

Cash Transfers: the right answer for the poor in developing countries? Visiting Indonesia's contemporary case study

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Abstract

One of the most popular poverty reduction programs is Cash Transfers (CT). Even though the implementation of CT programs in Indonesia is also useful in providing basic needs for needy families, however, thus, programs are not conveyed a significant effect on poverty reduction. CTs give cash to poor households in order to help them fulfill their basic needs and emphasize the investment of human capital for their children. This study attempts to map out what factors that cause the ineffectiveness of CT programs in Indonesia compare with the success of CT programs in other countries. This study found that Several factors drive the implementation of social protection, particularly cash transfer, in Indonesia is not as successful as what has been being implemented in other countries. Comparing to Europe, Indonesia still lacks resources to support the implementation of CT programs. European countries, despite its advantages on EU integration, already have established infrastructures and human resources.

Keywords: poverty reduction; cash transfer; Indonesia

Abstrak

Salah satu program pengentasan kemiskinan yang paling populer adalah Cash Transfers (CT). Meskipun pelaksanaan program CT di Indonesia juga bermanfaat dalam memenuhi kebutuhan dasar bagi keluarga yang membutuhkan, namun demikian, program-program tersebut tidak menyampaikan pengaruh yang signifikan terhadap penanggulangan kemiskinan. CT memberikan uang tunai kepada rumah tangga miskin untuk membantu mereka memenuhi kebutuhan dasar dan menekankan investasi sumber daya manusia untuk anak-anak mereka. Studi ini mencoba memetakan faktor-faktor apa saja yang menjadi penyebab tidak efektifnya program CT di Indonesia dibandingkan dengan keberhasilan program CT di negara lain. Studi ini menemukan bahwa beberapa faktor yang mendorong penerapan perlindungan sosial, khususnya bantuan tunai, di Indonesia tidak sesukses yang

diterapkan di negara lain. Dibandingkan dengan Eropa, Indonesia masih kekurangan sumber daya untuk mendukung pelaksanaan program CT. Negara-negara Eropa, meskipun memiliki keunggulan dalam integrasi UE, telah memiliki infrastruktur dan sumber daya manusia yang mapan.
Kata kunci: pengentasan kemiskinan; cash transfer; Indonesia

INTRODUCTION

The advance of globalization usually expected to leads to the improvement of economic growth and poverty alleviation. However, inequality and poverty have not only persevered but also increased in many parts of the world. The European Commission (2019) admits that the economic recovery in Europe does not equally advantage for all citizens, showed by the inconsistency of welfare system effectiveness and the inequality of household income between the richest and the poorest countries. The same pattern also happened in Asia, where globalization and economic distribution linked to problems of poverty, discrimination, and unemployment (Lin, Xu, Huang, & Zhang, 2013). Poverty reduction efforts continue to persist an unmeet goal even though numbers of policies regarding thus issues have been implementing at both national and global levels. Several factors are being under consideration as the cause of this poverty persistence. At the macro level, international trade impacts foreign policy, geography, and international order can be considered as the cause of the poverty trap. Briefly, not every country is ready to face globalization and international order. The global economic policy negatively impacts a lot of them because their regional resources are not sufficient to involve in the free market (Brady, Blome, & Kleider, 2017; Ord, 2014). Meanwhile, in the micro-level, the poverty trap can be caused by several factors such as lack of access to education, primary health care, deficiency of nutrition, and the existence of the kin system (Hoff & Sen, 2006; Owusu-Addo, Renzaho, & Smith, 2020). This paper will elaborate on the poverty reduction program only from the micro point of view.

One of the most popular poverty reduction programs that are *Cash Transfers* (CT). CTs give cash to poor households in order to help them fulfill their basic needs and emphasize the investment of human capital for their children (Fiszbein & Schady, 2009). The CT programs are divided into two forms, Conditional Cash Transfer (CCT) and Unconditional Cash Transfer (UCT) (Forget, Peden, & Strobel, 2013). Until now, however, the successful cash transfers implementation remain debates (Ladhani & Sitter, 2020). Numbers of research show that the implementation of CTs agenda brought different pattern and outcome from one country to another. CTs agenda might work in one country but may not work in another country (Canali, Geron, & Vecchiato, 2019; Kyzyma & Williams, 2017; Owusu-Addo et al., 2020). In comparison with countries in Europe, the children and their families in Indonesia are clearly at a

crucial risk to exposure to poverty. Even though the implementation of CT programs in Indonesia is also useful in providing basic needs for needy families, however, thus, programs are not conveyed a significant effect on poverty reduction. About 25.1 million Indonesians out of a population around 267.3 million still live below the poverty line, and 55.72% (about 70.49 million) of Indonesian laborers work in the informal economy sector, which makes them categorized as 'vulnerable to poor' group (Setyawan, 2020).

It is very crucial to evaluate the implementation of the CTs agenda in Indonesia in order to minimize the risk of poverty rate, especially for the workers in the informal sector. Also, Indonesia's economy is struggling to survive in the current crisis due to the outbreak of Covid-19. More than 1.2 million workers from both formal and informal sectors get laid off (Iswara, 2020). The ability to purchase basic needs among citizens is significantly decreased. If there is no proper evaluation for CT's program implementation, thus social net policy will not affect helping Indonesia's citizens, especially the poor and vulnerable to the poor, to survive in the economic crisis. Therefore, using systematic literature review, this study attempts to map out what factors that cause the ineffectiveness of CT programs in Indonesia compare with the success of CT programs in other countries, and answering questions, such as Why CCT program in Indonesia is not successful as what implemented in another region? What factors drive, thus, failure? What might be different from a successful country with Indonesia? In order to answer those questions, this paper will portrait the dynamics of CTs implementation in Indonesia. Then, this paper will also assess the successful implemented CT programs around the world (mostly European countries) and mapping out what factors drive the implementation. Then, those factors are uses as a tool for analyzing the probability of missing a crucial point in the implementation loop of CTs agenda in Indonesia.

LITERATURE REVIEW

Cash transfers

While cash transfers are relatively common in European nations or Global North, yet, the cash transfer, especially for social protection, becomes an interesting topic to discuss in the Global South. When The Millennium Development Goals (MDGs) were created, cash transfer started to emerge in the Global South. It promises that the main goal of global development policy would eradicate poverty through its foremost causes in developing countries, such as hunger and disease (Von Gliszczynski, 2015). After the declaration, prominent global organizations like World Bank and International Labor Organization were proposing social protection agenda and the strategies, especially basic protection, as the perfect instrument to reduce poverty,

promote employment rate and stabilize economic growth. Cash transfer then became part of social protection strategies. Von Gliszczynski (2015) divides cash transfer into four major forms: family allowances, conditional cash transfers, social pensions, and general household assistance. While another scholar, Forget, Peden, & Strobel (2013) grouped cash transfers (CTs) into two schemes: Unconditional Cash Transfers (UCTs) which imply that the beneficiaries of cash transfers do not have a mandatory requirement from the government that must be followed; and Conditional Cash Transfers (CCTs) which means that the beneficiaries must follow the certain stated requirement from the government in terms of receiving the transfer.

There is a debate within the implementation of CCTs and UCTs. On the one hand, CCTs' point of view argues that the cash transfer followed by conditions is sufficient to promote the effectiveness of poverty reduction programs by emphasizing the human capital investment on children. The World Bank that has supported the CCT programs for a long time believes that 'incentives' are an effective tool if we want to see groups of people behave like what we want. In other words, for a household to receive the cash transfer, they must take a particular action ordered by the government, such as sending their children to school and taking regular health check-up for them. The scholars believe that force policies can be the potential arrangement to tackle poverty resistance. On the other hand, advocates for UCTs argues that the cause of poverty is due to the system that failed to fulfill the basic needs of individuals. UCTs are based on the principle of trust of the human rights approach and perceive that the individual households know better what they need than the policy designer. Therefore, the programs are designed so the poor households can decide their own priorities and what kind of behavior they must take to solve their problem (Olken, 2019; Owusu-Addo et al., 2020; Rawlings & Rubio, 2003).

Beyond this dichotomy, however, many empirical studies show that both CCTs and UCTs tend to have a positive impact on the social and economic development of poor households. Both schemes are designed to reach vertical and horizontal redistribution income to increase the transition from poverty and prevent the dynamics into it (Kyzyma & Williams, 2017). The rate of school enrollment and vaccinated children are increasing among the beneficiaries group compared with the group with no CTs programs (Forget et al., 2013; Gilmour, Hamakawa, & Shibuya, 2013). Yet, we must pay extra attention to whether it is the cash or the external condition that contributes to the CTs implementation success because most of the CCTs were introduced in Latin America, and UCTs were mostly implemented in Africa. Timeframe and scope can also be additional considerations regarding the implementation of CTs. Evidence demonstrates that economic intensive will become effective only in the short-term period when changing the behavior of the beneficiaries. There

is a lack of evidence that CTs imply long-term effects, such as mortality rate and morbidity reduction. The scope of CTs can vary in terms of the level of remuneration and strictness of conditions (Rawlings & Rubio, 2003).

RESULT AND DISCUSSION

The implementation of cash transfer in European countries

The success of the implementation of CT programs can be seen in several European countries from 2007 to 2010 when the number of poverties among children and young people increased across European countries. Canali, Geron, & Vecchiato (2019) show the data of at-risk-of-poverty rates among European nations before and after they implement cash transfer. The data shows that numbers of European countries, such as France, Germany, Sweden, and the United Kingdom, got a favorable outcome in implementing cash transfer programs. Before the transfer, the risk rate of poverty for the first three countries is around 30%, and the rate for the United Kingdom is almost 45%. After the implementation, the program can reduce the risk of poverty by an average of 15% in the first three countries and gain almost 30% in the United Kingdom. The research's result from (Kzyzma & Williams, 2017) about free cash transfer and poverty dynamics in Europe also shows that most of the cash transfer in Europe tends to increase the probability of poverty exit, yet, it still depends on the model of the transfer. For instance, the unemployment cash transfer indicates has a negative association with the probabilities of poverty entry. This program works in the country with an accommodative and robust policy on the labor market like Denmark and the Netherlands.

Kzyzma & Williams (2017) identified at least seven kinds of public cash transfers that can be found in European countries. The public cash transfer mostly shared in these sectors: unemployment, old-age (pension fund), family, sickness, education, housing, social assistance. The four largest portions of cast transfer share in Europe are placing in old age, sickness, unemployment, and family. The most consistent share of those seven sectors from numbers of European countries is the portion for old people social insurance, while the most magnificent variations are for unemployment transfer—less than 1% in Greece and more than 13% in Ireland and Denmark. Moreover, the amount of budget spending by the government from each country in Europe for cash transfer allocation also varies. For example, in Italy, the share of transfer from government budget is constant within six months, despite there is an improvement in the beneficiary quality of life or not. Different schemes happened in Denmark, Belgium, and the UK, where the amount of cash transfer allocation from their government is fluctuating depending on how the CT programs affect the poor households. In other words, there is a periodical evaluation for the implementation of CT programs in those countries. What

arranges the CTs program in Europe is due to European integration over the last decade tends to intervene in the formulation and implementation of social policy in EU member states.

There are several key points highlighted in the implementation of CT programs in European countries. First, in European countries, especially the welfare states, it is possible to observe their citizens' income through tax reports. From this point, the governments can target the citizen with low income to become the beneficiaries of the programs (Baute, 2019; Olken, 2019). Second, in terms of the monitoring system, most European countries are stringent in conducting its assistance of the implementation and evaluation. The governments usually collaborate with other agents, for example, empowering banking infrastructure to help implement and monitor the distribution of cash transfer (Baute, Meuleman, Abts, & Swyngedouw, 2018). Third, through the economic and political integration among EU member states, there is an established mechanism to measure and maintain the goals of the programs. Once one member fails or cannot fully accomplish the primary goal, there are other members, specifically the advanced welfare state, to support through an integrated fund model (Brinegar & Jolly, 2005; Mau, 2005).

The failure of cash transfer implementation: Indonesia's context

As an emerging lower-middle-income country, Indonesia has made a great goal in cutting the poverty rate from over 50% of the population from 1999 to 11% in 2013 and 9.4% in 2019 (Asian Development Bank, 2014; The World Bank, 2020). Over the past two decades, Indonesia has implemented some social protection programs such as rice subsidy programs, direct cash transfers, and conditional cash transfers programs. Those programs are directly targeted for poor households and being implemented as the substitution for the reduction of energy subsidy. This paper focuses on assessing the current CT program implementation in Indonesia, namely the Family Hope Program (*Program Keluarga Harapan/PKH*), to answer the question of why the implementation of CT programs in Indonesia has no significant effect has been implemented in several countries. The government of Indonesia has been implementing the CCT program named *Program Keluarga Harapan (PKH)* since 2007, aiming to reduce poverty by providing health and educational services for indigent households. By applying targeting scheme, this program focuses on the families that have pregnant women, babies, school-age children, definable, and elderlies, so they can easily access the nearest health facilities for the whole family and necessary educational facilities for their children. This program aims to improve health and basic nutrition and increase school enrollment among low-income families. Even though the conditional for the

beneficiary families are clear, there are remains no clear condition such as the minimum income or maximum ability to buy food. With the existing scheme, the PKH will not guarantee the beneficiaries wealthy right after they do not have a family member that fulfilled the condition.

Even though the PKH has increased its coverage in 2016 and now all 34 provinces in Indonesia, the effectiveness of the implementation remains low. Data from the World Bank (2017) shows that the implementation of PKH only cover about 9 percent of the population and benefit level of 13 percent of beneficiary expenditure are still relatively low compared to other large CCT program around the world. For instance, the CCT programs in Mexico, Brazil, and the Philippines can cover around 20 up to 30 percent of the total population, and provide cash benefits at 20 percent of consumption. Moreover, despite its progress in human development (increase number on school enrollment, life expectancy health outcomes), several challenges continue to exist; for example, there is slow progress on maternal health and chronic malnutrition. In the education sector, about 23 percent of the villages do not have any access to pre- and primary education services and severe disparities in educational quality and services between urban and rural areas across provinces in Indonesia. Lack of sufficient infrastructure also exists in most villages in the eastern part of Indonesia.

So, why does the implementation of the CT program in Indonesia not as successful as other countries? The first thing we must put into account that Indonesia is considered a developing country. Like many other developing countries across the world, Indonesia has its context compared with developed countries. There are at least four main reasons to answer that question. First, Indonesia has a lack of resources to observe its citizens' income. The government usually collects income data from citizens through tax. Tax policies in Indonesia remain spineless as most of the poor people in this country are out of the tax net. In consequence, due to the lack of a fixed number of income, the government of Indonesia cannot entirely rely on income-based in targeting the poor to receive the CT. Second, even though Indonesia's social protection policies still become the exclusive national policy in which no outside agent can intervene, the formulation of those policies must be looking up to the grand monetary policy. Social protection programs like CT in Indonesia are not solely aiming to reduce domestic poverty. However, the government must formulate a policy that fits the main goals of international institutions. It is because the cash used by the Indonesian government partly came from foreign loans, which set a certain condition to be fulfilled.

The next problem that becomes the reason why the implementation of CT programs in Indonesia is not entirely successful is the partial delivery system. PKH, like other cash transfers program, are not equally implemented. The implementation most likely takes place on Java island,

which the most populated island in Indonesia. However, the social problems regarding poverty are more complex and crucial in other islands like the side of the eastern island of Indonesia. Indonesia will never significantly reduce social inequality and the poverty gap if the government only focuses on a certain group (Kholif, Noor, & Siswidiyanto, 2014). Moreover, the communication and coordination between central and local governments still become a challenge for the implementation. The central government gives the local government unclear authority to decide which households in their area can benefit from PKH and deliver it. Thus, such bad communication and unclear distribution of authority generate the local government's lack of liability in implementing the program. The last but not least problem that must be highlighted here is the insufficient infrastructure to support the implementation of PKH. For example, there is less of banking infrastructure in many parts of Indonesia, which may make the distribution and monitoring activities more difficult.

CONCLUSION

The government has made an effort to tackle Indonesia's national poverty for the past two decades by providing the disadvantaged group social protection. Many social protection programs have been conducted and revised, along with its evaluation. The number of poverty and inequality in Indonesia, however, remains high even though there is an improvement in the poverty rate. Several factors drive the implementation of social protection, particularly cash transfer, in Indonesia is not as successful as what has been being implemented in other countries. Comparing to Europe, Indonesia still lacks resources to support the implementation of CT programs. European countries, despite its advantages on EU integration, already have established infrastructures and human resources. Especially in advanced welfare countries, it is easier to collect support data needed to implement the CT program. Also, the monitoring and evaluation system is possible to conduct due to the homogenous condition in those countries. Nevertheless, Indonesia has very different conditions. There are inequalities of infrastructure development that inhibit the agenda-setting until the implementation process of the CT program. Moreover, the quality of human resources—local government in this case—also become a crucial challenge. Not every local government understands and capable of implementing the policy.

Further, the coverage expansion is not followed by the improvement in reducing social risk. The program fosters inclusion for the most disadvantaged population groups without considering to prevent poverty and inequality from the vulnerable group who may easily fall into below the poverty line. The implemented conditions of PKH, it seems like the program cannot bridging these problems and arise the potential to further social exclusion. Most of the

excluded groups are a poor and vulnerable society that need social protection. However, so far, the implementation of social protection such as PKH is still facing difficulties in tackling this problem, reminding that the government is struggling in establishing a clear roadmap for the identification of beneficiary group and progressive inclusion. The scope of the condition of target implementation is too narrow and creates a potential gap for social exclusion.

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