



FISCAL POLICY AGENCY
MINISTRY OF FINANCE
REPUBLIC OF INDONESIA

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POLICY BRIEF

THE IMPACT OF COVID-19 ON CHILD POVERTY AND MOBILITY IN INDONESIA



Acknowledgments:

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Main messages



The economic shocks caused by the coronavirus pandemic affect people in Indonesia of all ages, but **children and adolescents are disproportionately impacted by reduced household incomes and the inability to improve their economic status.**



The **Government's emergency social protection response holds the potential to mitigate the pandemic's impact on child poverty in 2020**, bringing levels of child poverty and vulnerability below pre-pandemic projections.



However, child poverty will increase significantly in 2021 – by an estimated 2.1 million – if emergency support measures are rolled back.



Investment in expanded social protection should be maintained during 2021 in order to mitigate the impact of the ongoing COVID-19 crisis on child poverty.





1

Introduction

The coronavirus (COVID-19) pandemic and measures to contain it have plunged the world economy into a severe contraction.

The International Monetary Fund projects that the global economy will shrink by 4.4 per cent in 2020 – the deepest recession since the Second World War¹. The crisis is having a significant impact on Indonesia’s economic growth and efforts to reduce poverty. The country’s gross domestic product is set to contract by 1.1 per cent in 2020 – a painful reversal of the 5.3 per cent growth projected before the pandemic – causing widespread loss of jobs and income². To avert this worst-case scenario, the Government of Indonesia implemented an emergency fiscal stimulus package and temporarily expanded its social assistance programmes to support low-income families during the crisis.

The pandemic has had a wide array of direct negative effects on children: personal or family illness or death, lost schooling, reduced access to health care and other social services and more. But children are also heavily affected by job loss and sharp drops in income within their household.

This policy brief explores how the economic shocks resulting from COVID-19 affect child poverty and the success of social protection measures aimed at mitigating the impact. The impact of the shock caused by the pandemic is measured using “with-without” comparisons; that is, the difference in children’s well-being under three scenarios.

- ➔ **No COVID-19:** A baseline scenario based on the projected path of economic growth and employment prior to the outbreak of the pandemic.
- ➔ **COVID-19:** A scenario that factors in expected declines in domestic production and changes in employment in agriculture, industry and services due to COVID-19, using the latest available projections.

- ➔ **COVID-19 & social protection mitigation measures (COVID-19 & SP):** A scenario that takes into account both the pandemic and the increased coverage and value of cash transfers from five social protection schemes that form a major part of the Government’s emergency response plan.

The analysis was conducted using a dynamic microsimulation model designed to forecast indicators of the Sustainable Development Goals, which was built using Indonesia’s national socio-economic survey (Susenas) and macro-economic projections from the Fiscal Policy Agency of the Ministry of Finance³. Measurements of per capita consumption were used to compute poverty and economic status⁴.

Of the five programmes listed below, the first is set to end in December 2020 and the last three were implemented as part of the temporary emergency response. Food assistance is envisioned to continue beyond December – until April 2021.

Box 1. Indonesia’s social protection response to the COVID-19 economic crisis⁵



Program Keluarga Harapan (PKH, conditional cash transfer): Coverage expanded from 9.2 million to 10 million families in the social registry and the value of transfers rose by 25 per cent through December 2020.



Kartu Sembako (food assistance): Expanded coverage from 15.6 million to 20 million families in the social registry, and transfer values were increased by 33 per cent through April 2021.



Sembako Jabodetabek (food assistance): New temporary scheme in the Jakarta metropolitan area covering 1.9 million households not enrolled in other programmes from April through December 2020.



UCT Non-Jabodetabek (unconditional cash transfer): New temporary scheme outside the Jakarta metropolitan area covering 9 million households in the social registry who are not enrolled in other programmes from April through December 2020.



BLT Dana Desa (unconditional cash transfer): New temporary scheme (funded by re-allocated resources from the Village Fund) for rural areas, covering 11 million households between April and December 2020.

2

Impact on static measures of poverty

Without the full implementation of the government's emergency support package, the economic shock from COVID-19 would significantly increase child poverty in 2020. Under the COVID-19 scenario 13.5 per cent of children would be living below the official poverty line, 1.3 million more than the estimated 11.9 per cent estimate based on the baseline No COVID-19 scenario (see Figure 1). Children's vulnerability rate – defined as the share of children living just above the poverty line but less than 1.5 times the poverty line – would also have risen. The economic shocks caused by COVID-19 would have increased the absolute number of vulnerable children by 2 million over the baseline scenario.

The economic fallout is affecting people of all ages, but to a greater or lesser degree. Without the temporary expansion of the social protection system, average poverty rates would have risen by nearly 14 per cent for children, 17 per cent for people of working age and 8 per cent for older people (Figure 2). In absolute terms, however, children and adolescents would have been disproportionately affected because of their large numbers. Children under the age of 18 represent about 33 per cent of Indonesia's population, but nearly 40 per cent of the additional number of people classified as poor in 2020 due to the pandemic.



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FIGURE 1 Child poverty and vulnerability has increased due to the pandemic, but the Government Emergency Support package has the potential to offset the increase during 2020.

Percentage of children living below the national poverty and vulnerability lines, by scenario, 2017-2021

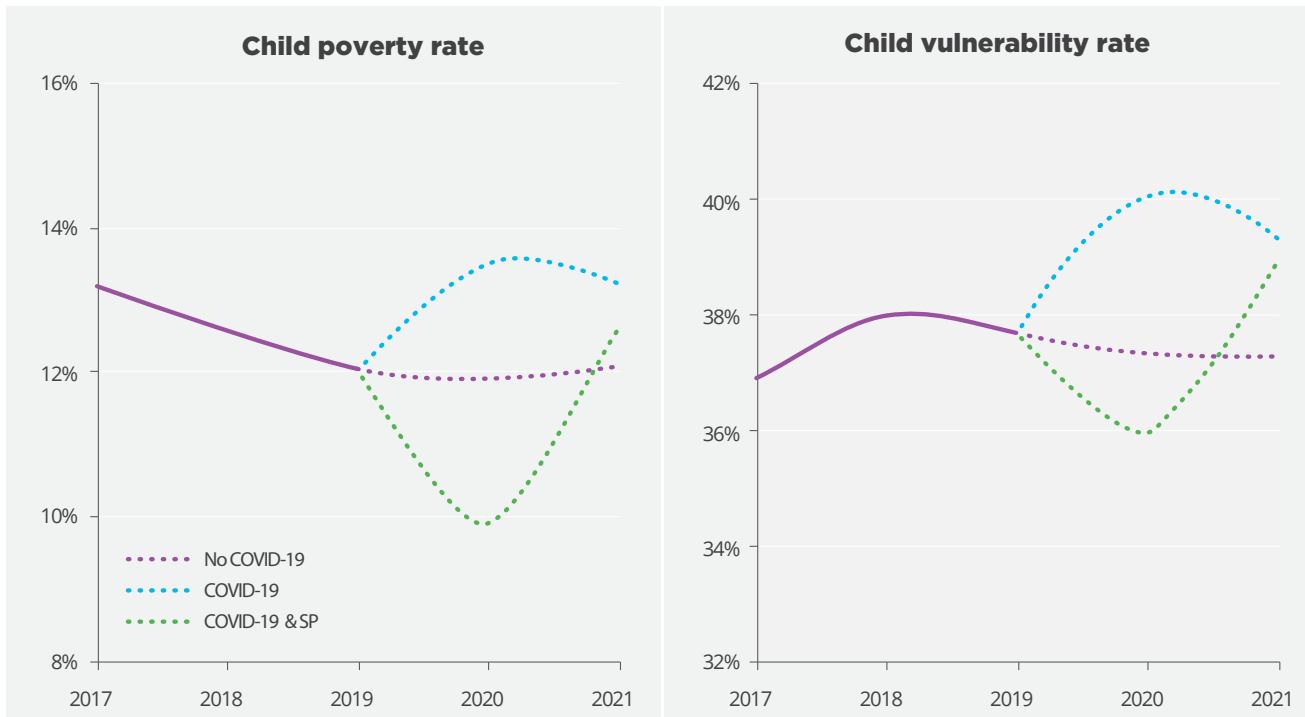
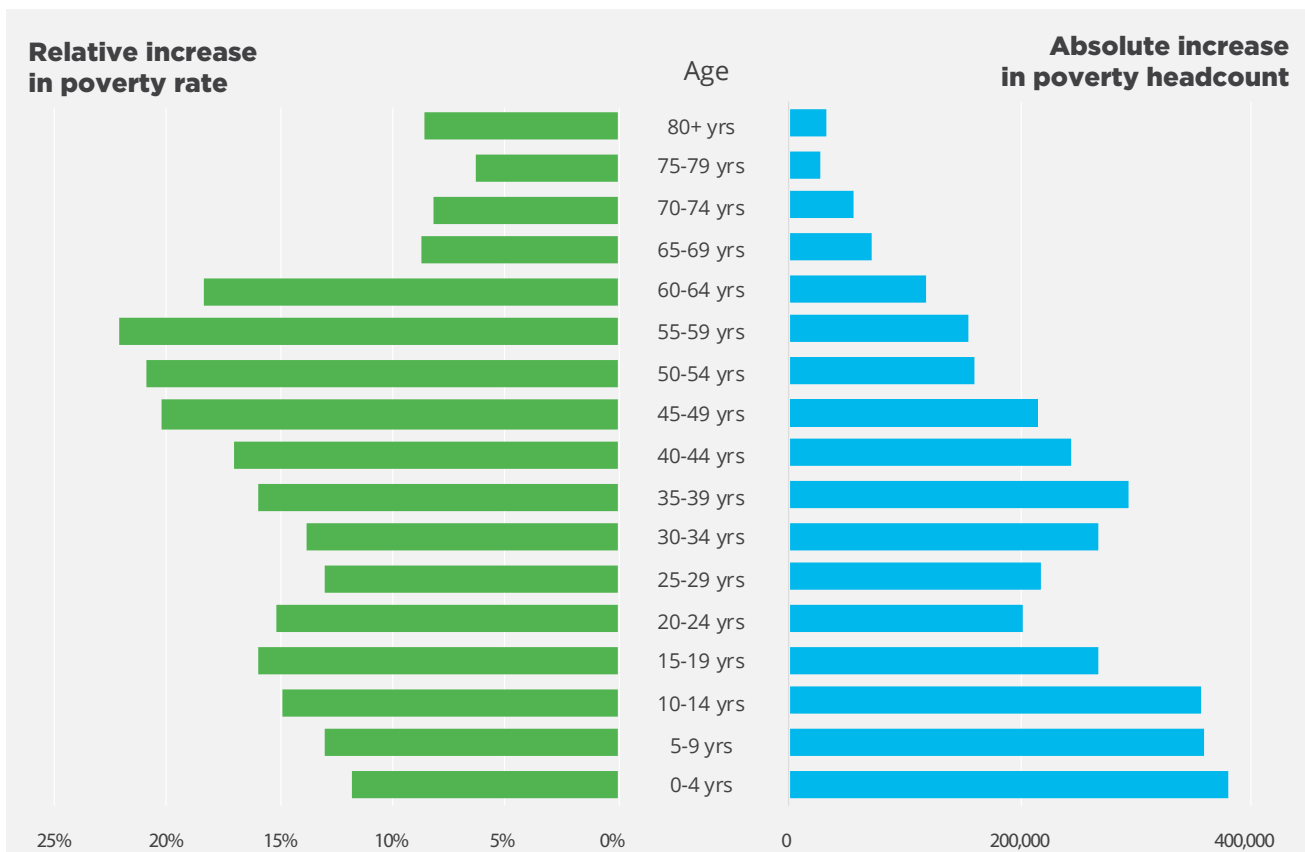


FIGURE 2 The economic fallout is affecting people of all ages, but children and adolescents are disproportionately affected because of their large numbers.

Relative and absolute increase in the number of people living below the national poverty line due to COVID-19 in the absence of emergency support, by age groups, 2020





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The Government's robust response to the COVID-19 crisis more than doubled its annual spending for social protection programmes.

Some 800,000 new families were enrolled in the PKH conditional cash transfer scheme in 2020 – bringing its coverage to 10 million families – and the value of transfers was temporarily increased by 25 per cent, through December 2020. The non-cash food assistance programme Kartu Sembako expanded its coverage from 15.6 million to 20 million households and raised the amount of transfers by one third. In addition, three new temporary programmes were introduced to provide support to around 22 million households not covered by existing schemes, through December 2020 (see Box 1).

Indonesia's emergency response has the potential to fully mitigate the pandemic's impact on poverty in 2020, if fully implemented.

Simulations indicate that the average child poverty rate would drop to 10 per cent, well below the baseline estimate of 11.9 per cent and the 13.5 per cent figure projected under COVID-19 without mitigation measures (see Figure 1). This would mean that the number of children living below the national poverty line could be reduced by 2.8 million – as against the COVID-19 scenario without emergency measures. Most of this reduction would be attributable to the PKH (see

Figure 3). In addition, the proportion of children at high risk of poverty could drop to 36 per cent, compared to 40 per cent under the COVID-19 scenario without emergency support.

However, if emergency measures were rolled back in 2021 child poverty would increase sharply – to above the pre-pandemic projected path.

The rollback would result in a rise in the child poverty rate to 12.6 per cent, similar to the 2018 level, while children's vulnerability would increase to a rate of 38.9 per cent. Moreover, economic growth will mostly benefit those in the higher wealth deciles. The Fiscal Policy Agency projects economic recovery in 2021 to be driven by the services sector and, to a lesser extent, manufacturing while growth in the agriculture sector will largely remain stagnant. However, these projections depend on the evolution of the COVID-19 pandemic in 2021.

70 per cent of households will experience a net welfare loss between 2020 and 2021 if national social protection coverage drops to pre-pandemic levels (see Figure 4).

FIGURE 3 PKH has the greatest impact on reducing child poverty, in large part due to child specific targeting criteria.

Percentage of the population below the national poverty line in 2020, before and after social protection transfers, by age group

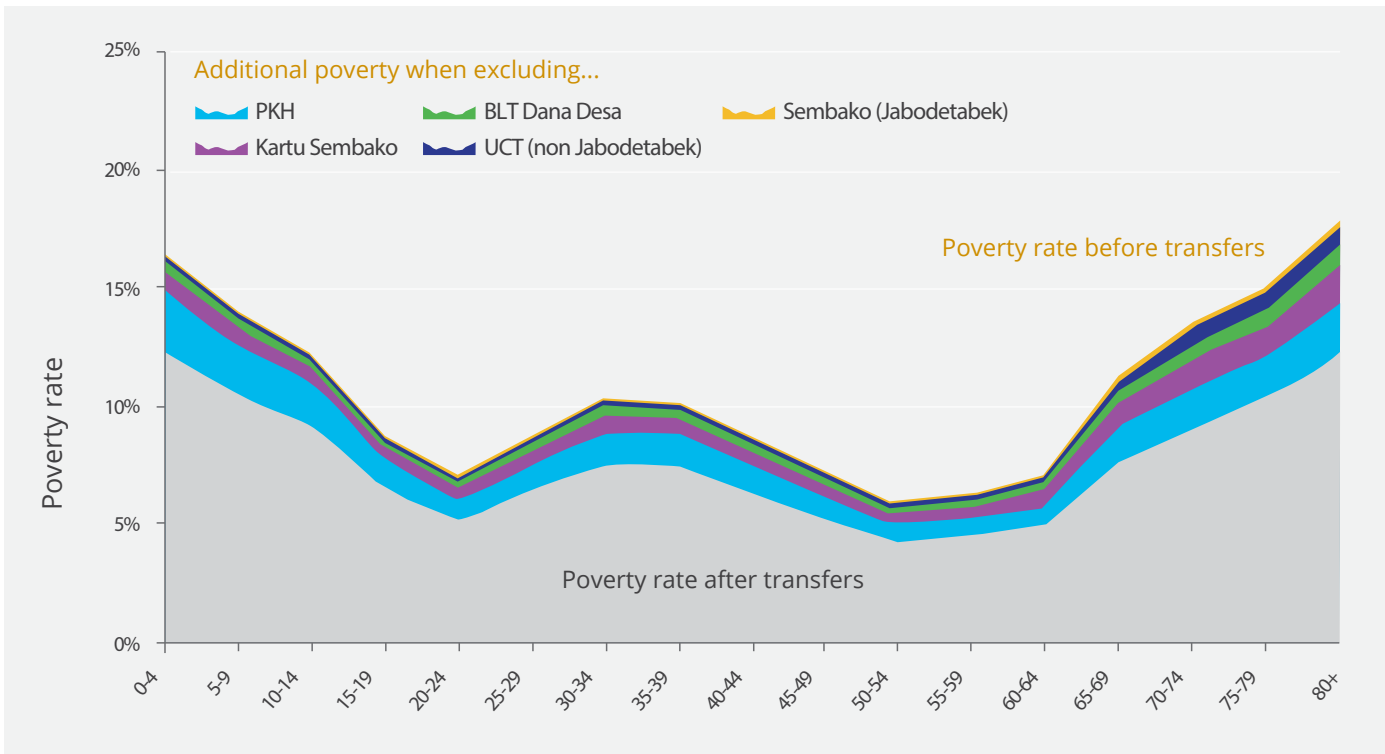
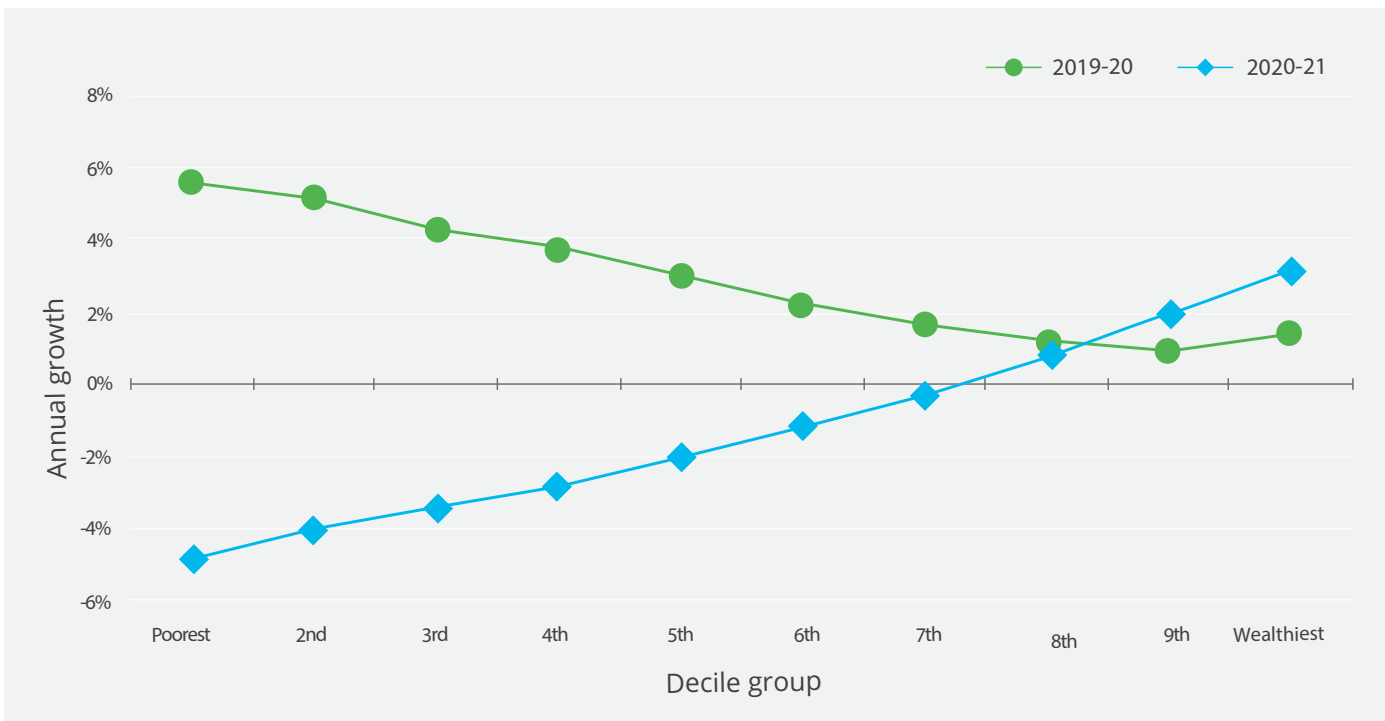


FIGURE 4 Over three quarters of households will become poorer if the Government Emergency Support package is not continued throughout 2021.

Annual growth in mean consumption per capita, by wealth level (2019–20 and 2020–21)





Impact on poverty dynamics and mobility



Poverty is not a static, permanent state; rather, it is dynamic and evolving.

The aggregate statistics presented above mask a great deal of economic mobility, both into and out of poverty and between economic classes. From one period to the next, household income and consumption can fluctuate because of demographic events (such as births, deaths, marriage, and divorce) or economic events, such as job loss and changes in wages. Previous research based on panel (longitudinal) surveys has shown that family in Indonesia experience a significant degree of mobility⁶. For example, while the official child poverty rate in 2016 was 13 per cent, twice that many children (26 per cent) had experienced at least one year below the national poverty line during the preceding five-year period. As a result, the composition of the group of children in each economic class is constantly changing, as some families move above the poverty threshold and others fall below it each year.

From a multi-year perspective, the COVID-19 economic shock will increase the prevalence of temporary child poverty, even with emergency social protection.

Based on pre-pandemic projections, an estimated 15.3 per cent of children will experience one or more years below the national poverty line during the three-year period 2019–2021. Over half (56 per cent) will be persistently poor and remain below the poverty threshold during all three years, while the others will experience one or two periods of poverty.



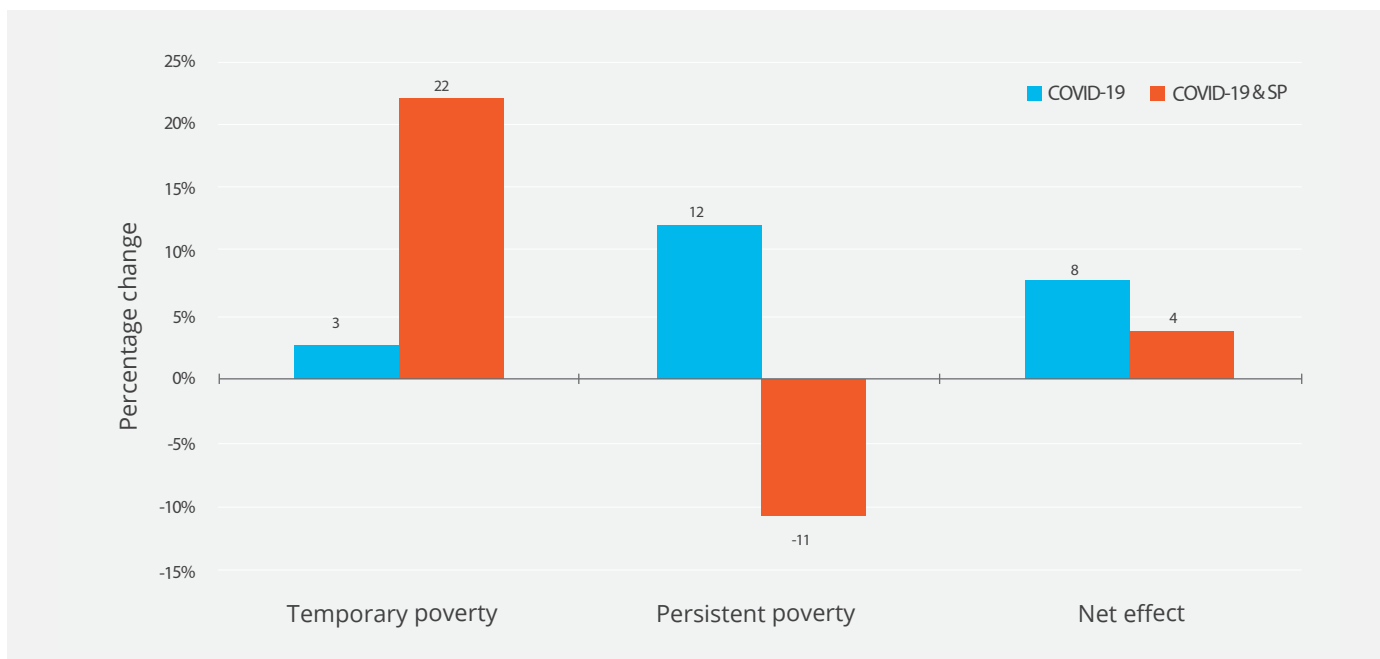
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Simulations indicate that the economic shock resulting from COVID-19 would increase the proportion of children experiencing at least one period of poverty to 16.6 per cent, or somewhat less (15.9 per cent) after taking into account the emergency response package.

As a result, the overall rate of inter-temporal child poverty would rise by at least 4 per cent (see Figure 5), placing an additional 500,000 children below the poverty line for some period of time during 2019–2021.

FIGURE 5 Even when accounting for the Government Emergency Support package during 2020, acute child poverty would increase while chronic child poverty would decrease.

Percentage change in the prevalence of temporary and persistent child poverty during 2019–2021 due to the COVID-19 economic crisis, by scenario



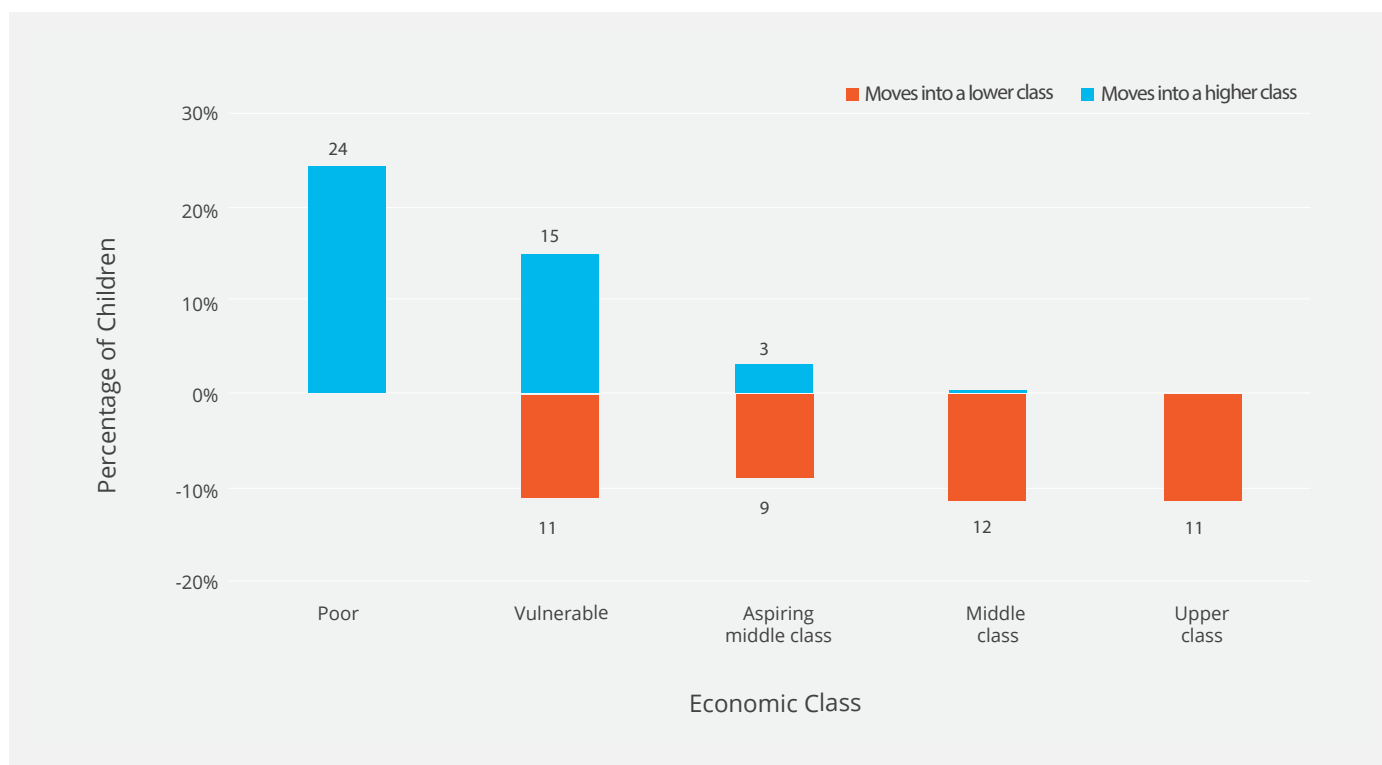
The emergency social protection response reduces chronic child poverty but does not prevent a relatively sharp (22 per cent) rise in temporary child poverty.

One reason for this is that the temporary boost in consumption will dissipate in 2021 when the expansion of social assistance schemes is set to be halted. Another is that ‘newly’ poor or vulnerable children are not reached by the targeting mechanisms being used for the emergency response. **Most of the measures target households in the lowest 40 per cent of wealth percentiles, using data from Indonesia’s social registry (DTKS) developed several years before the start of the pandemic.** The use of a ‘static’ database for targeting presents at least two challenges. First, the welfare ranking of a sizeable share of households will have changed because of regular demographic or labour market events that occurred after social registry data was collected. Second, the effects of the COVID-19 crisis are being felt by the entire population, and have pushed better-off households into the poor or

vulnerable class. Thus current social protection measures do not represent a ‘safety net’ for children who fell into the poor or vulnerable category in 2020 because they are not registered in the DTKS database.

The shock from the COVID-19 pandemic also reduces children’s upward mobility in economic status. Figure 6 illustrates the extent of children’s movement between economic classes during the period 2019 to 2021 in the COVID-19 & SP scenario. It shows that while 24 per cent of poor children and 15 per cent of vulnerable children would experience upward mobility, the status of 9 to 12 per cent of children classified as vulnerable or middle class in 2019 would decline in 2021. When compared with the baseline scenario, simulations indicate that the economic repercussions of the COVID-19 crisis would result in an 18 per cent decline in upward mobility and a 16 per cent increase in downward mobility for Indonesia’s children.

FIGURE 6 While poor and vulnerable children benefit from the Government Emergency Support package, the economic status of excluded children from wealthier classes is likely to deteriorate. Simulated percentage of children whose economic status shifts between 2019 and 2021, in the COVID-19 & SP scenario



4

Conclusion



Although the coronavirus pandemic in Indonesia is affecting the incomes and wellbeing of both the young and the old, children and adolescents are disproportionately affected by losses and reduced social mobility. However, the government's emergency social protection response has been strong and appears to fully mitigate the pandemic's impact on poverty in 2020, bringing levels of child poverty and vulnerability down to below their pre-pandemic projected path.

However child poverty will increase sharply in 2021 – by an estimated 2.1 million – if emergency support measures are rolled back as planned. Under this scenario most people in Indonesia will experience a net welfare loss between 2020 and 2021, especially low-income households and those in rural areas. Overall, the prevalence of inter-temporal child poverty will rise by 4 per cent. Without continued emergency measures, Indonesia risks losing several years of progress in its efforts to achieve the Sustainable Development Goals.

Based on the analysis and projections described above, **it is recommended that the Government consider maintaining its expanded social protection programmes** – particularly PKH and Kartu Sembako – to help reduce child poverty and vulnerability in 2021 and beyond.

It may be also necessary to **consider alternative approaches to targeting** based on social registry data, to better respond to the dynamic nature of household income and welfare and to ensure that those made poor and vulnerable due to COVID-19 do not become tomorrow's chronic poor. For example, the country could consider introducing an on-demand system that allows families in need of support to apply for social assistance.

Finally, it is important to **continue to monitor the risk of rising inequality** due to the lack of broad-based economic recovery, which has the potential to widen existing gaps in social and economic well-being over the medium and long terms.

Main recommendations

- ➔ **Maintain increases in coverage and transfer values of social assistance programs beyond 2020, in particular PKH and Kartu Sembako, to continue alleviating the impact of COVID-19 on children.**
- ➔ **A planned, gradual and data driven roll back of the expanded social assistance coverage is better than a sudden end to assistance.**
- ➔ **Closely monitor and prepare to respond to the possibility of rising inequality and widening of gaps in key socio-economic outcomes.**
- ➔ **Invest effort and resources to avoid solidifying the COVID-19 “new poor” as tomorrow’s “chronic poor”.**
- ➔ **Explore alternative targeting mechanisms for social protection programs during crises.**

Endnotes

¹ International Monetary Fund, World Economic Outlook: A Long and Difficult Ascent, IMF, Washington, DC, October 2020.

² Data provided by the Fiscal Policy Agency (BKF) of the Indonesian Ministry of Finance, September 2020.

³ SDGs for Children by 2030: Drivers of Progress, Jakarta, BAPPENAS and UNICEF, 2020; and UNICEF, "Impact of COVID-19 on children in Indonesia: Technical report", UNICEF, Jakarta, 2020.

⁴ Economic status is defined here as follows: "vulnerability" refers to those living between the poverty line and less than 1.5 times the poverty line. The "aspiring middle" class comprises those between 1.5 times the poverty line and under 3.5 times the poverty line. The "middle" class are those between 3.5 times the poverty line and under 17 times the poverty line and the "upper" class is comprised of those with incomes at least 17 times higher than the poverty line.

⁵ Beside these five highlighted programmes, the Government of Indonesia has rolled out several other social protection programmes such as wage subsidy, grant to SMEs, electricity discount, and internet access grant. However, for simplicity, these programmes have not been added to the analysis.

⁶ United Nations Children's Fund, Children in Indonesia: An analysis of poverty, mobility, and multidimensional deprivation, Jakarta, UNICEF, 2017



UNICEF Indonesia

📍 World Trade Centre 2, 22nd Floor
Jl. Jend. Sudirman Kav. 31,
Jakarta 12920, Indonesia

☎ +62 21 5091 6100

🌐 www.unicef.org/indonesia

Fiscal Policy Agency - Ministry of Finance

📍 R.M. Notohamiprodjo Building
Jl. Dr. Wahidin Raya No.1
10710 Jakarta

☎ +62 21 34833486

🌐 www.fiskal.kemenkeu.go.id