In Indonesia, social protection can underpin democracy

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Anyone looking for proof of the valuable role social protection plays in our economies should look no further than Indonesia. After all, here's a country of over 260 million people living on more than 6,000 islands where administrative and logistical challenges are simply routine. Even Indonesia's presidential election, held on 17 April, was hailed as an achievement in itself.

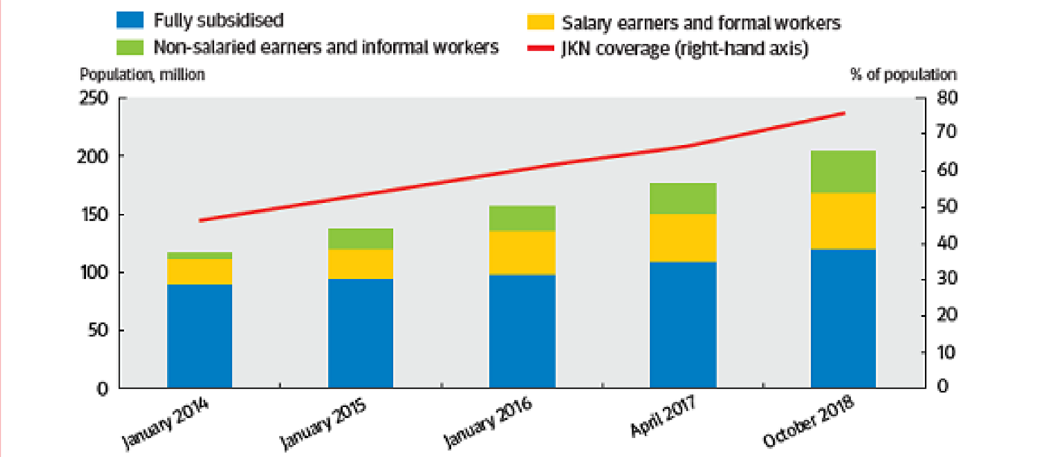
Indonesia's social protection system generates fewer headlines but is no less impressive. It now reaches almost the entire population, helping people escape from poverty, access health facilities, go to school and feed themselves. Whatever the result of the presidential vote, there is no doubting the growing contribution of social protection to Indonesia's democracy.

According to a new report, the Social Protection System Review of Indonesia, the growth in social protection in Indonesia over the last 20 years has been remarkable. In fact, since the Asian financial crisis in 1997-98, successive administrations have not only expanded the scope of social protection to cover a broad range of risks but have also sought to increase coherence between programmes. Closing gaps in coverage and helping people stay out of poverty is nowadays a key goal in the government's inclusive growth strategy.

Two programmes in particular clearly show this. The first is the national health insurance programme, Jaminan Kesehatan Nasional (JKN), which as of 1 April 2019 covered 220 million people, or 85% of the population. As our chart below shows, coverage increased rapidly following a reform passed in 2014 that established a single health scheme for all Indonesians. Moreover, contributions were fully subsidised for households classified as poor and partially subsidised for informal workers depending on their income. The new programme faces challenges, not least that the fast growth in coverage, generous benefits and opting-out by younger adults least likely to claim are putting pressure on the system's finances. However, this progress towards universal health coverage has underlined the fact that a social protection system must reflect diverse individual needs and realities.

Growth in national health insurance programme (JKN*)

Coverage by type of contributor, 2014-2018



Source: Agustina, Rina et al. (2019), "Universal health coverage in Indonesia: Concept, progress and challenges", *The Lancet*, Volume 393, Issue 10166

*Jaminan Kesehatan Nasional

The second inclusive programme is the Family Hope Programme, Program Keluarga Harapan (PKH), which is a conditional cash transfer for poor households and whose coverage has also grown rapidly since 2014. In 2018, the number of beneficiary families reached 10 million and, in 2019, the value of benefits they receive will double. Not only is this programme the most effective of Indonesia's instruments for reducing poverty but it has also been shown to achieve long-term improvements in recipients' education and health outcomes. In fact, beneficiaries are also entitled to access free health care, scholarships and subsidised food to make sure all needs are covered. However, in practice people do not always receive their entitlements.

Indonesia's social protection system relies on a registry that comprises the poorest 40% of households across the country. Called the Unified Database (UDB), the registry, in theory, allows poor individuals to be linked to all the programmes they need to escape poverty for good.

However, the fact that people tend to move in and out of poverty makes it hard to keep up-to-date information across Indonesia's vast geographic area. This undermines efforts to target benefits and means the registry is not always trusted by sub-national administrations. Meanwhile, the government has also introduced a system of social protection cards (which act rather like bank cards) that not only make the system more transparent and straightforward but, also promote financial inclusion.

The expansion of social protection coverage in recent years has coincided with notable improvements in the wider economy. In 2017, income inequality started to decline for the first time in two decades. Although at 0.38 in 2018, the Gini coefficient remains higher than the government would like. Meanwhile, the national poverty rate finally fell below 10% in 2018, having been more or less unchanged for the previous decade. Also notable is a sharp decline in the rate of stunting among children under age five, from 37.2% in 2013 to 30.8% in 2018, which represents good progress even if the rate remains above the average in Asia as a whole, of 23.2%.

Such impacts have encouraged the government to step up its investment in social protection. The allocation to social assistance in the 2019 budget is 26% higher in nominal terms than in the previous year, making it a key driver of overall growth in public spending, although in absolute terms expenditure on social protection remains low by regional standards, at 1.4% of GDP. High levels of informal employment help explain this. Indeed, according to OECD data, Indonesia's tax-to-GDP ratio was 11.6% in 2016, among the lowest in the region.

To improve further, Indonesia's social protection system must confront a number of challenges, some old, some new. For instance, rethinking decentralisation would help administrative coordination and make it easier to implement national policies. Meanwhile, the proportion of the population that is aged over 65 will rise steeply within a decade. This poses a challenge for pensions, notably among those in informal jobs. Indonesians' vulnerability to natural disasters and climate change must also be addressed.

By overcoming such challenges, as our report argues, social protection's contribution to social cohesion, the economy and democracy will continue strong in the years ahead.

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