the nonpoor.
- There are serious supply-side problems in the health sector, which affect access to both facilities (clinics and hospitals) and to skilled health workers. In 2018, Ministry of Health figures stated that of the 283,370 Posyandu in the country only 61 per cent were active in the sense that they offered services to the public.
- But there was enormous variation across provinces from 99 per cent active in North Sulawesi to only eight per cent in Maluku. The posyandu were set up in the 1980s to be the village-level units offering midwife services, and also baby measuring and weighing programs and advice on nutrition to expectant and nursing mothers. The staff were voluntary, and trained only in delivering basic disease prevention and primary care.

Posyandu Problems

- Posyandu were linked to the PKK which was a Suharto-era institution, designed to improve health and welfare in villages. The PKK were often headed by the wives of village officials, who did not always have much knowledge of primary health care. Nonetheless, they have been credited with some success in the reduction of stunting. After the crisis, there was a steep drop in numbers of children attending the posyandu, and decentralisation further reduced their effectiveness.
- In 2018, there were on average 656 active posyandu per million population in Indonesia but there was considerable variation across regions . There were slightly more than 17 posyandu per Puskesmas in Indonesia, but again there was considerable variation across regions.
- Puskesmas staff are supposed to support and supervise posyandu in their activities, but in many cases they lack both the staff and the equipment to carry out their tasks, especially in more remote rural areas where distances are considerable. Rokx et al argue that posyandu have since 2000 struggled to reach their full potential especially in reducing the early childhood nutrition problems which result in stunting and wasting.

What can be done?

- Officials in the Ministry of Health tend to blame “leadership” problems for the poor state of posyandu, but there are other causes as well?
- Responsibility for health was devolved to the districts in 2001, along with 250,000 health workers. But Rokx et al argued that in fact “the regulations that delegate authority to make decisions and the budgets required to implement them are vague”
- Given the lack of skilled people in many districts in the Puskesmas and other facilities, the MoH “ is still deeply involved in planning and managing regional staff and programs”
- But the MoH also lacks resources: the government appears to think that the Dana Desa could be used to finance health facilities but so far there is little evidence that this is happening.

Four “Take Aways”

- Early childhood programs are very important; the evidence indicates that they have been seriously neglected in Indonesia compared with a number of other middle income countries. Stunting still affects 30 per cent of under-fives, and thus is linked to poor nutrition.
- Health and nutrition policies are linked to food availability and its distribution. But how can a country such as Indonesia plan food policy when it does have accurate figures on food production?
- The impact of decentralization on sectors such as health, agriculture and education has been mixed. There still appears to be confusion and uncertainty about the responsibility of different levels of government.
- Even if social protection policies can be better targeted, and most subsidies eliminated (politically very sensitive) problems of implementation will remain. Often these problems are linked to shortages of skilled workers, which districts cannot remedy by themselves.