IMPLEMENTATION OF ELECTRONIC TRANSFERS IN INDONESIA

CBLSM-IMF

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Outline

1. Introduction

Implementing electronic transfers in Poverty Reduction Programs

2. Challenges

3. Improvement Plans
INTRODUCTION

Indonesia at Glance
An archipelagic nation with ≈17,500 islands

Unitary government of 34 provinces, 508 municipals/cities

More than 255 million people
More than 360 ethnic groups
More than 75,000 villages

11 percent below poverty line

5,271 km from west to east

120 million labor force
11 million unemployed
87 line ministries

10 political parties

Government budget is 18% of GDP
In order to accelerate poverty reduction, the Government of Indonesia has set 4 clusters of poverty alleviation programs.

**Cluster I**
- Integrated social assistance programs based on the family
- Benefit Recipient: Extremely Poor, Nearly Poor
- Characteristics: The main basic needs of individuals and of poor households that include education, health care, food, sanitation and clean water
- Scheme:
  - Food subsidy, will be replaced by voucher/cash transfer;
  - Unconditional cash transfer;
  - Conditional cash transfer;

**Cluster II**
- Poverty reduction programs based on Community empowerment (PNPM, cash for work)

**Cluster III**
- Poverty Reduction Based on Economic Empowerment of Micro and Small Enterprises

**Cluster IV**
- Pro People Programs

**Integrated social assistance programs based on the family**
- Cash/Electronic transfers
Distribution of Social Assistance

Treasury Office

Bank/Post Office

1. Transfer into social assistance recipients account
2. Giving cash money to social assistance recipients
3. Charging the electronic money/voucher of beneficiaries

Why Electronic transfers?

1. Effective
   - Well targeted, more precise delivery
   - Easier to be controlled and monitored

2. Efficient
   - Shortening the distribution time
   - Decreasing long queue to disburse

3. Financial Inclusion
   - Educating people to save in a bank
   - Deposits/savings is a form of productive activity
   - Deposits/savings are part of a national strategy of inclusive finance
IMPLEMENTING ELECTRONICS TRANSFER

In Poverty Reduction Programs

Poverty Reduction Programs and Social Protection

- Conditional Cash Transfer (CCT)
  - providing financial aid to very poor households (RTSM)
  - the members of targeted households meet a set of terms and conditions, i.e., visiting clinics for pregnant mothers, sending children to school
- National health Insurance (KIS)
  - providing certainty of health insurance for all Indonesian people
  - the government is responsible for paying the poor premium as contribution assistance recipients (PBI)
  - integrated into the Social Security Agency of Health (Health BPJS)
- Indonesia Smart program (KIP)
  - Through Indonesia Smart Card (Kartu Indonesia Pintar/KIP)
  - KIP is a cash transfers of education to all school-age children who come from poor and vulnerable families or children who meet the criteria previously set
- The subsidised rice for low-income households programme (Raskin)
  - is part of government efforts to improve food security and social protection among targeted households
  - Pilot of voucher use
- Family Welfare Card (KKS)
  - providing assistance in the form of savings of Rp. 200,000 / Family / Month;
  - given to underprivileged families throughout Indonesia

## Poverty Reduction Programs

<table>
<thead>
<tr>
<th>Name</th>
<th>KKS</th>
<th>KIP</th>
<th>PKH</th>
<th>Raskin</th>
<th>KIS/PBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Transfer</td>
<td>Electronic Transfer/Cash</td>
<td>Electronic transfer/cash</td>
<td>Electronic transfer/cash</td>
<td>Subsidized rice</td>
<td>Free health care costs</td>
</tr>
<tr>
<td>Object</td>
<td>poor and nearly poor</td>
<td>Students and poor households</td>
<td>Extremely poor</td>
<td>poor and nearly poor</td>
<td>poor and nearly poor</td>
</tr>
<tr>
<td>The number of recipients</td>
<td>16.3 million households</td>
<td>19.547.510 households</td>
<td>6 million households</td>
<td>15.5 million households</td>
<td>92.4 million people</td>
</tr>
<tr>
<td>The amount of aid</td>
<td>Rp200.000 per month for 3 months</td>
<td>SD Rp450.000; SMP Rp750.000; SMA Rp1.000.000 per year</td>
<td>Fixed assistance Rp500.000/year; health assistance Rp1.200.000/year; education: SD Rp450.000/year, SMP Rp750.000/year; SMA Rp1.000.000</td>
<td>15 kg rice per month</td>
<td>Rp23.000 per member per month</td>
</tr>
<tr>
<td>Implementing Agencies</td>
<td>Social Ministry</td>
<td>Ministry of Education/Ministry of Religion</td>
<td>Social Ministry</td>
<td>, BULOG/Social Ministry</td>
<td>Health Ministry</td>
</tr>
</tbody>
</table>

### Percentage of Indonesian population

- **Exclusion Error**
  - Integrated database covers 40% of the economic bottom
  - Contribution assistance recipients (PBI)
    - Covering 22.05 million households or **92.4 million people**

- **Inclusion Error**
  - Family Welfare Card (KKS) and raskin
    - Covering 15.5 million households or **65.6 million people**
  - Poverty line (Sept 2015): 7.13 million households or 28.51 million people
  - Family hope program (PKH) covers **6 million households**

Source: TNP2K
Flow of Fund

1. Money Transfer
2. Money Transfer
3. Health Service

Card Distributions

Government

Money Transfer

Insurance Office

Insurance Office

Cash/money Transfer

PKH

KKS

KIP

KIS

KIS

KIS

1

2

1

3

Non-cash distribution mechanism

Treasury office

Social Assistance transfer

Bank

Recipient/Beneficiaries

- ATM Card
- Transfer
- Mobile Phone

Branch Bank

ATM

Digital Financial Services Agent (pilot)

- Grocery
- BMT
- Cooperative store
- Post Office
- etc

• Treasury office transfers the social assistance to Bank;
• Bank transfers it into the account of beneficiaries;
• Beneficiaries received a text message that the money had been transferred to his account;
• Beneficiaries can take the money to the branch bank, ATM or LKD Agent (Digital Financial Services).
The principles of non-cash distribution

1. All beneficiaries should have a bank account

2. All the social assistance (cash or electronic transfer/voucher) will be transferred into that account

3. Disbursement/withdrawal of assistance by the beneficiaries is done by using available transaction modes: ATM, outlet, mobile phone/banking

4. Disbursements made through outlets

Conditional Cash Transfer

(billion Rupiah)

<table>
<thead>
<tr>
<th>Program</th>
<th>2014 Budget</th>
<th>2014 Real</th>
<th>2015 Budget</th>
<th>2015 Real</th>
<th>2016 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKH</td>
<td>5.115,5</td>
<td>4.399,1</td>
<td>6.335,6</td>
<td>6.266,8</td>
<td>10.064,3</td>
</tr>
</tbody>
</table>

2014
- Distribution of PKH via electronic transfer in 2014 was still a piloting, conducted in 1800-1900 poor households, in 41 villages, 6 districts, 4 regencies, 4 provinces;

2015
- The entire distribution of PKH in 2015 using cash via PT Pos Indonesia;
- There was no non cash/digital financial service implementation, because of financial institution readiness reason.
### Family Welfare Card (KKS)

<table>
<thead>
<tr>
<th>Program</th>
<th>2014 Budget</th>
<th>2014 Real</th>
<th>2015 Budget</th>
<th>2015 Real</th>
<th>2016 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>KKS</td>
<td>6,426.5</td>
<td>6,389.0</td>
<td>10,152.8</td>
<td>9,469.8</td>
<td>-</td>
</tr>
</tbody>
</table>

### Number of recipient families

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Recipient Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>15.5 million postal giro + 1 million Digital Financial Services = 15.5 million</td>
</tr>
<tr>
<td>2015</td>
<td>15.3 million postal giro + 1 million Digital Financial Services = 16.3 million</td>
</tr>
<tr>
<td>2016</td>
<td>(targeted 16.3 million households)</td>
</tr>
</tbody>
</table>

### Indonesia Smart Program

<table>
<thead>
<tr>
<th>Year</th>
<th>Target (students)</th>
<th>Allocation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20,372,039</td>
<td>Rp11,681.6 billion</td>
<td>The purchase of books and school stationery, The purchase of clothing / uniforms and school equipment (bags, shoes, etc.), Transportation costs to school, Allowance student, The course fee / tutoring</td>
</tr>
<tr>
<td>2016</td>
<td>19,547,836</td>
<td>Rp11,015.4 billion</td>
<td>The purchase of books and school stationery, The purchase of clothing / uniforms and school equipment (bags, shoes, etc.), Transportation costs to school, Allowance student, The course fee / tutoring</td>
</tr>
</tbody>
</table>
The subsidised rice for low-income households programme (Rastra)

**Presidential Instruction**
- Rastra distribution in 2017 will be conducted through a voucher/electronic transfer
- People who get voucher can purchase rice in accordance with their desired quality and can be combined to purchase other foodstuff

<table>
<thead>
<tr>
<th>Year</th>
<th>Revised Budget</th>
<th>Real</th>
<th>Revised Budget</th>
<th>Real</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>18.164,7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>18.164,7</td>
<td></td>
<td>18.939,9</td>
<td></td>
<td>21.845,5</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20.993,4</td>
</tr>
</tbody>
</table>

- Preparation and piloting in 10 cities;
- Evaluation
- Implementation the new system in 44 Cities;
- Preparation and Trials in the District
- Implementation the new system in (all) Cities and (in part) Districts
- "Special policy" in the remote Region

2016: Preparation
2017: Preparation 2017 & 2018
2018 < the preparation of extension 2019

**CHALLENGES**
The Challenges of distribution of Social Assistance

1. There are more than 20 social assistance programs and subsidies, but not all programs based on the same data base in targeted setting; Involving multiple stakeholders which is each government institution has a respective program that is not necessarily in synergy with each other.

2. Unit cost of each assistance is not significantly sufficient

3. It's hard to measure the effectiveness of the program, because the targeted recipient has not been well targeted, example raskin/rastra

4. Involvement and responsibility of local governments is suboptimal.

The Challenges
Electronic transfers

• Couldn’t Cover all the social assistance recipients especially in remote areas

• Signal or communication networks in certain areas is challenging because of slow internet connection and Electronic Data Capture (EDC)

• The recipients are still low understanding regarding the use, confidentiality, and security of PIN
• The recipients are still low understanding on SIM registration and using mobile phones
• The recipients entered the wrong PIN, thereby causing a blocked PIN

• Sometimes there were idle money in recipient accounts, due to the recipients are not familiar with the bank
IMPROVEMENT PLANS

Every social assistance and subsidies will be distributed through electronic transfers/ non-cash and using the banking system for easiness to control, monitor, and reduce irregularities.

Integrating all types of social assistance in one card which is coordinated by the Coordinating Minister for Human Development and Culture.

Using the same data base (updating the unified data which is released at the end of 2015) for all types of social assistance program.