



Forum on

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### **ARE BUDGET SUPPORT AND CASH TRANSFER EFFECTIVE MEANS OF SOCIAL PROTECTION?**

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1. In the next decade, social protection will consist of two parts. The first part is social protection to the vulnerable and the second is insurance-based social protection. In general, social protection covers assistance to the vulnerable and protection related to medical, pension and employment, including employment insurance.
2. The main consideration in the design of social protection system is that such system must be financially affordable, be able to minimize any equity-efficiency trade-offs, and fit to local conditions. A country should decide which elements under the system are the government's responsibilities and which ones are the individual's. In this context, the multi-pillar approach is believed to be the best strategy to run a social security system. The first pillar is guaranteeing minimum benefits to the poor, financed by tax or mandatory pooling, and possible means tested. The second pillar is increasing contributory benefits for the non poor by mandatory "savings" and "insurance". The third pillar is application of voluntary and complimentary schemes.
3. However, it should be noted that social protection is only an element under poverty alleviation programs. Poverty alleviation programs should be grouped into four elements: (1) promoting quality growth; (2) increasing access for the poor to education, health—including nutrition and family planning—and basic infrastructure; (3) promoting community-based development; and (4) enhancing and improving the social protection.
4. Promoting quality growth—the first element of poverty alleviation programs—consists of designing labor policy; providing assistance to micro, small and medium enterprises; encourage conducive investment climate; promoting exports; building infrastructure; and ensuring macroeconomic stability including introduction of sound fiscal and monetary policies. Therefore, labor policy is not a part of social protection system, except for unemployment insurance. This also applies to the provision of education. Education is not a part of "social protection" with the exception of implementation through conditional cash transfer. Nevertheless, the government must own an education program that will guarantee access for the poor.
5. Beginning in 2007, Indonesia has embarked on the implementation of conditional cash transfer (CCT) program. There are two main reasons that form the background of CCT. The first reason is that CCT fits into the mainstream of development discourses. Elements such as gender, human capital, participation, empowerment and targeting are all included in CCT program. Linking cash transfers to certain desirable behaviors among the poor highlights the co-responsibility of the beneficiaries for promoting their own well being. It is also a means of moving away from paternalistic social assistance. CCT deals with poor children's current living condition and future opportunities. CCT is seen as a way of helping the "deserving" poor escape poverty, while at the same time is boosting long-term economic growth.

6. Mexico was the first country to introduce a nationwide CCT program, called Progresa, in 1997. In 2002 Progresa was expanded in terms of coverage and scope and renamed Oportunidades. Average consumption of Progresa households rose 14.53 percent between March 1998 and November 1999. Of this increase, 72 percent went to greater availability of food in the households in terms of quality and quantity. The consumption impact was greater for the poor. The usage of health facilities by the poor also showed a significant increase. Visits to health providers to monitor health and nutritional status increased by 30-60 percent and in turn it successfully reduced the incidence of severe diseases. CCT also has an effect on the increase of primary and secondary education enrollment rate. In Turkey, the enrollment rate of primary school increased from 82.6 percent before CCT (October 2003) to 89.7 percent after CCT (2005) and of secondary school from 65.4 percent to 73.6 percent. School enrollment rate for beneficiaries increased by 7 percent compared to non beneficiaries—who increased only by 4.2 percent—in primary schools. Interestingly, CCT proved to be able to increase school enrollment for girls (4.4 percent) compared to boys (1.1 percent). Brazil also started similar program in 2001, called Bolsa Escola program. In 2003, the program was unified with other federal CCTs into Bolsa Familia.

7. The second reason why CCT should be put into place is the political economy. Unconditional cash transfer was introduced to compensate for the domestic fuel price increase. In 2005, the domestic fuel price increased significantly due to world crude oil price hike that caused a heavy burden on our fuel subsidy. Expenditures for fuel subsidy had grown to exceed consolidated public spending (at the central and district levels combined) for poverty alleviation programs including education, health and infrastructure. Beyond putting our fiscal and macro fundamentals at risk, this allocation of resources also imperiled our poverty reduction targets, which we see as the center of our agenda, including the fulfillment of our MDGs targets. Some tried to argue that massive allocation of budgetary resources for fuel subsidy was some form of social protection program for the poor. The Government of Indonesia did not consider the fuel subsidy as a wise social protection program. In fact, most of the benefits from the subsidy went to the non poor, not to the poor. The fuel subsidy was highly regressive because the richest 40 percent of the population received close to 70 percent of the fuel subsidy. Furthermore, Indonesia's domestic fuel price was among the lowest in the region and in the world. This has created adverse incentives, including smuggling, fuel-switching, over-consumption, congestion and pollution, other than flourishing distorted and fuel-intensive economy.

8. Reducing the fuel subsidy was not politically easy nor was it without social costs. Everyone bore an economic shock due to such price adjustment. Poor and vulnerable households must put up with the significant impact of this reallocation of fuel subsidy as well. However, the Government recognized that the reallocation was critical to allow us to attain our long-term poverty reduction objectives, namely getting more Indonesians out of poverty by increasing their income, improving public services delivered to them, and improving social and development outcomes. The fuel subsidy reduction also freed up resources to protect the poor and near poor in shorter term. Social protection is deemed critical in a country such as Indonesia, where so many people are vulnerable to shocks. It is believed that there are smarter, more targeted and less expensive ways to design a social protection program which will actually cushion the poor from shocks, including price shocks.

9. In 2005, the fuel subsidy was reduced in two stages: at the beginning of March and on 1 October. The Government reallocated the savings from this regressive subsidy

into programs for the poor. The first program was unconditional cash transfer program for the poor, which was designed as a social protection program to mitigate the immediate shock of the price increase. The other three programs were indirect transfers to the poor and also highlight our development priorities for Indonesia, which focuses on education, health and infrastructure as well as employment creation. Raising domestic fuel price was very political in Indonesia. It was the trigger of Suharto's downfall in 1998. With the unconditional cash transfer and the other three programs the Government managed to increase the fuel price by 100 percent without any substantial riots. This was the biggest cash transfer program in the world which covered 19.1 million poor households.

10. Indonesia develops the CCT pilot program, for only 500.000 households, as an embryo of a future social protection system for the very poor. Despite the fact that a lot has been done by the Government in increasing the supply side, for example by building schools and community health centers, it has not done much to improve the demand side, meaning that poor people still can't get enough access despite the existence of such facilities. CCT is targeted at the poorest people to improve the demand side. For illustration, Indonesia's primary school enrollment rate already close to 95 percent. To get the last 5 percent is the most difficult part. It means we need to bring children who are currently not in the school system back to school. CCT will cover targeted poor households with child workers and street children as members, and those who have never gone to school.

11. The question of whether budget support and cash transfers are an effective means of social protection should be pondered upon. The answer is yes with some prerequisites. First, a country that runs a CCT program should have an adequate supply side. Second, targeting should be reasonably good. Third, an adequate cash delivery system is needed either through the banking system or post office.

12. The implication for ADB is that ADB should have a comprehensive poverty reduction program and one of them is a program for developing a social protection system. It means that ADB should at least has a program that addressing supply side for health, education, and basic infrastructure as drinking water and sanitation, and a separate program for developing social protection system.