

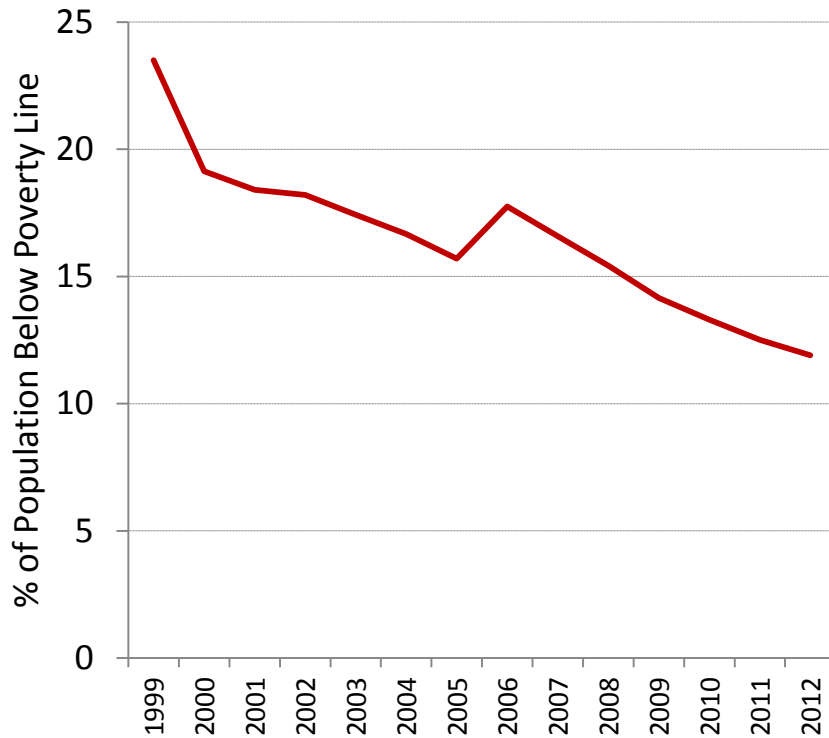
Reducing leakages: Key lessons and challenges from policy-making in Indonesia

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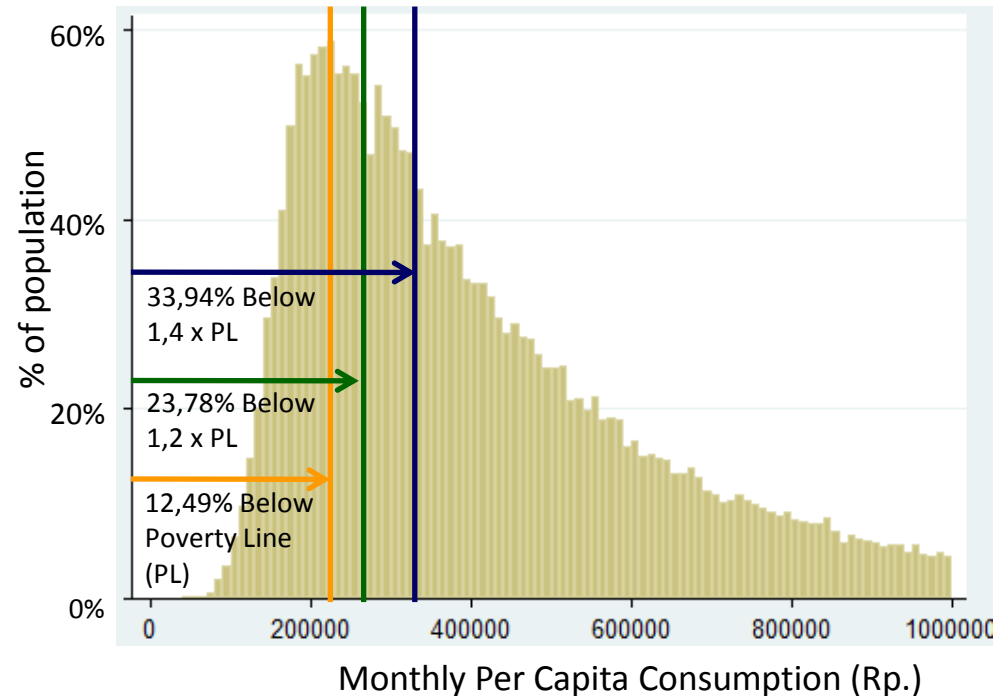
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IMPACT AND POLICY CONFERENCE: EVIDENCE IN GOVERNANCE, FINANCIAL INCLUSION, AND ENTREPRENEURSHIP
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Indonesia has made some progress in addressing poverty, but vulnerability remains high



Source: BPS



Source: Susenas (2011)

Note: the national poverty line in 2011 is around Rp 233,000 per person per month

→ **Double challenge:** (1) help the poor out and,
(2) protect the vulnerable from falling into poverty

THREE CLUSTERS OF POVERTY ALLEVIATION PROGRAM IN INDONESIA

Cluster 1: Family-based integrated social assistance programs

Unconditional cash transfer, conditional cash transfer, rice for poor, Scholarship for poor families, and Health insurance for the poor

Cluster 2: Community empowerment program

PNPM Mandiri nationwide community development block grants

Cluster 3: Development of micro and small enterprises

Credit for small businesses (KUR)

TNP2K was established in 2010 to coordinate the implementation of these strategies

Key challenges in addressing poverty and vulnerability

Leakages

- Currently **almost half of the poor are excluded** from the largest social assistance programs (BLT, Jamkesmas)
- In the case of RASKIN (rice for the poor) poor households tend to receive only about 1/3 of promised benefit (about \$8 per month) and pay 25% higher prices. This amounts to only **~30% of the intended subsidy.**
- How to **reduce** leakages?

Targeting

- Poor households are more likely to receive benefits, but a considerable proportion is still going to **non-poor households**
- How **to ensure data** on poor households is **sufficiently up-to-date** given frequent changes in poverty status?
- How **to balance** between benefits of standardized targeting methods like PMT vs. community-driven methods?

Other issues include: program socialization and integration

Leakages: Performance of main social assistance programs

2 Potential Stage for leakage

(1) Distribution:

Do the people on the official beneficiary lists actually get the full program benefits?

New technologies and the shift from in-kind transfers to cash transfers have helped to address this issue

(2) Targeting:

Do the right people get onto the beneficiary lists in the first place?

Has generally been a greater challenge in Indonesia which is currently being addressed

Challenge #1: Improving distribution strategies (1/2)

Indonesia's cash transfer programs have minimized leakage in the distribution stage...

- Funds are **disbursed directly** from the central gvt. to beneficiaries via the post office rather than being passed through layers of local government
- ID cards and payments **can be tracked** through the computer system
- **Over 90%** of households receive full entitlements
- **New unique** national ID system has potential to further reduce leakages

Challenge #1: Improving distribution strategies (2/2)

...But some probabilities for leakage still exist

- Benefits may be diluted if beneficiaries need to pay high transport costs in order to receive benefits (e.g. to go to post office)
- Community members may be asked to contribute “informal” payments to leaders
- Some households may not get full benefits because they are not fully aware of the program rules and entitlements

...and not all programs can easily switch to using tightly controlled card-based strategies for targeting and distribution

How to balance between a strictly-controlled centralized system vs. allowing some flexibility and local discretion by communities?

Improving targeting: Indonesia's Unified Database for Social Protection

Recently established in 2012, the Unified Database at TNP2K contain names and addresses of the poorest **40% of the population (roughly 24 million households)** in Indonesia

Data Collection
(PPLS 2011)



Data Analysis



Unified Database

Improvements to the methodology:

- More households surveyed (43% in 2011 vs. 29% in 2008)
- Use of census data as a starting point
- Community involvement
- More variables collected for better poverty prediction
- Improvements to PMT methods

Current Efforts to Improve Targeting/Distribution of Programs

- Several **reforms and pilot projects** have recently been initiated with the goal of improving the targeting accuracy and effectiveness of social protection programs:
 - selecting beneficiaries based on the unified database
 - other innovations in distribution methods, including involvement of communities
- Reforms needed for **Scholarships** and **Rice for the Poor** are particularly **complex**:
 - Programs have been designed with **limited role/incentives** for the central gvt to control and monitor distribution
 - Previous bottom-up targeting approaches of these programs have **yielded poor targeting performance** while creating **vested local interests**

Key Takeaways: addressing leakage

- Leakage should be **addressed within the broader context of improving program effectiveness**; the extent to which minimizing leakage should be prioritized depends on the context of other challenges faced
- **Intentional fraud or manipulation is not always the main cause** of leakage or dilution of benefits; other causes may include low administrative capacity, insufficient information on programs, transport costs, cultural norms, etc
- Smart applications of **simple technologies have strong potential** to reduce leakages (e.g. mobile phones/computers for better monitoring, reporting, and information-sharing)
- Too much focus on keeping out the rich can **carry risks of excluding some poor** (e.g. overly strict targeting rules; requiring beneficiaries to wait in long lines in order to get benefits)
- Allowing some local discretion may be important for political sustainability of programs and also has potential to improve targeting accuracy: **the key is finding the right balance**

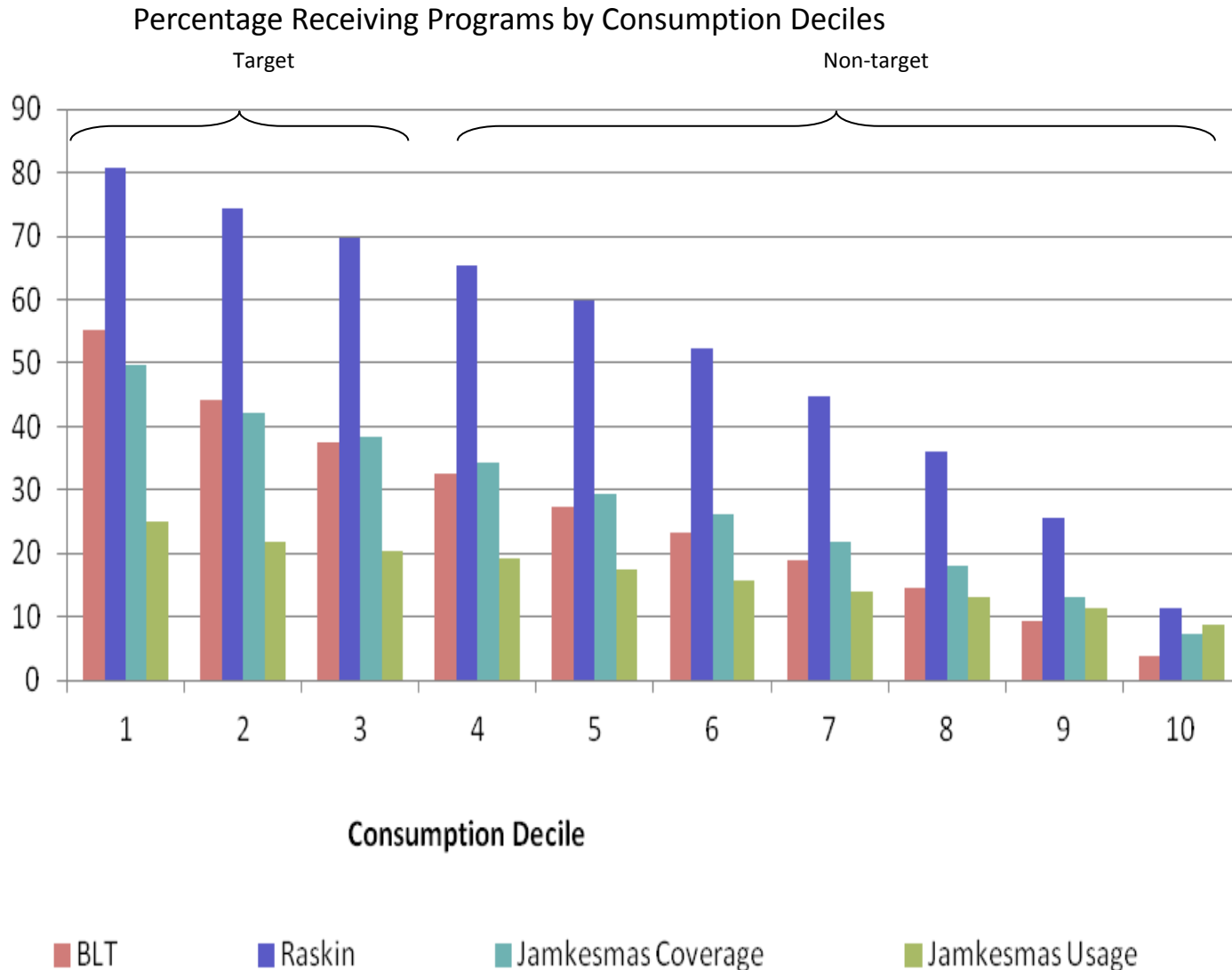


Thank You



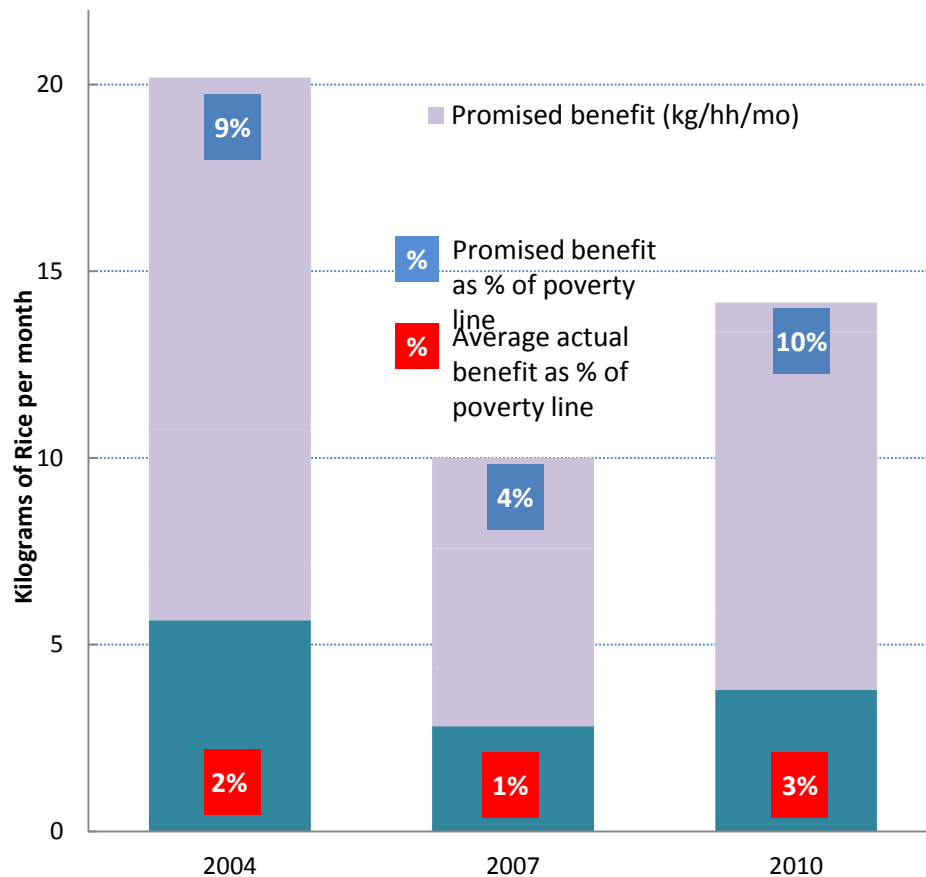
Appendix Slides

Cluster-1 programs are targeted at the poor and vulnerable groups but the programs suffer from significant leakage and under-coverage.



Source: Susenas and World Bank calculations

Raskin: inadequate for meaningful consumption smoothing because of important benefit losses

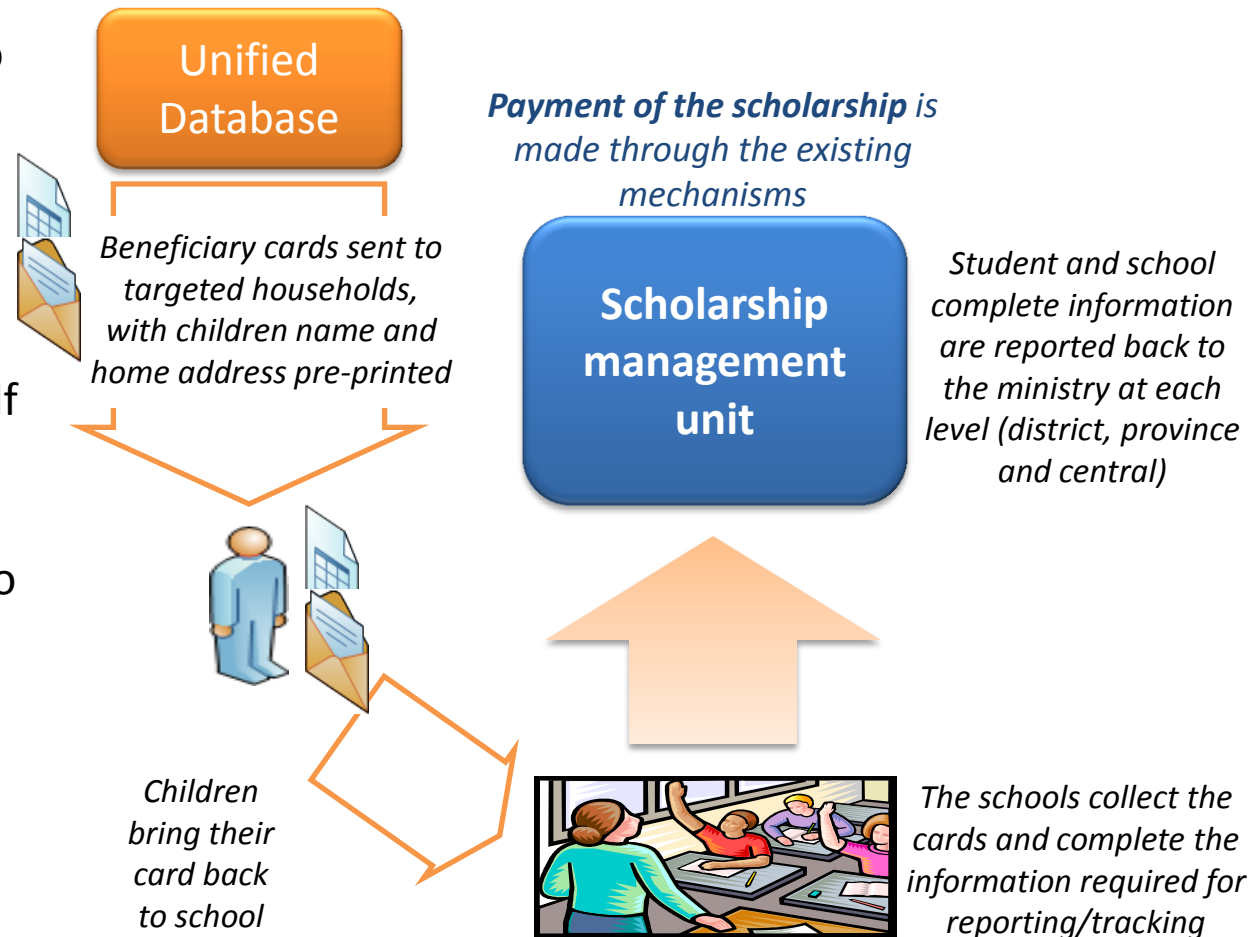


Note: Actual Raskin bought is recorded in Susenas (all years) and IFLS (2007) while promised benefit is from Bulog documents. In Susenas, average monthly amounts purchased (2004, 2007, and 2010) were 5.7 kg, 2.8 kg, and 3.8 kg (respectively) while actual per-kg prices were on average 12 to 28 percent higher than official prices

- The poorest 28% of households in Indonesia are supposed to receive 15kg of Raskin rice every month at a price of Rp1,600/kg
 - A subsidy worth about \$8 each month
- In reality, poor households tend to receive only about 1/3 of that amount and pay 25% higher prices
 - This amounts to only **~30% of the intended subsidy**

New beneficiary selection mechanism to improve the targeting and allocation of scholarships

- Previous bottom-up process to target beneficiaries by schools/principals was **hardly better than random distribution**: half of all scholarships went to the poorest 40%, but the other half went to the richest 60%
- Program is now transitioning to targeting based on the unified database.
- Potential to improve transition rates by notifying students of their entitlements **before the period of registration** in the next school level.



TNP2K and JPAL are working on RCTs to address the following questions:

1. Can we **reduce the level of social conflict** that may arise through the distribution of ID cards, as well as increase the share of Raskin allotment that the bottom 10% receive, by including flexibility within the process? What information should be printed on ID cards?
2. To what extent is **extensive socialization** necessary to support ID cards?
3. Can allowing **alternative service providers from the community**—who could compete for the right to distribute Raskin in the village—improve accountability of the service provider and reduce price inflation?
4. As the use of the cards may change as village leaders and households update their beliefs and expectations about the cards, how does the **causal impact of the cards change** over time?