



INNOVATIVE FINANCING FOR SUSTAINABLE DEVELOPMENT

European Union Social Protection Systems Programme

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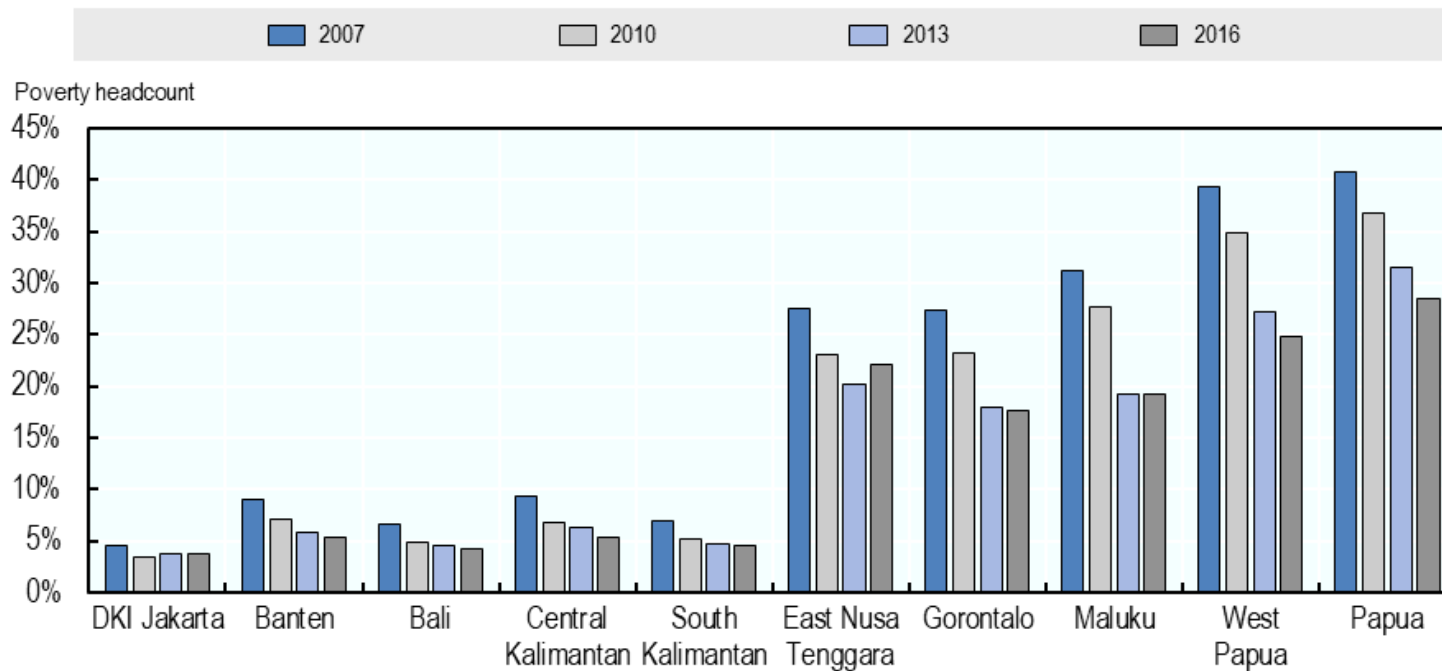
Indonesia Development Forum

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Major gulf in poverty between richest and poorest

Poverty headcount ratios in the five poorest and five least poor regions





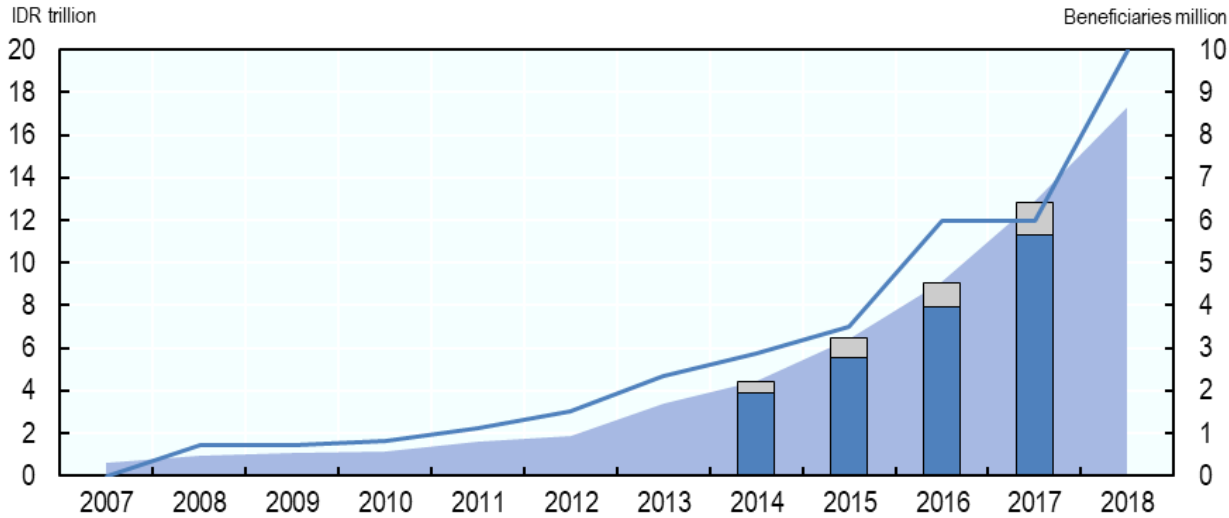
What is the optimal means of redistribution and poverty reduction?

- **Social protection** is a national level function that transfers funds to individuals
 - Promotes poverty alleviation in short term and human capital development in the long-term
- **Grants** are transfers sub-national government to strengthen regional government
 - Alleviates poverty by promoting economic development in disadvantaged regions
- This presentation looks at two key initiatives:
 - Program Keluarga Harapan (**PKH**, Family for Hope) conditional cash transfer for young children and elderly
 - Dana Desa (**Village Funds**)



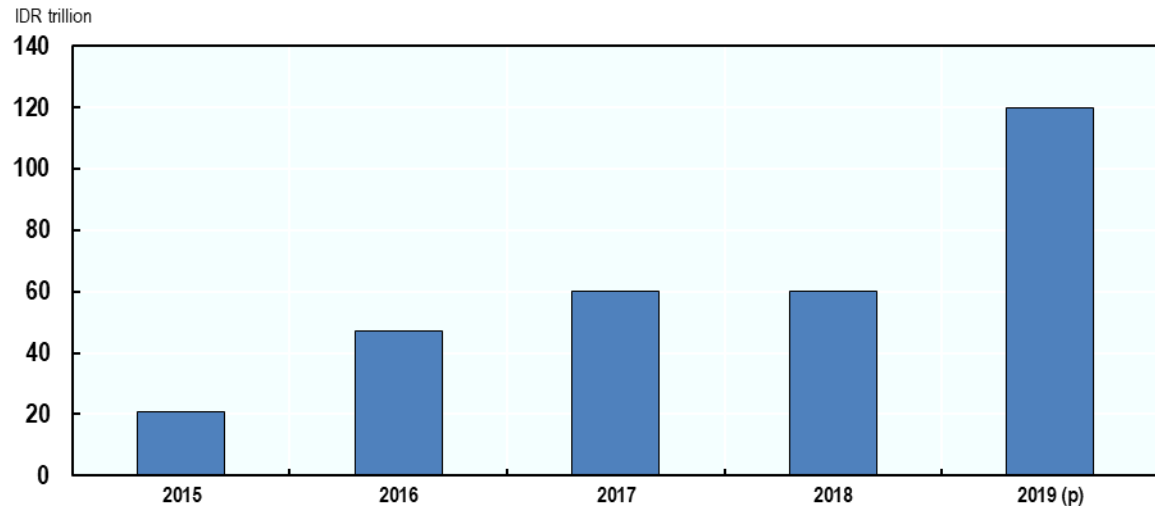
PKH and Village Funds scaling up

Benefit payouts Admin costs Expenditure Beneficiaries



PKH
←

Village Funds
→





Twin tracks for poverty alleviation

- Since 2015, Indonesia has significantly increased the allocation to the Village Funds to address national disparities in economic development.
- PKH budget has also increased substantially as coverage increases towards target of 10 million households
- Impact on poverty depends on targeting
 - PKH targeted at poor (very poor initially); reaching more remote districts
 - PKH eligibility determined by UDB
 - Village Funds ‘universal’ – All 75,000 villages receive it but allocation formula revised: 20% of allocation will depend on need and population size



PKH shown to be far more effective

- Progress so far indicates Village Funds are not reducing poverty at desired rate
- Evaluation suggests why
 - 90% of spending on infrastructure
 - Jobs created are short term (typical for public works programme)
 - Poverty is not a specific objective of most projects implemented with Village Funds
 - Marginalised groups lack voice in village committees
- PKH shown to be effective in reducing poverty and alleviating inequality
 - 60% of funding goes to poor
 - PKH reduces inequality by 10 times as much as Rastra rice subsidy on a per rupiah basis
 - World Bank loan to support scale-up



The winner is...synergies

- Emphasis of Village Funds will slowly move away from infrastructure towards empowerment
- Benefits of Village Funds will take longer to materialise and be harder to evaluate.
 - Will significantly improve access to markets and productivity of local areas
- Village Funds can be a critical supply input for PKH/social protection
 - Posyandu and Polindes health facilities constructed with Village Funds make it easier to achieve conditions
 - PUAD early learning facilities will enhance the impact of PKH in improving education outcomes
- Stronger local administrations improve the impact of PKH
- Great potential for synergies between the two initiatives but institutional and financing structures a constraint
- Higher tax revenues needed to optimise both