

2. Case Study: Developing a CCT in Indonesia

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The Context

- Bold removal of unsustainable universal fuel subsidy, October 2005 was accompanied by plan to compensate the poor for major increases in fuel prices (and resulting general inflation)
- A rapidly designed unconditional cash transfer (UCT) program was targeted to 15.5m households (28% of the population), later expanded to 19.2 million households (35% of the population) in second round.
- Benefit level is \$10/month per household; quarterly payments made through post office system.
- Fuel subsidy: 3.5% of GDP, UCT program: 0.8% of GDP
- From the beginning the government has planned to phase out UCT in favor of CCT program. BAPPENAS Deputy Minister for Poverty Reduction leading the design team.

What are the human capital challenges in Indonesia?

CCTs in Indonesia can address:

- Low educational achievement, especially of secondary school children in rural areas (sharp increase in drop-out rates between elementary and secondary school is a major issue).
- High maternal and infant mortality rates
- High malnutrition rates, particularly in rural areas

Key steps in CCT program preparation:

1. Refining targeting method to identify beneficiary families
2. Determining conditions in health, education, nutrition (and how to monitor them)
3. Making sure that supply side is ready for increased demand for services (some districts more ready than others)
4. Setting the exact benefit levels (high enough to be worth it, low enough to avoid disincentives)
5. Explaining the program to beneficiaries, local agencies, and the public
6. Developing management information system (including procedures for updating registry of beneficiaries and monitoring compliance with conditions)
7. Setting up a strong monitoring and evaluation component from the very start

Main Challenges

- CCT program design to be presented to parliament by September 2006
- Pilot test to be launched in 2007 in selected districts (with budget from fuel subsidy savings already secured)
- In the transition from UCT to CCT the goal is to:
 - Scale down
 - Improve targeting (household or community?)
 - Ensure political buy-in
 - Minimize riots & demonstrations

ADB Support for CCTs in INO

- Policy dialogue on CCTs (together with World Bank) began October 2005 with removal of fuel subsidies.
- Concrete technical support provided through two TA projects:
 - **TA 3957 INO Integration of Poverty Considerations in Decentralized Education**
 - Using TA savings to provide support to BAPPENAS with one international CCT expert/team leader plus 3 domestic specialists in targeting, health, and education.
 - Consultants fielded May 2006, work being undertaken in collaboration with World Bank (funding other team members). TA will close December 2006.
 - **TA 4762 INO Pro-Poor Planning and Budgeting**
 - New TA to start August 2005, \$2.1m, 48p.m. international, 96 p.m. domestic consultants. One of 3 components is support for CCT development.
 - Work program will focus on assessing the CCT pilot experience and helping BAPPENAS scale up the program. Timing of CCT component ca. May 2007-February 2008.

Possibilities for future support?

- Program lending once CCT program is established, 2008 and beyond?
- Project lending to support supply side, e.g. improved supply and quality of health and education services in CCT areas?