Budget Brief

Enhancing Public Finance for More Inclusive Social Protection for Children in Indonesia

2024

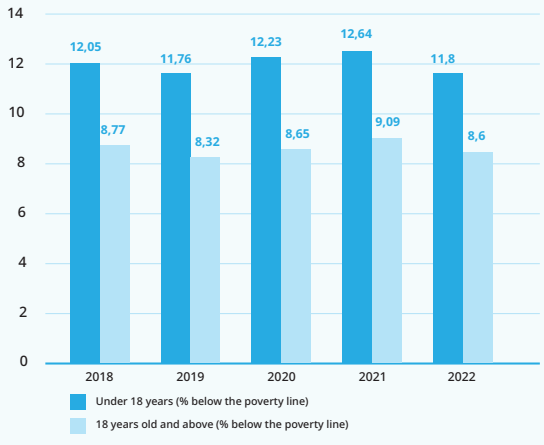
1. Introduction

Indonesia has made a commendable progress in reducing its poverty rate (9.0 per cent in 2024 from 10.2 per cent in 2020[1]), but child monetary poverty remains disproportionately high at 11.8 per cent in 2022 (Figure 1).

This means that the absolute number of adults and children living in poverty is 16.8 million and 9.3 million, respectively. In terms of composition, children deprived from dimensions related to social services (health, nutrition, education, child protection, facilities, and information) accounted for 35.8 per cent of the poor population in 2023.[2] The country also sees persistent disparities in income distribution, with the top 20 per cent of the population enjoying more than 46 per cent of national income (Figure 4).

The poor population faces multiple risks and uncertainty. For instance, they are more likely to be in precarious employment with limited protection. Indonesia has high rates of employment in the informal sector (more than 59.5 per cent - Figure 2), with very limited access to social security (8 per cent - Figure 3). Additionally, people living in poverty are particularly vulnerable to the increasing frequency of natural disasters and the intensifying effects of climate change

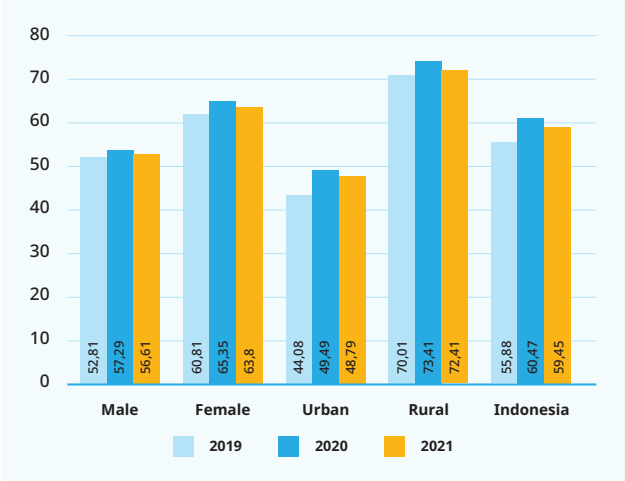
Figure 1.
Population living below the national poverty line, 2018-2022, (as per cent by age group)



Source: BPS website, accessed November 2023

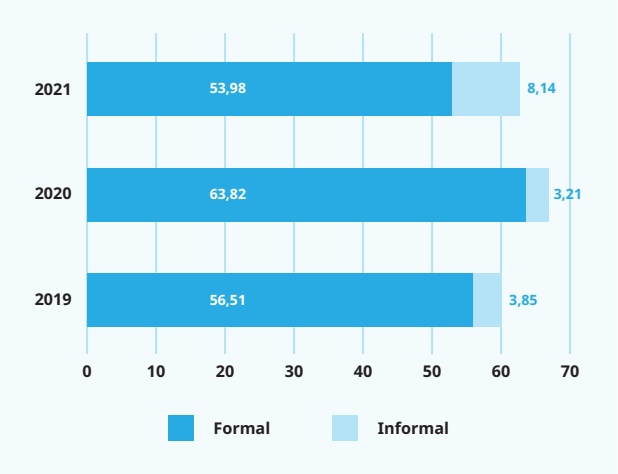
[1] *Badan Pusat Statistik (BPS).*
[2] *UNICEF (2024) Policy Brief on Multi-dimensional child deprivation, draft*

Figure 2.
Informal sector employment trends by sex and area, 2019-2021, (as per cent by employment)



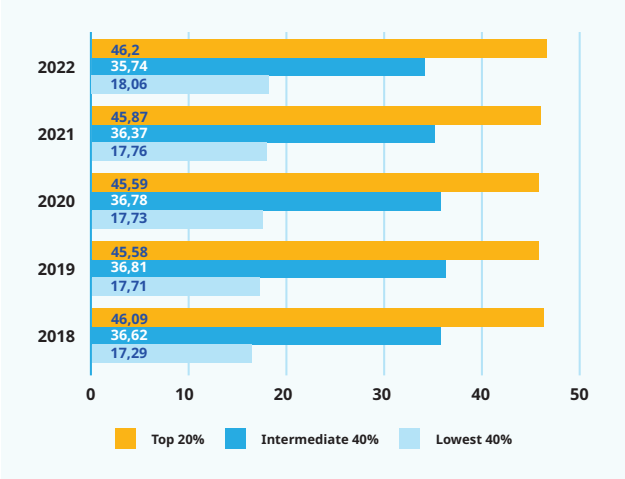
Source: BPS website, accessed November 2023

Figure 3.
Participation in social security programme by employment type, 2018-2021, (as per cent by employment type)



Source: BPS (2023) Indonesia Sustainable Development Goals Indicators 2023, pg. 11

Figure 4.
Distribution of income by income quintiles, 2018-2022, (as per cent by population)



Source: BPS, Indonesian Macro Poverty Calculation and Analysis 2023, p26

The Government of Indonesia (GoI) is striving to minimize poverty and vulnerabilities triggered by economic factors, structural issues, natural disasters, and climate events through social policies, including social protection. The GoI is also committed to driving human capital development, including through improved access to social services benefiting children. Social protection plays a crucial role in addressing child poverty and improving human capital.[3] Investing in children through child sensitive social protection is, thus, crucial to ensure they evolve into productive adults to realize future national economic growth towards achievement of Golden Indonesia 2045, the goal of becoming a high-income.[4] However, successfully providing social protection that is both adaptive and child-responsive requires sufficient public budgets and effective spending.

Social assistance programmes have seen significant development, since Indonesia's Constitution has guaranteed social assistance and social insurance to the poor, vulnerable and destitute.[5] However, the social protection system in Indonesia has become very fragmented and spread across many government agencies and departments, with no one central coordinating agency to provide oversight and coordination.

This budget brief provides an overview of social protection spending trends. It also examines the composition of social protection budgets as well as the efficiency and equity of two social protection programmes in the utilization of budgets.

[3] *ILO and UNICEF, 2019*
[4] *https://kadin.id/program/indonesia-emas/*
[5] *Investing in People, Social Protection for Indonesia's 2045 Vision, World Bank, 2020*

2. Key Messages

2.1 Despite previous expansion, social protection budget allocation in proportion of GDP has gone down in recent years, nearly back to pre COVID-19 spending level. The overall allocation for social protection, as a percentage of both the national budget and GDP.. In 2020, it accounted for only 19.2 per cent of the total budget and 3.2 per cent of GDP. However, in the proposed 2025 budget, the allocation decreases to 14.0 per cent of the total budget and 2.1 per cent of GDP (MOF 2024). To accelerate poverty reduction, social protection spending in Indonesia should be both adequate and sufficient to provide timely financial protection for poor and vulnerable families, especially those with children in considering increasing climate change risks and vulnerabilities.

2.2 A substantial portion (56 per cent) of the social protection budget is spent through subsidies, including for energy and non-energy, that are not progressive and limit impact on poorest households. Therefore, policy changes that shift social protection subsidies towards direct social assistance for the poor and vulnerable families is necessary.

2.3 Inefficiencies and inequities in the allocation and spending of the social protection budget, as evidenced by targeting errors, remain an area of concern. Only 30.7 and 27.6 per cent of quintile of households, or 20 per cent of the poorest group, received benefits from Family Hope Programme (PKH) and Smart Indonesia Programme (PIP), respectively, indicating a misallocation of resources that needs to be addressed through enhancing the selection system.

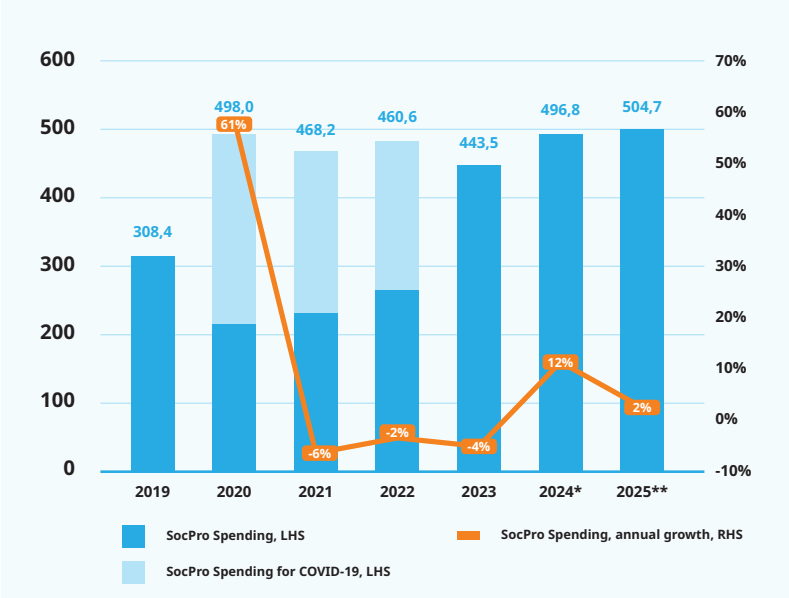
2.4 To improve equity, the government is also encouraged to increase social assistance allocations such as through cash benefits for poor families, especially those with children, along with reduced regressive subsidies and ensure these efforts are sustained.

3. Analysis, Findings, and Recommendations

3.1 Social protection spending trends

While social protection spending is increasing in nominal terms, it is projected to decline as share of the total State budget, in 2025. aIn 2025, the social protection budget is forecast to be IDR504.7 trillion, up from IDR308.4 trillion in 2019, marking a 63.7 per cent increase over six years (Figure 5).

Figure 5.
Social protection spending in absolute amount and per cent real growth per year, 2019-2025

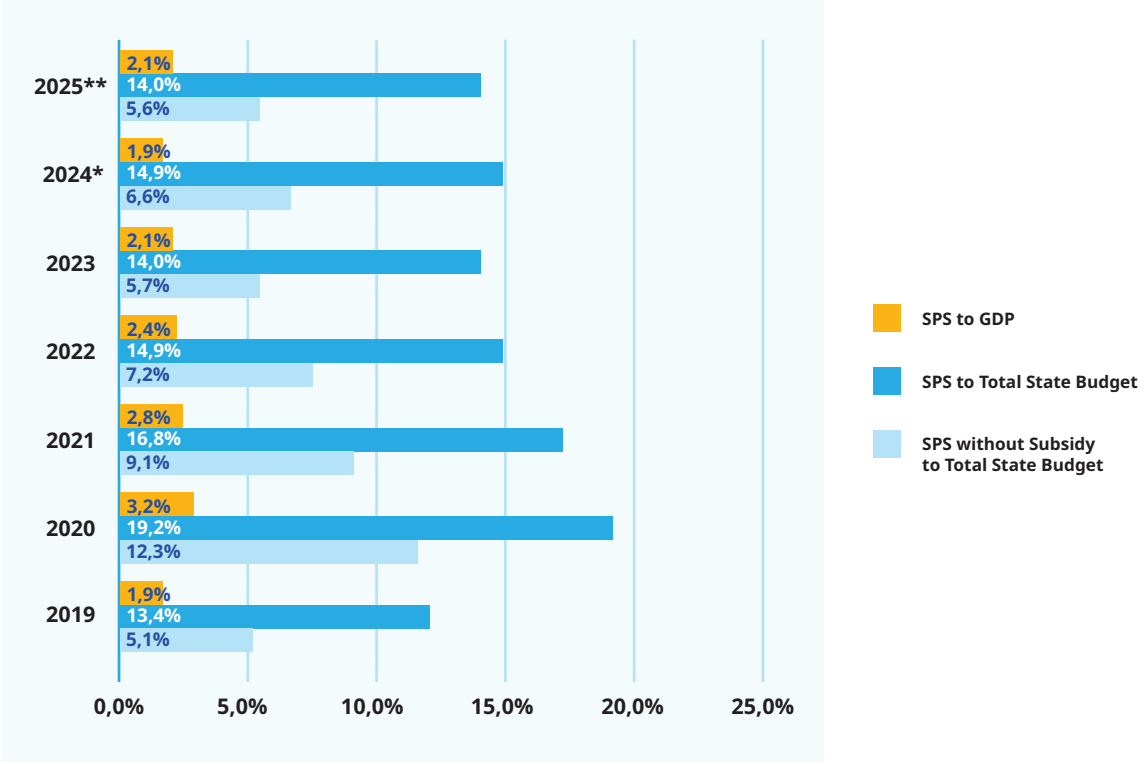


Source: Ministry of Finance
*Note: *Budget; **Proposed Budget; LHS=left hand side; RHS=right hand side*

In 2020, amid the social protection spike in spending in response to the COVID-19 emergency, social assistance spending jumped by 161.5 per cent in 2020 compared to 2019. This growth was mainly due to a 456 per cent leap in investment in the food assistance programme and a 28 per cent increase in the Family Hope Programme (Programme Keluarga Harapan/PKH). This illustrates the government's increased allocation of resources in response to people losing their incomes amid the crisis.

Social protection spending in Indonesia as percentage of the national budget and GDP climbed from 13.4 per cent in 2019 to 19.2 per cent in 2020 (Figure 6). However, if the spike in 2020 due to the pandemic is excluded, the average annual growth from 2019 to 2025 was only 0.5 per cent. However, if subsidies are deducted, social protection spending remains relatively low, accounting for only 5.6 per cent of the total State budget in 2025, from 6.6 per cent in 2024 (Figure 6).

Figure 6.
Social protection spending in Indonesia as % of the national budget and GDP



Source: Ministry of Finance[6]
*Note: *Budget, **Proposed Budget*

Social protection, including regressive tax, receives the second highest allocation as a percentage of the total budget, among social sectors between 2019 and 2025. The 2025 national budget shows that social protection received 14 percentage points, below proposed education spending (20 per cent) (Figure 7).

In comparison to peer countries in the region in 2023, such as Mongolia (29.3 per cent), China (12.98 per cent), Thailand (12.1 per cent), and the Philippines (11.71 per cent), Indonesia's social protection spending in terms of proportion to its total budget is significantly below average (9.8 percent).[7] Indonesia's limited State revenue has also contributed to low allocations for social sector spending, particularly on social protection. Over the past five years, the country's State revenue stayed less than 14 per cent and is estimated to contribute only 12.3 per cent in 2025 of GDP (Figure 8).

[6] *Nota Keuangan and RAPBN. Ministry of Finance.*
[7] *UNICEF (2023) Where is the Fiscal Space for Children? Review of the social sector budgets in selected countries in South Asia, East Asia and the Pacific Islands, UNICEF East Asia and Pacific Regional Office, Bangkok*

Figure 7.
Social sector budget compared with other sectors' budgets, as % of national budget

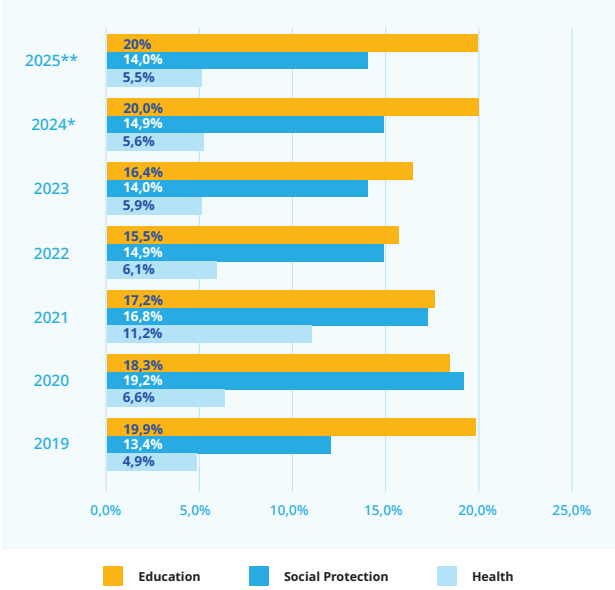
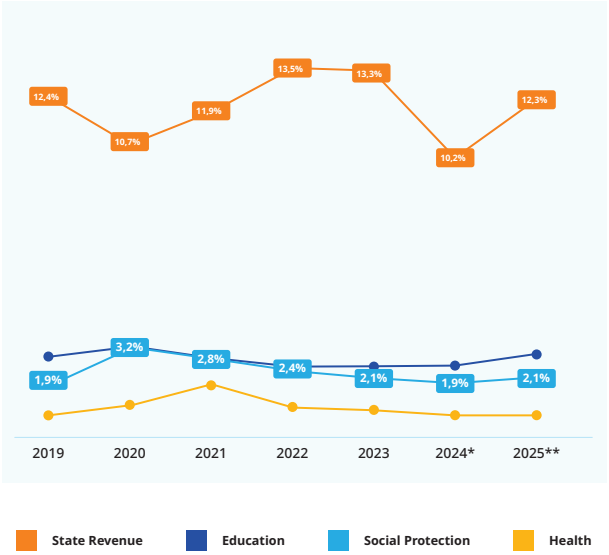


Figure 8.
State revenue and social protection budget compared with other sectors' budgets, as % of GDP



Source: Ministry of Finance[6]
*Note: *Budget, **Proposed Budget*

Recommendations

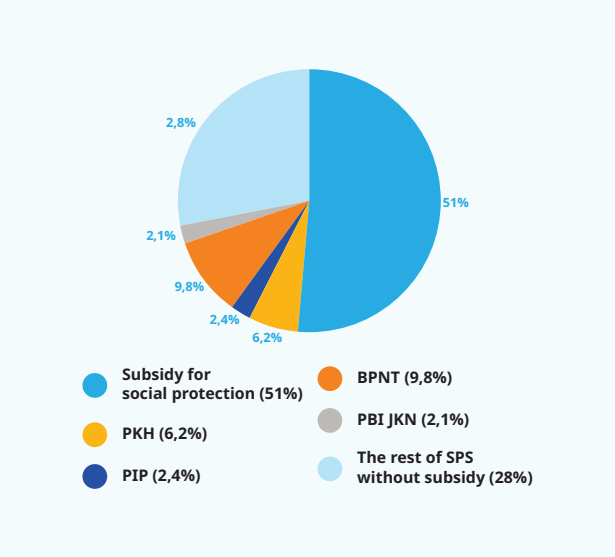
Decreasing government spending on social protection might have serious implications, it as threatens to reverse progress in alleviating poverty and deprivations experienced by the most vulnerable members of society, particularly children. In response, it is encouraged that the government maintains social protection spending out of the total state spending at 2022 budget proportions (14.9 %), highest after the COVID pandemic, and gradually increases spending.

3.2 Composition of social protection funding

Over the past five years, there has been significant changes toward targeted cash benefits and subsidies for social protection. Spending on the four main permanent social assistance programmes – Smart Indonesia Programme (PIP), Family Hope Programme (PKH), Basic Food Card Programme (BPNT), and Premium Assistance of Health Insurance (PBI JKN) – represented 22.1 per cent of total social protection spending in 2022 (approximately IDR94.6 trillion). However, this is considerably lower than the proportion of subsidies for social protection, which accounted for a substantial 61.7 per cent of total spending in 2022.

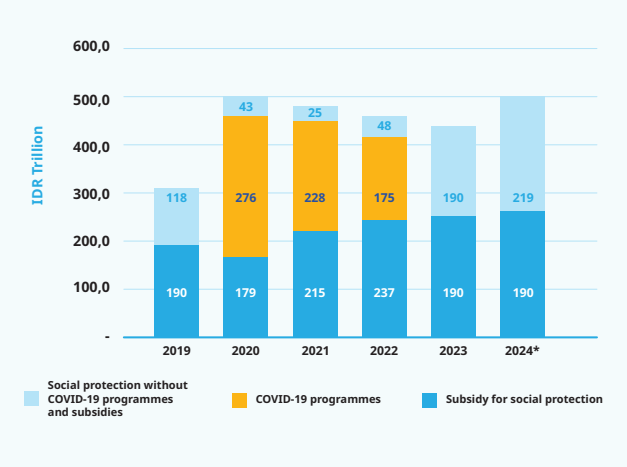
Subsidies dominate social protection spending, accounting for 55.9 per cent of the total social protection budget in 2024, consisting of energy and non-energy components. Energy subsidies – including fuel, gas/LPG, and electricity – amounted to IDR189.1 trillion, representing 38.1 per cent of the total social protection budget in 2024. Non-energy subsidies cover items such as fertilizer, food, interest rates, and seeds. In 2024, the allocation for these subsidies was IDR88.6 trillion, or 17.8 per cent of the total social protection budget. Although social sector spending is seen as important for human capital development, these subsidies have grown significantly and dominated allocation of social sector spending from 2020 to 2024 (Figure 9).

Figure 9.
Composition and trends of social protection spending 2022



Source: Ministry of Finance Indonesia

Figure 10.
Composition of social protection spending (2019-24)



Source: Ministry of Finance
*Note: *Budget*

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Social assistance programmes have seen significant development, since Indonesia's Constitution has guaranteed social assistance and social insurance to the poor, vulnerable and destitute.[5] However, the social protection system in Indonesia has become very fragmented and spread across many government agencies and departments, with no one central coordinating agency to provide oversight and coordination.

This budget brief provides an overview of social protection spending trends. It also examines the composition of social protection budgets as well as the efficiency and equity of two social protection programmes in the utilization of budgets.

Recommendations

The social assistance budget, as a main component of social protection spending, should continue to sustain and progressively increase child responsive social assistance programmes to benefit the poor, especially children, while reducing regressive subsidies.

A large proportion of social protection spending currently consists of energy and non-energy subsidies, which do not meet the greatest needs of the poor and poorest members of society. In response, it is important to take steps to make these subsidies more selective cash transfer programmes for poor and vulnerable families especially children.

[8] *Nota Keuangan dan RAPBN. Ministry of Finance.*

3.3 Equity issues in social protection spending

Targeting errors, especially exclusion ones in selecting eligible beneficiaries, remain a big concern that raises questions about the operational or administrative efficiency of programmes as well as from equity perspectives. This is seen in two such programmes: the Family Hope Programme (PKH) and Programme Indonesia Pintar (PIP). With regards to PKH, as per its policy, families in the bottom 15 per cent of households are eligible, while students from the bottom 25 per cent of households are eligible for PIP. However, in 2022, only 30.7 per cent of the 20 per cent poorest households received benefits from PKH, as seen in Figure 11.

Figure 11.
Proportion of households that received PKH by expenditure quintile, FY2019 and 2022

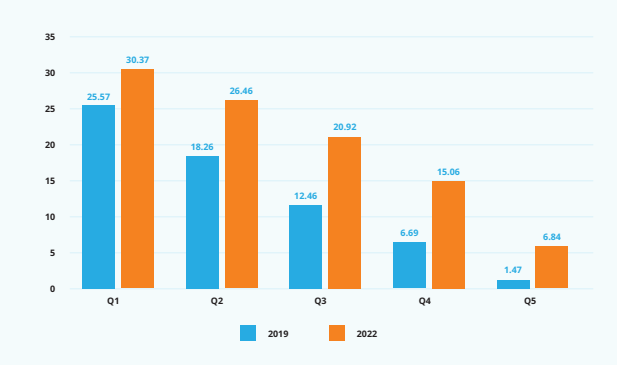

Figure 12.
Proportion of households received PIP by expenditure quintile, FY2018 and 2022

Source: Indonesian Statistics/BPS, 2022.

Similarly, for the PIP Programme, 27.6, 26.3, and 22.4 per cent of families from Q1, Q2, and Q3, respectively, received benefits due to the exclusion errors as seen in Figure 12. The inclusion errors have increased and the proportions of families more than doubled for Q3 to Q5. This suggests a need to address errors in targeting and consequently the wastage of resources to improve efficiency and ensure that the most deserving households receive social protection benefits.

These selection errors in programme implementation are further complicated by each implementing ministry developing its own beneficiary selection process. For example, children in the lowest 25 per cent of household expenditure are targeted PIP recipients, yet the PIP programme also covers children in expenditure quintiles four and five. This raises the issue of efficiency and equity in reaching children from the more deserving households. As a result, many eligible poor households are excluded with their children not receiving the full entitlement of benefits from these social protection programmes, despite its policy overarching goals of social protection provision.

Recommendations

The roles and responsibilities of related ministries in implementing the PKH and PIP social protection programmes should be clarified and streamlined to enhance their efficiency and reach all eligible beneficiaries, especially children.

In addressing targeting errors, especially exclusion ones, it is necessary to establish clear and consistent criteria and improve selection processes with a combination of methodologies and information system across implementing agencies. This will help ensure efficiency and equity to optimize the coverage of the poorest and most in need families including children.

4. Conclusions

This budget brief has spotlighted social protection spending trends in Indonesia, their composition, and the efficiency of two selected social assistance programmes (PKH and PIP), which are important for supporting poor and vulnerable families especially children to reduce the overall poverty rate as child poverty and multi-dimensional deprivation rate.

While social protection is the second largest government spending among social sector programmes, its investment in social protection as a percentage of the national budget and GDP has declined in recent years. In 2025, the government allocated 14.0 per cent of its budget (2.3 per cent of GDP) to social protection. The GOI is encouraged to improve the overall coverage of social protection and prioritize initiatives to reach vulnerable children and families.

Improved coordination - In doing so, it is also important to clarify respective mandates and accountabilities of government agencies at both national and sub-national levels on planning and budgeting on social protection.

Social protection spending is primarily skewed towards subsidies, which represent over 55.9% of the total budget in 2024. This raises concerns about the system's effectiveness in building human capital, as these subsidies mainly target energy. To enhance the impact of social protection, it would be crucial to rebalance expenditures toward transfers that directly support social services like health, nutrition, and education, especially for children. This approach could ensure that social protection serves not only as a means of poverty reduction but also as a catalyst for human capital development.

There is insufficient programme-level data on social protection to analyse the budget execution for the priority child sensitive programmes. In order to have a proper representative analysis, it would be necessary to consolidate and assess all child-sensitive programmes in all Ministries, departments and agencies (MDAs).

Therefore, addressing the complexity of the social protection system and improving alignment between assistance programs and funding allocation are critical imperatives for Indonesia.

Streamlining administrative processes, enhancing data collection and dissemination mechanisms, and fostering greater coordination among stakeholders are essential steps to optimize the effectiveness and efficiency of social protection efforts. This will enable Indonesia to develop a universal, shock-responsive and gender-responsive social protection system.

Acknowledgement

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