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Establishing Reliable Social Safety Net Programs: Lessons from the Indonesian Crisis Experience[#]

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Abstract

Social protection programs are underway to help assist individuals, households, and communities to better manage risk as well as to provide support to the chronically poor. In pre-crisis Indonesia, formal social protection programs hardly existed and most social protection was achieved through informal arrangements. Hence, when Indonesia sank into a deep crisis in 1988 which had a severe social impact, the government had no choice but to create new social safety nets instead of expanding existing ones. These newly launched social safety net programs provide valuable lessons for the design and implementation of social protection programs in other developing countries context.

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I. Introduction

Prior to the Asian crisis, Indonesia had one of the most rapid growth experiences of any country in the world. That rapid economic growth had broad based benefits and was accompanied by significant improvements in living standards: poverty — by any standard — fell dramatically. For example, between 1970 and 1996 the proportion of the population living below the official poverty line fell by almost 50 percentage points (from 60 percent to 11 percent). Infant mortality rates fell, school enrollment rates rose, and the provision of basic infrastructure facilities — water, roads, electricity — expanded significantly. In fact, Indonesia was considered to be one of the most successful countries in the endeavor to reduce poverty.

On the other hand, Indonesians had never relied heavily on government safety net programs, and wisely so. The country has neither the economic apparatus nor the political mechanism required to deliver large scale, widespread, transfer programs. Social spending was largely focussed on ‘social services’, with the family and communities providing ‘social insurance’. Exceptions to this are social security schemes mandated for employees in medium and large enterprises (Jamsostek), public service (Taspen), the military (Asabri), and health insurance for employees (Askes).¹ As events evolved during the crisis, these schemes proved ineffective as forms of social protection for the majority of population, simply because they excluded most of the population, particularly the poor. In addition, there were also some subsidized health schemes, but Indonesia did not have a social safety net system like the one which exists today. Establishing the social safety net in Indonesia in 1998 was therefore more of a case of casting a new net rather than expanding an existing one.

The outbreak of the Indonesian crisis in late 1997 has forced Indonesian households to adjust to the first serious economic contraction in years. Throughout 1998 real economic growth was –13.7 percent.² This was a sharp turn around from the high growth of the previous three decades, which averaged over 7 percent annually. The social impact of this large economic contraction was also substantial. The poverty

¹ See Purwoko (1999).

² See Cameron (1999).

rate increased by 164 percent from the immediate pre-crisis level in mid 1997 to the peak of the crisis by the end of 1998.³ In the labor market, even though the open unemployment rate slightly only increased from 4.7 percent in August 1997 to 5.5 percent in August 1998, real wages fell by around one third during the same period.⁴ One year later, real wage growth has returned to positive in most sectors, but the unemployment rate has continued to climb, reaching 6.4 percent by 1999.

Therefore, the response of the government to the impending social impact of the crisis was to launch the so-called social safety net programs in early 1998. These are a set of new as well as expanded initiatives widely known as the “JPS” programs, an acronym of the Indonesian term for social safety net, *Jaring Pengaman Sosial*.

The remainder of the paper is structured as follows. Section two revisits the discussions on the social impact of the crisis. Section three reviews the newly established social safety net programs and the methods of targeting used as a response to the crisis. Section four examines the performance of these social safety programs. Section five discusses the interactions between those JPS programs where there has been significant involvement with community and sectoral programs. Finally, section six summarizes the lessons learned from the social safety net and poverty reduction programs and concludes the discussion with some policy recommendations.

II. Background to the Indonesian Crisis

Throughout 1998, Indonesia was mired in a deep political and economic crisis. The crisis in the financial sector was one of the worst in the world’s modern history, requiring half of Indonesia’s total GDP to fix as loan recovery rates revealed massive losses. The value of the Indonesian rupiah plummeted from a pre-crisis level of approximately Rp 2,500 per US dollar to around Rp 15,000 in mid 1998. The crisis resulted in a 13.7 percent drop in real GDP in 1998. The construction sector was severely hit (-39.8 percent), followed by the financial sector (-26.7 percent), trade, hotels and restaurants (-18.9 percent). Meanwhile, the agricultural and utility sectors

³ See Suryahadi *et al* (2000).

⁴ See Feridhanusetyawan (1999).

continued to experience small positive growth at around 0.2 and 3.7 percent respectively.

The economic crisis has also tremendous impact on inflation which reached 78 percent in 1998, where food prices escalated by an estimated 118 percent in the same period. These price increases and related food shortages strongly affected the poor. For example, on average health expenditure declined by 20.5 percent at the height of the crisis. Household expenditures on health declined even faster than overall expenditures — the share of overall spending going to healthcare decreased by 14 percent for urban and 40 percent for rural households.

A. The Poverty Rate, Characteristics of the Poor, and Vulnerability

There have been several studies to assess the impact of the crisis on the life of households throughout Indonesia.⁵ Data gathered by the Government Bureau of Statistics in a survey known as SUSENAS in 1996 and 1999 indicated that the crisis has resulted in a substantial increase in poverty.⁶ According to one estimate the national poverty rate increased from 15.7 percent in February 1996 to 27.1 percent in February 1999.⁷ The number of urban poor has doubled, while we have seen a 75 percent increase in the number of rural poor. A study tracking poverty over the course of the crisis is shown in Figure 1. It indicates that the poverty index increased from 100 just before the crisis in mid 1997 to 264 at the peak of the crisis by the end of 1998.⁸

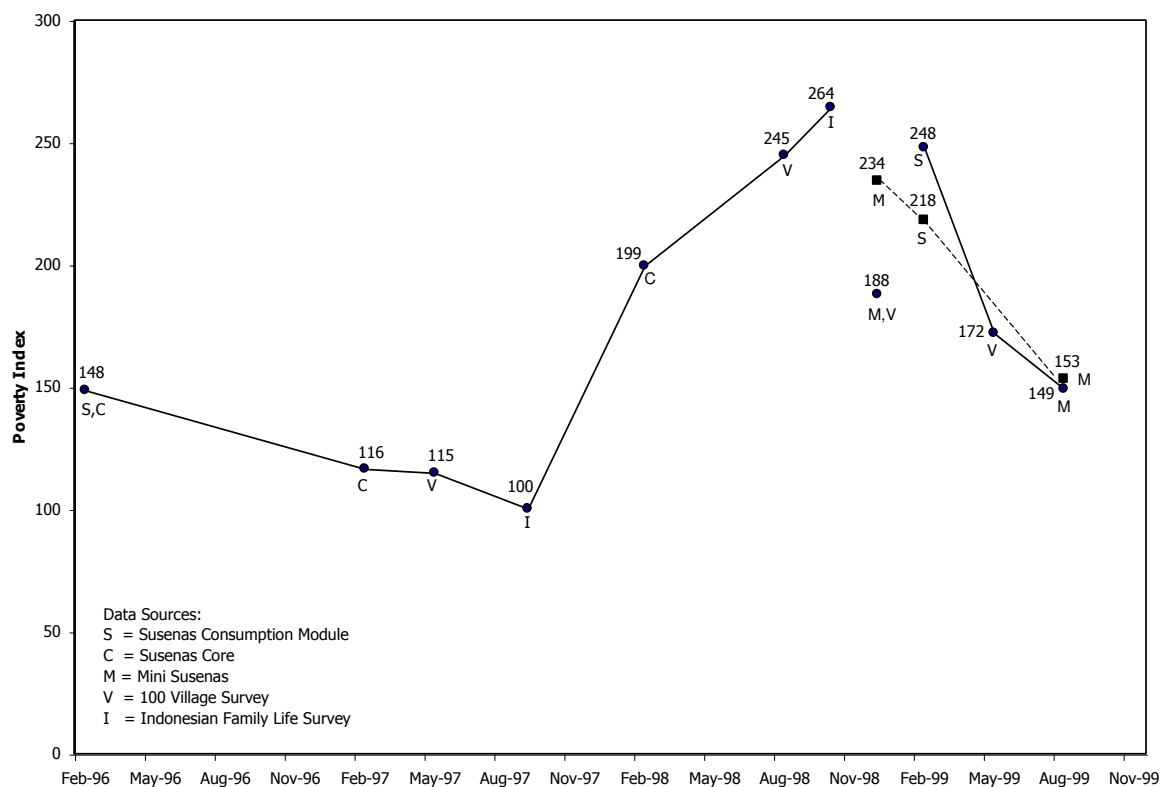
⁵ See, for example, Poppele *et al* (1999), Skoufias *et al* (2000), Wetterberg *et al* (1999).

⁶ SUSENAS is the National Socio-Economic Survey, conducted by the Government Bureau of Statistics (BPS).

⁷ See Pradhan *et al* (2000).

⁸ See Suryahadi *et al* (2000).

Figure 1: Estimates of Poverty in Indonesia During the Crisis



Source: Suryahadi *et al* (2000)

The poor tend to have low education, work in agriculture, and live in rural areas. Eighty seven percent of the poor live in households in which the head of household has a primary school education or less, while only 5 percent of the poor have a secondary school education or better. Almost 60 percent of the poor are in households where agriculture is the main source of income (whether from labor or land). Even though the “modern” sector has a quarter of all workers, they only have 15 percent of the poor. In keeping with that, fully three quarters of the poor live in rural areas.⁹

Determining exactly who should be classified as “the poor” is a difficult task since who the poor are at any point in time is very fluid and households enter and exit periods of poverty frequently. In Table 1 we reproduce a poverty transition matrix

⁹ Pradhan *et al* (2000).

from Skoufias *et al* (2000).¹¹ Although during the crisis many of the households that were marginally poor before the crisis became impoverished, the transition matrix reveals considerable fluidity. Approximately 31 percent of the poor in 1997 moved out of poverty in 1998, although mainly to the category of *near poor* (17.52 percent). Also, 44.53 percent of *the near poor* in 1997 became poor in 1998, but there were also 17 percent which managed to become *non-poor*. But more surprisingly, almost 17 percent of poor households in 1998 were *near non-poor* and more than a quarter (26.24 percent) were *non-poor* in 1997. These are the households which in 1997 had expenditures more than 25 and 50 percent above the poverty line respectively. Only 35 percent of the poor in 1998 are those who were also poor in 1997. This implies that reaching *the poor* in 1998 will be difficult, as many families who otherwise would not have been at all poor have suffered large reversals of fortune during the crisis and has become poor.

¹¹ The data used are from a panel of 8,142 households surveyed in the “100 Village Survey” in May 1997 and August 1998.

		<i>Total 1997</i>	Poverty Status in 1998			
			Poor	Near Poor	Near Non-Poor	Non-Poor
<i>Total 1998</i>		8,141	1,997	1,369	1,213	3,562
- row percentage		100.00	24.53	16.82	14.90	43.75
- column percentage		100.00	100.00	100.00	100.00	100.00
- total percentage		100.00	24.53	16.82	14.90	43.75
Poverty Status in 1997	Poor	1,010	697	177	78	58
	- row percentage	100.00	69.01	17.52	7.72	5.74
	- column percentage	12.41	34.90	12.93	6.43	1.63
	- total percentage	12.41	8.56	2.17	0.96	0.71
	Near Poor	988	440	239	140	169
	- row percentage	100.00	44.53	24.19	14.17	17.11
	- column percentage	12.14	22.03	17.46	11.54	4.74
	- total percentage	12.14	5.40	2.94	1.72	2.08
	Near Non-Poor	1,114	336	282	190	306
	- row percentage	100.00	30.16	25.31	17.06	27.47
	- column percentage	13.68	16.83	20.60	15.66	8.59
	- total percentage	13.68	4.13	3.46	2.33	3.76
	Non-Poor	5,029	524	671	805	3,029
	- row percentage	100.00	10.42	13.34	16.01	60.23
	- column percentage	61.77	26.24	49.01	66.36	85.04
	- total percentage	61.77	6.44	8.24	9.89	37.21
Notes:						
Poor: $PCE < PL$, Near Poor: $PL \leq PCE < 1.25*PL$,						
Near Non-Poor: $1.25*PL \leq PCE < 1.5*PL$, Non-Poor: $PCE \geq 1.5*PL$						
$PCE =$ Per capita expenditure, $PL =$ Poverty line						

Source: Skoufias *et al* (2000)

This also means that a large swath of the Indonesian population that is today *not poor* is nevertheless “at risk” of poverty. Any adverse shock to their incomes (or necessary expenditures) could easily force them under the line into poverty. Even if only 27 percent of population are poor now, between 30 and 60 percent of population are vulnerable to poverty over a three-year horizon. Furthermore, vulnerability to poverty varies across population groups. Table 2 reproduces estimates of vulnerable population across various groups of population from Pritchett *et al* (2000).¹² The table reveals the following: households headed by a female are more vulnerable to poverty

¹² The calculations are based on an assumption of a 20 percent overall poverty rate. The data used are a panel of 10,000 households surveyed in “Mini-SUSENAS” in December 1998 and August 1999.

than households headed by a male, the lower the education level of a household head the more vulnerable the household is to poverty, rural households are more vulnerable to poverty than urban households, while among rural households the landless are more vulnerable to poverty than landed households. Finally, households in the agriculture sector have a much higher degree of vulnerability to poverty than households in other sectors.

Table 2: Estimates of poverty and vulnerability across groups						
	Mean of log percapita expenditures in the initial period	Headcount poverty rate (%)	Yearly coefficient of variability	Average vulnerability for three annual shocks	Headcount vulnerable rate (%)	Ratio of vulnerable to poor
By gender:						
a. Male	10.9009	20.50	0.0392	0.3899	47.11	2.30
b. Female	10.9071	21.23	0.0440	0.4410	50.97	2.40
By education:						
a. Less than primary	10.6840	32.04	0.0404	0.6611	64.94	2.03
b. Primary	10.8279	21.15	0.0381	0.4624	49.67	2.35
c. Lower secondary	11.0430	10.06	0.0399	0.2544	34.20	3.40
d. Upper secondary & higher	11.3333	4.24	0.0399	0.0783	17.69	4.17
By urban-rural:						
a. Urban	11.1640	7.93	0.0405	0.1697	29.10	3.67
b. Rural	10.7284	28.88	0.0389	0.5963	59.17	2.05
By land owning (rural households only):						
a. Landless	10.4631	58.30	0.0318	0.8732	75.74	1.30
b. Landed	10.7325	28.42	0.0390	0.5919	58.87	2.07
By sector:						
a. Agriculture	10.6567	33.76	0.0389	0.6837	65.79	1.95
b. Industry	10.9881	15.24	0.0381	0.2812	39.77	2.61
c. Trade	11.0661	10.55	0.0416	0.2575	36.33	3.44
d. Services	11.1270	9.46	0.0399	0.1867	30.50	3.22

Source: Pritchett *et al* (2000)

B. The Impact of the Crisis on Labor Market

The crisis has also had tremendous effect on the labor market. Open unemployment continued to rise slightly, from 4.7 percent in 1997, to 5.5 percent in 1998, and to 6.4 percent in 1999. The decline in real wages, however, has been far more important than unemployment in channeling the impact of the contraction in the

labor market.¹³ Nevertheless, recent estimates of real wages by sector provide some hope. For most sectors we observe a substantial — more than 10 percent — increase in real wages between 1998 and 1999, except for the agriculture and mining sectors where real wages has continued to drop by 4 percent and 16 percent respectively.

Another component of the impact of the crisis on the labor market has been shifts in employment for women. Many factories in the modern sector which employed young, mostly unmarried, women were hit particularly hard during the crisis. However, in many households with children women have to take on additional paid work. As a result the fraction of women in the labor force in certain areas has actually risen. Finally, there have been various reports in certain rural areas about changes in migration patterns that have affected the labor market, so that certain agricultural tasks which were previously dominated by women are now being performed by men.

C. Coping Strategies

It is important to understand that people are not merely passive victims of the Indonesian crisis, but have found ways to cope with the impact of these events by using their own initiatives, and also by relying on their families, friends, communities, and also (to varying degrees) by accessing government programs. A survey in December 1998 asked about how they had coped with the crisis. The results revealed three main strategies: reducing expenditures, borrowing, and attempting to raise incomes.¹⁴ In reducing expenditures, non-necessities were cut most frequently: clothing (68 percent) and recreation (53 percent) were the most frequently cut. Then followed by necessary expenses, such as reducing the quality of foods (52 percent) and reducing transportation expenses (48 percent). Another 38 percent of the poor (but only 22 percent of non-poor) were even forced to reduce the quantity of food consumed. A second option for the poor was to maintain necessary expenditures by borrowing or selling assets. The most frequent means to achieve this was to borrow

¹³ Feridhanusetyawan (1999) argues that this reflects the flexibility of the Indonesian labor market.

¹⁴ BPS and UNDP (1999).

from others, a method adopted by almost a third of the poor (and a quarter of the non-poor) during the crisis. The third option was trying to raise incomes. In a flexible labor market, this can be achieved by taking additional jobs, working longer hours, or increasing the number of members of the family who are working.

III. The Indonesian Social Safety Net Programs

A. Social Safety Net Programs as a Response to the Crisis

At the onset of the Indonesian crisis, concern was raised over whether the considerable achievements that had been made in the health and education and in poverty reduction over the previous decades would be sustained. The Indonesian government reacted quickly and put in place a number of measures aimed at safeguarding real incomes as well as providing access to social services for the needy.

Several new programs were launched,¹⁵ which were intended to help protect the those who were already poor before the crisis as well as the newly poor as a result of the crisis through the following four strategies:

- (a) ensuring the availability of food to the poor at affordable prices,
- (b) supplementing purchasing power among poor households through employment creation,
- (c) preserving access of the poor to critical social services such as health and education, and
- (d) sustaining local economic activity through regional block grant programs and extension of small-scale credit.

Table 3 recapitulates the areas and programs of this recently established Indonesian social safety net system.

¹⁵ See Suryahadi *et al* (1999).

Table 3. Areas and Programs of the Indonesian Social Safety Net	
Safety Net Area	Program
Food security	Cheap rice program (OPK): sales of subsidized rice to targeted households
Employment creation	Padat Karya: a loose, uncoordinated collection of several ‘labor intensive’ programs operated through several government departments
	PDM-DKE: a ‘community fund’ program providing block grants directly to villages for either public works or as a revolving fund for credit
Education	Scholarships and Block Grants: providing <ul style="list-style-type: none"> ✓ Scholarships directly to elementary (SD), junior secondary (SLTP), and senior secondary (SMU) students ✓ Block grants to selected school.
Health	JPS-BK: a program providing subsidies for <ul style="list-style-type: none"> ✓ Clinical services ✓ Nutrition ✓ Midwife services

The programs launched to address the above areas were designed by the central government and were intended to have the following characteristics: quick disbursement, direct financing to beneficiaries, transparency, accountability, and widespread participation. However, as has been revealed by various studies, these intended characteristics have not always been achieved.

B. Method of Targeting

In general, the targeting for JPS programs is based on a combination of household and geographic targeting. Table 4 summarizes various targeting methods that have been adopted.

Table 4. Targeting Mechanisms in JPS Programs			
Program and Targeting Method		FY 98/99	FY 99/00
OPK (Food Security)	Geographic	None	None
	Household	BKKBN (Family Planning Board)list	BKKBN list with flexibility
PDM-DKE (Employment creation, Community Funds for public works, Credit)	Geographic	Pre-crisis data	Updated with Bappenas (national planning agency) regional data
	Household	Local decision making	Local decision making
<i>Padat Karya</i> (Employment Creation)	Geographic	None, various ministries	Urban areas, based on employment
	Household	Weak self selection	Self selection
Scholarship and Block grants to schools	Geographic	Old data on enrollment	Poverty updated to 1998
	Household	School committees following criteria	School committees following criteria
JPS-BK (Health)	Geographic	BKKBN pre-prosperous rates	Updated pre-prosperous estimates to 1999
	Household	BKKBN list	BKKBN list with flexibility

The targeting for some programs is based on a household classification created by the National Family Planning Agency (BKKBN). According to this classification, households are grouped into four socio-economic status groups: ‘pre-prosperous’ (“pra-sejahtera” or PS), ‘prosperous I’ (“sejahtera I” or KS I), KS II, and KS III. The

KS I to KS III categories are often lumped together as KS category. In past years, eligible recipients for some JPS programs are only PS card holders, but for some programs eligibility was extended to include KS I households as well (e.g. OPK). This household-based targeting was used mostly for the cheap rice program (OPK) and the health program (JPS-BK).

Padat karya (which means, as an adjective, ‘labor intensive’) is not a single program but rather collection of programs which were all aimed at employment creation. These programs were created as a response to the threat of burgeoning unemployment because of the economic contraction which had forced many firms to either lay off workers or shutdown completely. In accordance with the urban nature of the crisis, the initial geographical targets for the first round of “crash” programs in FY 1997/98 were directed to urban areas plus some rural areas which had experienced harvest failures.

Following on these ‘crash’ programs, in FY 1998/99 there was a proliferation of employment creation programs (*padat karya*) with more than a dozen in this category. These programs can be classified into four types. First, some were on-going investment and infrastructure projects which were re-designed as labor-intensive projects. Second, other program, such as the *Kecamatan* Development Project, the Village Infrastructure Project, and PDM-DKE Community Fund Program gave block grants to local communities. These programs were directed to poor areas, and contained ‘menus’ that included the possibility of using funds for public works with a labor creating effect. A third set of programs were those special labor intensive schemes carried out by sectoral ministries (e.g. retraining of laid-off workers by the Ministry of Manpower). A fourth type of program were those ‘food for work’ programs, typically launched by international donors and NGOs in drought stricken areas.

Unlike the food security program, those labor intensive programs were quite diverse. Although specific programs were targeted to certain areas (e.g. drought areas), lack of coordination meant there was little or no systematic overall geographic targeting. Within programs there were no clear guidelines about the intended

participants; nor were there any fixed administrative criteria to select beneficiaries. Hence, targeting was primarily through self-selection: only those who were willing to work received benefits. This self-selection mechanism has the advantage over administrative criteria of allowing individuals to choose to participate or not and creates the possibility of being more flexible to unobserved household shocks than administrative criteria.

Another important JPS program is the scholarships and block grants program providing support to poor children and schools. The scholarships provide Rp.10,000, Rp.20,000 and Rp.30,000 per month for primary, lower secondary and upper secondary school students respectively. These amounts generally cover the cost of school fees and can be used for that purpose or to cover other expenses. In choosing the recipients of the scholarships, the program combined certain administrative criteria including factors such as the family BKKBN status, the size of the family, the likelihood of the children to dropping out from school and a school committee decision. The school committee consisted of the principal, the head teacher, and the head of the local parent's association as the representative of the local community.

Scholarships funds were first allocated to schools so that "poorer" schools received proportionally more individual scholarships. Scholarships were then allocated to individual students by school committees, which consisted of the school head teacher, the chair of the parents' association, a teacher representative, a student representative, and the village head. School students in all but the lowest three grades of primary school were officially eligible. Participating students were to be selected from the poorest backgrounds. Committees were required to use household data from school records and existing household classifications prepared by BKKBN.

Scholarships were to be allocated to children from households in the two lowest BKKBN rankings. If there were a large number of such eligible students, then additional indicators to be applied to identify the neediest students. These additional indicators included distance of family homes from school, physical handicaps and family size. Also, If possible, half of the total number of scholarships were to be allocated to girls.

IV. JPS Program Performance: Problems and Adjustments

A. Benefit Incidence of JPS Programs

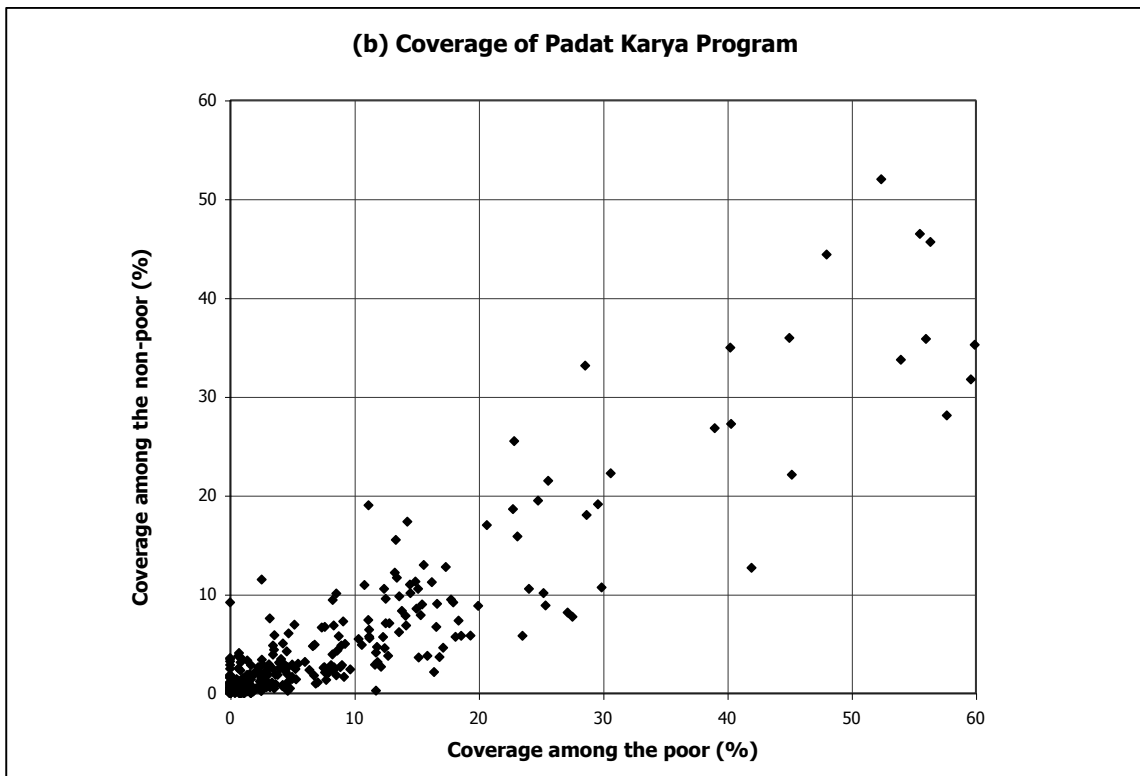
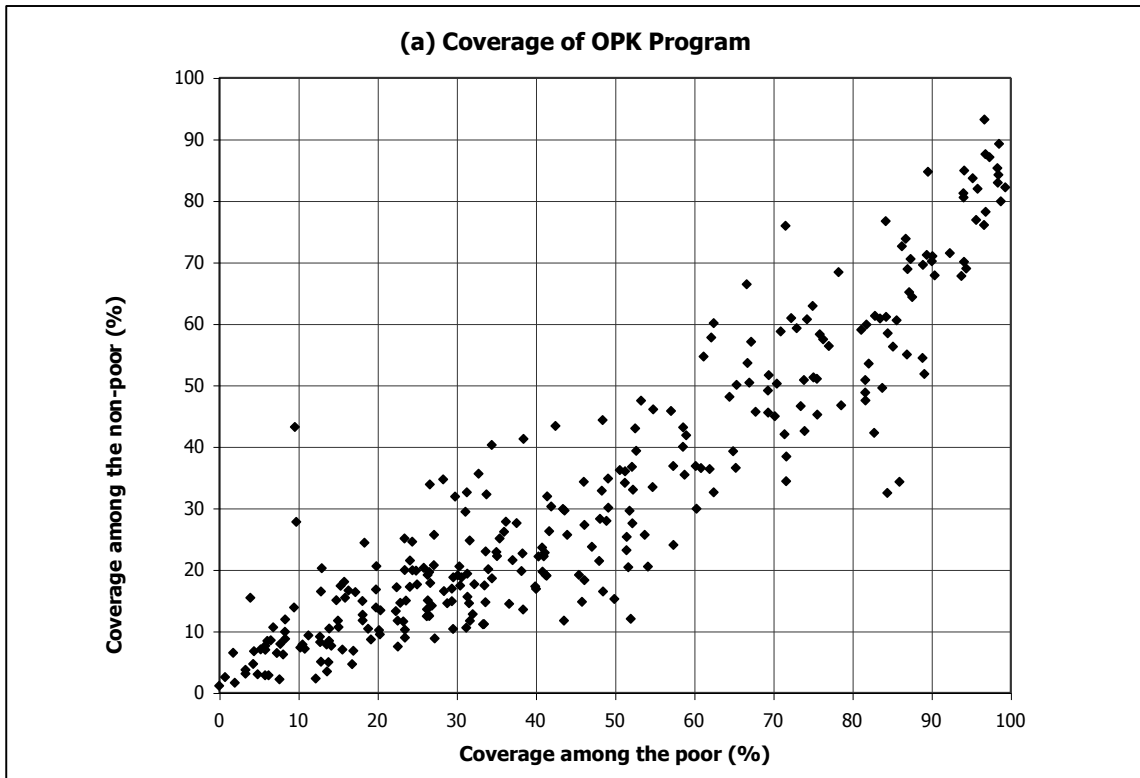
Over the last thirty years Indonesia has become of the most centralized countries in the world. As a result, all of the key social safety net programs were centrally designed. Even where programs allowed for local decision making, the structure and scope of those local decisions were carefully specified in centrally-drafted program guidelines. Despite this, there were huge variations across regions in how widely and how well the programs were implemented.¹⁶

This section presents some estimates of the effectiveness of the coverage among the poor in various JPS programs. The information is based on the findings from the latest round of February 1999 SUSENAS conducted by the government's statistics agency (BPS).¹⁷ Figure 2 shows the coverage among the poor as well as the non-poor of six major JPS programs at the district (*kabupaten*) level. The poor here are defined as the poorest 20 percent (first quintile) within each district. Six JPS programs are evaluated: (a) the sale of subsidized rice (OPK), (b) employment creation programs (*padat karya*), (c) primary school scholarships, (d) junior secondary school scholarships, (e) senior secondary school scholarships, and (e) health programs. Individual dots in each panel of Figure 1 represent districts, of which there are more than 300 throughout Indonesia.

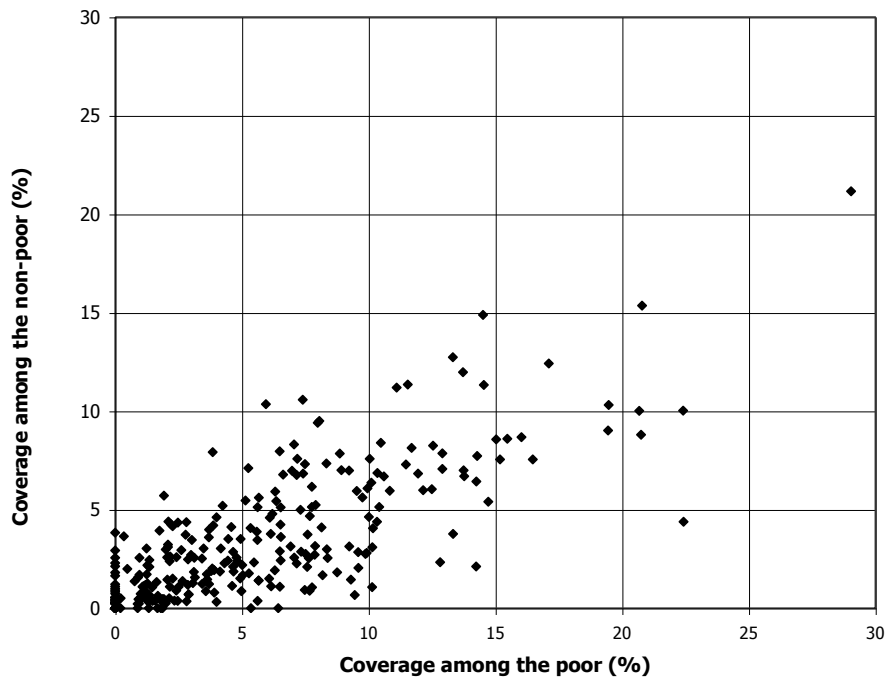
¹⁶ These regional variations in performance are certain to grow as decentralizations pushes even more authority to the local levels.

¹⁷ The information on performance of JPS programs is collected through the special "JPS Module" of SUSENAS conducted in February 1999.

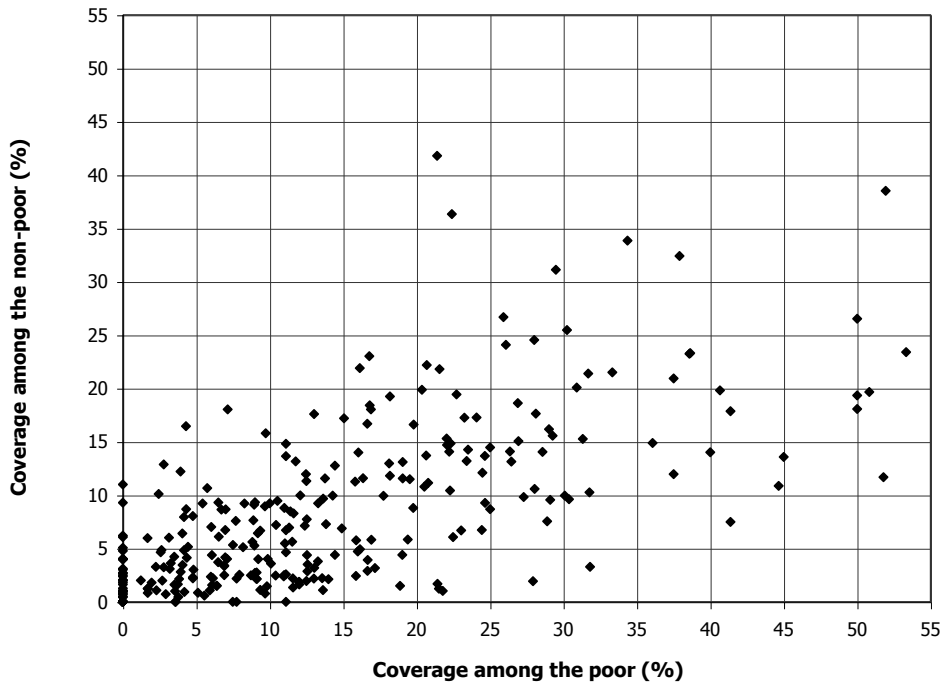
Figure 2. Coverage among the Poor and Non-Poor within JPS Programs

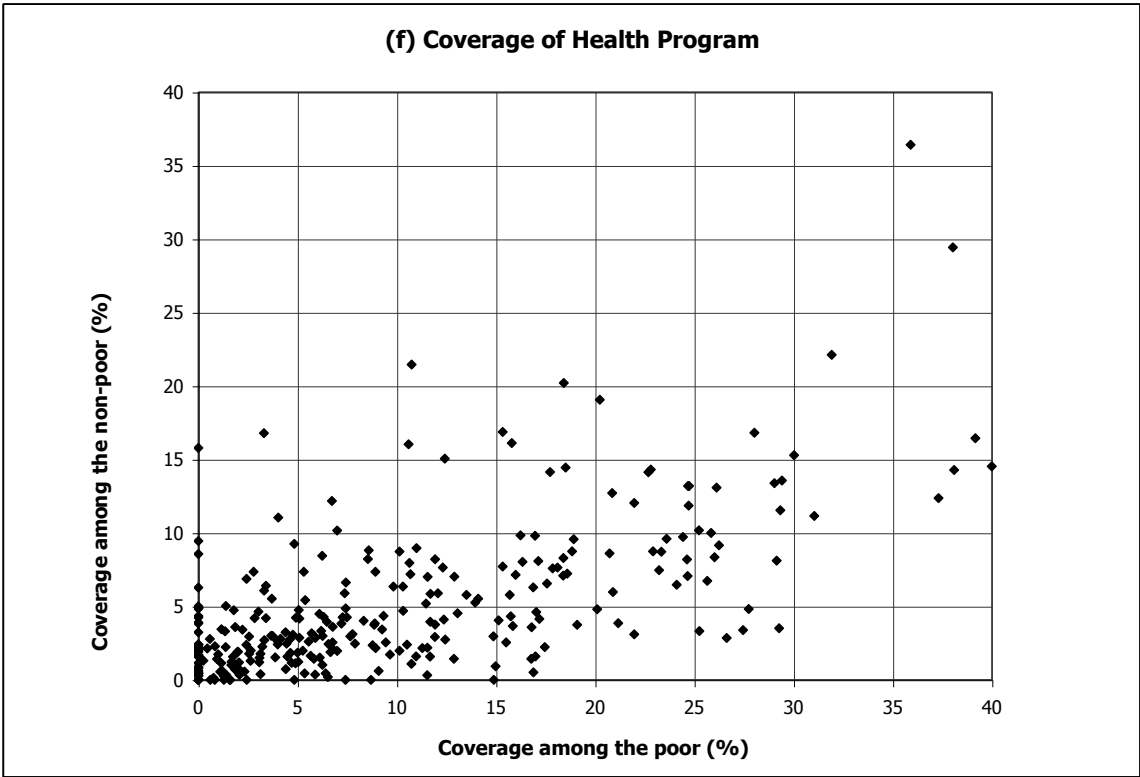
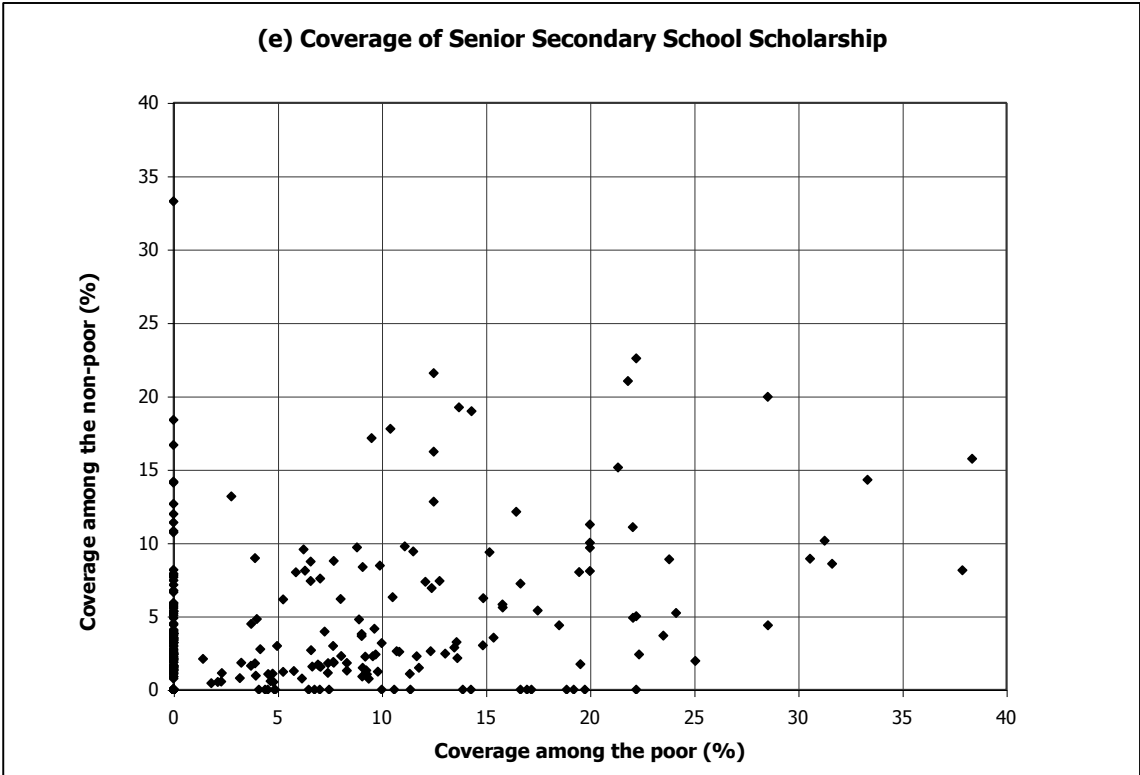


(c) Coverage of Primary School Scholarship Program



(d) Coverage of Junior Secondary School Scholarship Program





Panel (a) in Figure 1 shows the coverage of the food security program (OPK) among the poor on the horizontal axis and among the non-poor on the vertical axis. Two conclusions immediately emerge. First, coverage among the non-poor highly correlates positively with coverage among the poor (the correlation is 0.92) . Districts which have low coverage among the poor also have low coverage among the non-poor, and *vice versa*, those districts which have high coverage among the poor also have high coverage among the non-poor. This means that within districts, the benefits of this program have been distributed almost proportionately between the poor and non-poor. Only very few districts specifically favor the poor in the distribution of OPK rice, Second, the range in the level of coverage across districts is very wide, almost continuously from near zero to almost 100 percent coverage. This suggests that the resources distributed through this program have varied widely across districts.¹⁸ Some districts have received a lot of resources, while others have received very little.

Panel (b), meanwhile, shows that in most districts coverage of employment creation through labor intensive programs is low. Coverage of this program among the poor in most districts is less than 10 percent and certainly very few districts have a program coverage among the poor of more than 20 percent. This highlights the difficulties of using employment creation or public works programs to reach out the majority of the poor. In terms of distributing the program benefits to the poor *vis a vis* the non-poor, these programs seems to be on par with the food security program.

Panels (c), (d), and (e) show the coverage of scholarship programs at the primary, junior secondary, and senior secondary levels respectively. During the early stage of the crisis, it was feared parents may forced their children out from schools as a way to cope with falling incomes and rising costs, hence triggering a large increase in school drop-out rates. This program was intended to reach at most 6 percent of

¹⁸ Another possible explanation is that districts which have a very low coverage have actually received similar resources to those districts with a high coverage, but those resources have been diverted from the program objective. However, this can not be confirmed from the available data.

primary school students, 17 percent of junior secondary school students, and 10 percent of senior secondary school students nationwide.

If these targets have been achieved and all scholarship recipients were from the poorest 20 percent of students, then these numbers would have translated into 30 percent, 85 percent, and 50 percent coverage among the poor. The panels show that clearly these targets have not been achieved. In the primary school scholarship program, the panel (c) shows that in most districts coverage among poor students is less than 10 percent instead of the 30 percent target. Likewise, in junior and senior secondary scholarship programs, most districts have coverage among the poor of less than 30 percent and 25 percent respectively, instead of the 85 percent and 50 percent targets.

In terms of targeting, the scholarship programs seem to have been more effective than food security program and the employment creation programs. However, in a significant number of districts coverage among the non-poor in the primary school scholarship program and in particular in the junior secondary scholarship programs have also been quite high. The targeting in the senior secondary scholarship program is especially interesting. In some districts all the program beneficiaries have been non-poor, with missing out completely poor students. In most districts, however, the targeting have been actually much better, with significant numbers of poor among the program beneficiaries.

Finally, panel (f) shows the coverage of the JPS health program, which also demonstrates the difficulties in reaching out to the majority of the poor. Most districts have achieved coverage among the poor of less than 10 percent and very few districts have coverage among the poor higher than 20 percent. Nevertheless, compared to other JPS programs, the health program seems to have achieved better targeting of program recipients. In most districts, coverage among the non-poor remains under 10 percent, even in those areas where coverage among the poor increased up to 30 percent.

B. The Varieties of Targeting Experiences

Targeting the beneficiaries of SSN programs requires detailed administrative guidance as well as community involvement if it is to be both effective and socially and politically acceptable. The previous section discussed the issues of benefit incidence and targeting in the JPS programs, suggesting several useful lessons, in particular, about the ways in which targeting did, or did not, have the desired effect.

OPK (Food Security). The experience of the food security program revealed that centrally planned administrative guidelines often proved socially unacceptable at the community level. In its first year the eligibility of households to receive OPK rice was based on lists of families classified according to “welfare” status by the BKKBN. However, almost as soon as the program began observers noticed that local leaders responsible for implementation were not adhering to the list of eligible households, but rather distributed the rice amongst a much larger group. As a result while each eligible household was theoretically entitled to 20 kgs, in many cases received lesser amount, while other households, which were not officially eligible, also received allocation.

The quantitative findings from SUSENAS data confirm anecdotal reports from field studies that there has been pressure from villagers to distribute the OPK rice more widely rather than following strictly the allocation criteria. Many more households received rice than were on the eligibility lists, and they received substantially less than the official entitlement. The magnitude of those, even in the top quintile, receiving the program benefits suggests powerful pressures for uniformity.

There are three main arguments made by village heads (*kepala desa*) to justify this practice. First, the official list is not an accurate list of those who are in need, as due to the crisis, many households which formerly were not poor are also now in need of assistance. Second, even if the list is accurate, the distinctions drawn are too fine: the differences between those households who are entitled and those who are not does not justify one group receiving 20 kgs of rice while the remainder receive nothing. Third, village heads and community leaders argue that the targeted distribution of this central government benefit is inconsistent with the spirit of community solidarity and

self-help (*gotong royong*). If everyone is expected to contribute their labor to community projects, then everyone should also benefit from unexpected outside assistance.

These arguments are quite compelling and raise important questions about the structure of “optimal” targeting. It may well be that communities know better than the central government and that the BKKBN classification may not capture those who truly need the rice within any given community. Hence it is possible that some of what is recorded as going to the “non-eligible” is not really mis-targeting, but is a justifiable correction of the official eligibility criteria. However, it is also possible that local social pressures have led to uniform or equal distribution simply as the only allocation that is perceived to be ‘fair’. The danger is that this may result in a simple ‘equal’ distribution which, given the fixed total amount of rice available, results in a lesser benefit for the poor.

In FY 1999/2000, the procedures for determining eligible households were expanded to allow for local flexibility and the addition of households to the list, combined with procedure for publicizing such a list (for example, discussion at a local open meeting). This is intended to allow necessary local flexibility while at the same time preventing a completely uniform distribution.

Padat Karya. (Employment creation –labor intensive schemes). In practice, there were several problems with the targeting of these programs. First, the programs were not rigorously held to a minimum wage, and in many cases the wage levels were increased (or the daily hours reduced for the same payment) to attract workers. In some regions, the wage rate was set at higher rate than the prevailing local wage rate, thus inducing those already working to switch jobs or take additional jobs. Second, there is some anecdotal evidence that participants were not actually required to work. Field investigations uncovered evidence of “ghost workers,” who were present on the records as being paid for the day but not present on the site. Third, reports from the

field also indicate other shortcomings in the selection of beneficiaries, such as favoritism in giving jobs to close family and friends of local officials.¹⁹

PDM-DKE. (Employment Creation: Community fund for public works or revolving credit schemes). The community fund scheme component of this program permitted maximum freedom at the local level about the use of funds. The decisions about who benefited were left entirely in the hands of the Village Development Committee(LKMD). Since the official guidelines on targeting are sufficiently general, almost any decision can be justified as consistent with the program.

There is nothing intrinsically wrong with this type of targeting, and it may well be that community consensus at the local level is the best targeting mechanism of all. However, since the PDM-DKE community fund have been implemented as a “crisis” program, these “community” decisions were often taken by local officials without adequate time for a proper public information campaign, training of program implementers, and community consensus building. When the rapid period for implementation is combined with local institutions with little accountability or legitimacy - such as the LKMD - this has frequently lead to targeting decisions that are the source of great controversy.

Unfortunately, there is very little statistical data on the targeting of the PDM-DKE program.²⁰ However, from various field studies of the PDM-DKE program it is clear that the results have been mixed. In some locations communities are very satisfied with the program which appeared to have reached the poor reasonably well. But in many other location the local community has never heard of the program. In such cases the funds have gone into the pockets quietly of those connected to the local LKMD, such as local officials (RT/RW) who have received “loans” with zero interest and no fixed repayment schedule.

Scholarships: The data from SUSENAS suggest that the scholarship programs have been well targeted, in the sense that more of the benefits have reached the poor

¹⁹ Sumarto *et al* (2000).

²⁰ This is partly because public information about the program was so poor that attempts in household surveys to ask about the program failed to generate any recognition.

than the non-poor by an expenditure measure. However, the targeting is far from perfect as, at least according to such a classification, many children from the middle quintiles and even some “rich” children have received scholarships.

These findings on coverage and targeting in the scholarship program raise complex issues and revealed the difficulties. Scholarship recipients are supposed to be chosen by school level committees comprising school officials as well as parent and community representatives and there have been few indications that these procedures are not followed. Therefore, the evidence that the recipients do not match “poverty” as it is typically measured, i.e. by per capita consumption expenditures from household surveys, could be interpreted in two ways. The discrepancy could mean either that the survey criteria of identifying the needy, while the local committees using local knowledge are more effective; *or* it could mean that the targeting procedures have either not been followed or are inadequate method of identifying the most needy.

These alternative explanations cannot be distinguished with the data at hand. This obviously highlights the difficulties of *ex post* evaluation of programs, which must be done both on *process* and on *outcomes*. Moreover, this suggests caution in over interpreting any single piece of evidence (such as standard targeting and “benefit incidence” calculations), but rather taking into account all evidence, internal, qualitative, and quantitative in assessing program performance.

V. JPS Interaction with Community Efforts and Sectoral Programs

Poorly designed JPS programs can weaken those “informal” safety nets provided by the family and the local community, as well as undermining existing efforts and institutions. The facts are: (a) people have mainly relied on themselves, their families, and their local communities and groups to cope with the crisis; (b) the portion of the budget allocated for JPS programs have been quite small and, aside from the food security program, only small numbers of people have actually benefited and (c) even those benefits typically only constitute a small fraction of total

household expenses. This means that it is important that the formal JPS programs do not undermine the much larger and more important existing “informal” safety nets.

Micro-credit. An example of the conflict between on-going efforts and JPS programs is in the area of micro-credit. Many believe that providing the poor with access to credit can be an important means of economic empowerment enabling them a sustainable escape from poverty. Long experience has taught several lessons about how to implement a micro-credit program successfully: (a) credit should be at cost recovering (if not “market”) interest rates, (b) repayments should be maintained, (c) credit through group guarantee of repayment is a useful way of ensuring repayment and saves on administrative costs — but these groups should be formed around pre-existing groups or groups with a natural social affinity.

Some programs, such as the PDM-DKE, have attempted to strengthen the local economy through the operation of credit. This credit however, does not specify a fixed interest rate, so that in many locations the interest rate have been zero. The program has lent to groups which have been formed just to receive this credit, and the repayment terms have not been specified — in fact, in many cases there are no repayment terms.

Many local groups who have been working for years to build sustainable micro-credit programs, are sharply critical of the new JPS programs providing micro-credit, because they have undermined their own efforts. Borrowers who have been told for years of the necessity of high interest rates, group solidarity, and timely repayments suddenly see others in the community (and not always the worst off) receiving much larger amounts of credit with none of those features.²¹

Employment creation. Another example is the impact of labor creation programs on community self-help activities (*gotong royong*). In most communities in Indonesia people are expected to contribute a certain amount of time per year to activities which benefit the entire community. Some of the employment-creation programs have paid people for activities that are traditionally carried out for free by

²¹ The operating manual of the PDMDKE was revised to create higher interest rates and fixed repayment periods for the revolving fund for economic activities.

the communities as part of the mutual known as ‘*gotong royong*. Many fear that this undermines future community ventures as people would either expect them to be done by the government or they expect to be paid.²²

During the crisis, one important if under-acknowledged function of the JPS programs has been to sustain funding for health and facilities at the lower level education. This, however, is a temporary measure. An “exit strategy” is needed to reduce dependency on the JPS programs and reorient efforts to the overall sectoral agenda, but in manner which does not jeopardize the funding received indirectly through the JPS programs.

VI. Lessons Learned: How to Establish a Sustainable Social Safety Net

A. Lessons Learned

The Indonesian experience with the establishment and implementation of JPS programs provides very useful lessons for designing and implementing social protection programs in the context of other developing countries. Below is a list of six main lessons learned from the implementation of the JPS programs:

- 1) Regional variations in both coverage and targeting efficiency are a persistent phenomenon in various programs.
- 2) Geographic targeting responding to shocks was hampered by a lack of timely, complete, accurate, and acceptable data. This is why reliable information is vital.
- 3) The effectiveness of programs depends on local capability, clear targeting criteria and a reliable decision-making mechanism.
- 4) JPS programs have both a ‘safety rope’ (insurance against shock) and a ‘safety net’ (transfer to poor) function.
- 5) Spending on social safety nets must rise during time of crisis, since informal coping mechanisms are often insufficient.
- 6) Expanding formal insurance continues to be a key challenge.

In addition, there are further lessons to consider arising especially from the

²² The *padat karya* programs were eliminated after FY 98/99 and replaced with a single program in urban areas carrying out maintenance and small construction).

implementation of the employment creation programs:

- 7) The lower the wage the more effective the targeting — these will be an element of “self selection” since only those in serious difficulty will be willing to work for the low wages being offered.
- 8) There are often political pressures for higher wages which ultimately destroy the fiscal sustainability of such programs. As wages rise the number who want to work also rises and either the program must expand to accommodate them (and hence break the budget) or jobs are increasingly rationed (destroying the targeting).
- 9) It is hard to produce both useful infrastructure and provide emergency employment as this mix of objectives do not sit comfortably within the same programs. Despite those problems maintaining some small-scale employment scheme may be desirable since in the face of the crisis scaling up an existing programs may be preferable to stacking a new venture to ensure rapid response.

B. Some Policy Recommendations

Historically, Indonesia has never relied heavily on government safety net programs. Indonesia has neither the economic apparatus nor the political mechanisms required to deliver large scale transfer programs throughout the archipelago. Policy recommendations on the future development of social protection programs in Indonesia as a result of the present study are as follows:

- 1) Three primary ways the poor and the vulnerable can be helped to help themselves are through:
 - (i) developing a thriving economy free of favoritism and one conducive to labor intensive activities, with fair access and fair returns to assets (labor, land, natural resources, capital),
 - (ii) public expenditures on the “basics” — investments in human beings (health and education) and investments in the basic infrastructure to create a suitable physical environment where the poor can be productive (roads, irrigation, water, urban services),
 - (iii) public expenditures on well designed community development programs to

encourage growth in backward and underdeveloped regions.

- 2) There are two groups within society that need additional protection:
 - (i) the small group of chronically poor, i.e. those who lack earning power such as widows, orphans, and the physically disabled. For these people “safety net” programs that provide some basic income assistance are essential.
 - (ii) a much larger group who are subject to life’s vicissitudes: losing a job, falling into ill health. These people need a temporary hand — not a safety net but a safety trampoline that provides them with a temporary cushion but propels them back into productive activity.
- 3) In a country as large and diverse as Indonesia, there are always pockets of disadvantage, both geographically (including pockets of urban poverty) and socially (certain vulnerable groups). These are the people for whom the real *social* safety net of their own resources — family, friends, and community — breaks down. These groups need to be reached with special programs aimed at the basics: food and nutrition, health care, and shelter.
- 4) “Unemployment insurance” and “social security” that will cover the majority of workers in Indonesia are still impossible goals because the Indonesian labor market remains dominated by the informal sector where there is no record of earnings for most workers.
- 5) Likewise, “welfare” programs in the forms of direct in-kind or cash transfers to poor households are very difficult to develop when income cannot be administratively observed to target eligibility. Politically, the possibilities of corruption and abuse are real dangers in launching any program that attempts to transfer money — and the larger the amounts the greater the danger.
- 6) Therefore, in our view, Indonesia is not yet ready to establish formal sector social protection such as exists in developed countries. A key historical feature of every developed country is a massive expansion in the portion of GDP that goes to “social” spending to cover the three large risks in a modern economy: Health Risks, Unemployment, and Old Age. Indonesia, nevertheless, should start preparing for a period of transition, from where these risks are handled informally

through family and community to where these are tackled through formal structures.

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