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The Effectiveness of Social Assistance Programs in Reducing Economic Inequality

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ABSTRACT

Economic inequality remains a fundamental challenge in Indonesia's development process. This study analyzes the effectiveness of social assistance programs in reducing economic inequality in Indonesia from 2019 to 2024. Social assistance programs such as the Family Hope Program (PKH), Non-Cash Food Assistance (BPNT), and Direct Cash Assistance (BLT) have become the government's primary instruments for addressing poverty and inequality. Using secondary data from the Central Statistics Agency (BPS) and the Ministry of Social Affairs, this research evaluates the impact of social assistance on the decline in the Gini ratio and poverty rates. The results show that social assistance programs make a significant contribution to reducing economic inequality, with the Gini ratio decreasing from 0.388 in 2023 to 0.379 in March 2024. Poverty rates also declined from 16.66% in 2004 to 8.57% in September 2024. However, disparities between urban and rural areas persist. The PKH and BPNT programs proved more effective, with graduation rates reaching 8% in 2019. This research recommends improving coordination between programs and refining targeting systems to achieve optimal results.

KEYWORDS: Social Assistance; Economic Inequality; Poverty; Gini Ratio; PKH; BPNT.

INTRODUCTION

Economic inequality is one of the fundamental problems facing Indonesia in its economic development process. As a country with a population of over 270 million and a relatively stable economic growth rate, Indonesia still faces significant disparities in income distribution across social groups (Sumarto & Bazzi, 2021). This phenomenon not only impacts the economy but also has implications for long-term social and political stability. Social assistance programs have become a key policy instrument of the Indonesian government in its efforts to reduce economic inequality and alleviate poverty (Yuliani & Nasrudin, 2024). Since the 1997–1998 economic crisis, the government has begun developing a more systematic social protection system through various assistance programs. This transformation has been further strengthened by the implementation of modern social assistance programs such as the Family Hope Program (PKH) in 2007, followed by Non-Cash Food Assistance (BPNT) and various Direct Cash Assistance (BLT) programs (Cahyadi et al., 2020).

The evolution of Indonesia's social assistance programs demonstrates a paradigm shift from a charity-based approach to a more structured, rights-based approach (McCarthy et al., 2023). Based on Article 14, Paragraph 2 of Law Number 11 of 2009 concerning Social Welfare, social assistance is defined as a form of social protection aimed at preventing and addressing the risks of social shocks and vulnerabilities of individuals, families, groups, and communities, ensuring their survival and basic needs are met. The budget allocation for social protection programs has increased significantly, from IDR 308.4 trillion in 2019 to IDR 496.8 trillion in 2024, representing a 13.1 percent increase compared to the previous year (Razavi et al., 2024). This increase reflects the government's serious commitment to addressing poverty and inequality through more extensive social policy interventions.

Recent data show a positive trend in reducing the national poverty rate, from 16.66% in 2004 to 8.57% in September 2024, the lowest level in a decade (BPS, 2024). Simultaneously, the Gini ratio, an indicator of economic inequality, also improved, decreasing from a high of 0.388 in March 2023 to 0.379 in March 2024, indicating increasingly equitable income distribution (Alkire et al., 2021). However, significant disparities remain between urban and rural areas. The poverty rate in rural areas was recorded at 11.79%, while in urban areas it stood at only 7.09% in March 2024 (Sumarto & Bazzi, 2021). This situation indicates the need for a more differentiated approach in implementing social assistance programs according to regional characteristics.

The effectiveness of social assistance programs can also be seen in the rate of independent graduation of beneficiaries. Data show that in 2018, 621,789 Beneficiary Families (KPM), or 6.21% of the total 10 million KPM, successfully graduated independently, exceeding the 2019 target of 8% (Sumarto & Bazzi, 2021). This phenomenon demonstrates that social assistance programs serve not only as a safety net but also as a springboard for increasing the community's economic capacity (Suryahadi et al., 2021). The digital transformation of social assistance distribution through the Family Welfare Card (KKS) and cashless systems has improved targeting accuracy and program transparency (Microsave Consulting, 2019). This innovation enables the integration of various assistance programs into a single platform, while also introducing the public to digital banking systems. This research is relevant given the need for an in-depth evaluation of the effectiveness of social assistance programs in achieving the goal of reducing economic inequality. Considering the complexity of poverty and inequality issues in Indonesia, empirical analysis is needed to provide policy recommendations for optimizing future social assistance programs.

The urgency of this research is driven by several factors. First, the significant increase in the social protection budget to IDR 496.8 trillion in 2024 demands rigorous evaluation to ensure that public funds are being used effectively (Bazzi et al., 2020). Second, the post-pandemic recovery period provides a unique opportunity to assess how social assistance programs function as automatic stabilizers during economic shocks (Suryahadi et al., 2021). Third, the simultaneous decline in both the Gini ratio and poverty rate in 2023–2024 requires empirical analysis to determine the causal contribution of social assistance programs. Fourth, persistent regional disparities between urban and rural areas and between Western and Eastern Indonesia highlight the need for differentiated policy recommendations (Mukherjee et al., 2024). Without such evaluation, policymakers lack evidence-based guidance for optimizing future social assistance programs. The novelty of this research lies in its comprehensive, time-series approach using the most recent available data (2019–2024), its simultaneous analysis of multiple social assistance programs (PKH, BPNT, BLT, and total budget), and its focus on the post-pandemic recovery period, which has not been extensively studied in existing literature. Unlike previous studies that examined single programs or shorter time periods, this research provides an integrated evaluation of Indonesia's entire social protection system.

The purpose of this study is to analyze the effectiveness of social assistance programs in reducing economic inequality in Indonesia from 2019 to 2024. The contribution of this research is to provide empirical evidence on the impact of PKH, BPNT, BLT, and the total social protection budget on the Gini ratio, poverty rate, and percentage of expenditure of the bottom 40% of the population. The benefits of this research include: first, providing evidence-based recommendations for policymakers to optimize social assistance program design and implementation; second, offering insights for program managers to improve targeting accuracy and graduation mechanisms; third,

contributing to academic literature on social protection effectiveness in developing countries; and fourth, informing public debate on the role of social assistance in reducing economic inequality.

RESEARCH METHODS

Research Design

This study uses a quantitative approach with a descriptive-evaluative research design to analyze the effectiveness of social assistance programs on reducing economic inequality in Indonesia. The research method chosen is secondary data analysis using a time series approach to examine trends in poverty and inequality indicators during the 2019-2024 period.

Data Sources

Data on poverty, the Gini ratio, and the socioeconomic profile of the community were obtained from the Central Statistics Agency (BPS). Information on social assistance programs and the number of beneficiaries was obtained from the Ministry of Social Affairs of the Republic of Indonesia, while data related to budget allocations for social protection programs came from the Ministry of Finance. Additionally, program integration data was obtained from the National Team for the Acceleration of Poverty Reduction. This study used several variables classified as dependent, independent, and control variables. The dependent variables included the Gini ratio, which measures inequality in income distribution on a scale of 0–1; the poverty rate, measured by the percentage of the population below the national poverty line; and the percentage of expenditure of the bottom 40%, an indicator of income distribution according to World Bank standards.

The independent variables consisted of the Family Hope Program (PKH) based on the number of beneficiaries and the amount of assistance; Non-Cash Food Assistance (BPNT) based on the coverage and value of assistance; and Direct Cash Assistance (BLT), including the Food Risk Mitigation BLT. Furthermore, the total social protection budget allocation was also used as an independent variable. For control variables, this study considers economic growth (GDP growth rate) to control for macroeconomic factors, the inflation rate (both general inflation and food inflation), and the unemployment rate as an indicator of labor market conditions. The data analysis technique used is descriptive analysis, which aims to describe the characteristics of the data and the development trends of each variable. This analysis includes descriptive statistics such as mean, median, and standard deviation; temporal trend analysis to observe the pattern of indicator changes over time; and comparisons between regions, particularly between urban and rural areas.

RESULTS AND DISCUSSION

Trends in Indonesia's Economic Inequality

Data analysis shows significant improvements in Indonesia’s income distribution during the study period. The national Gini ratio fluctuated with a downward trend, from a high of 0.388 in March 2023 to 0.379 in March 2024. This 0.009-point decline represents the lowest level in a decade and is below pre-pandemic levels (BPS, 2024). The decline in inequality occurred in both urban and rural areas, but with different characteristics. In urban areas, the Gini ratio declined at a more moderate rate, while in rural areas the decline was more significant. It reveals that social assistance programs have had a greater impact on rural communities, which generally have more limited economic access (Sumarto & Bazzi, 2021). Based on World Bank indicators, the percentage of spending by the bottom 40% of the population increased from 18.04% in March 2023 to 18.40% in

March 2024. This increase indicates that low-income groups experienced improvements in purchasing power relative to other groups (Razavi et al., 2024).

The Impact of the Family Hope Program on Inequality

The Family Hope Program has demonstrated high effectiveness in reducing economic inequality. With a coverage of 10 million beneficiaries in 2018 and a budget of nearly IDR 10 trillion in 2016, the Family Hope Program (PKH) directly impacted recipient families by an average of 14% in consumption (Cahyadi et al., 2020). Analysis shows that PKH successfully raised recipient families' consumption from 79% of the poverty line to 90%. This impact is not only evident in the economic aspect, but also in human capital investment through increased educational participation (Triyana & Tran, 2020). Data shows an increase in school enrollment at the elementary school level of 2.3% and junior high school of 4.4%. The independent graduation rate of PKH reached 621,789 beneficiaries, or 6.21% of total recipients, in 2018, exceeding the 2019 target of 8%. This graduation phenomenon indicates that PKH serves not only as a safety net but also as a springboard for upward economic mobility (Yuliani & Nasrudin, 2024).

Effectiveness of Non-Cash Food Assistance

The transformation from the Rastra program to the BPNT program has shown significant improvements in effectiveness. The BPNT program successfully reached 18.8 million beneficiaries (KPM) with a cashless system worth IDR 200,000 per month per family (Nursyamsi et al., 2021). The Prosperous Family Card (KKS) system, as a distribution instrument, has been proven to improve targeting accuracy and reduce program leakage (Microsave Consulting, 2019). However, according to research by Fadhli and Nazila (2023), BPNT showed a partial negative impact on poverty alleviation, while PKH showed a positive impact. Simultaneously, both programs contributed 53.3% to poverty alleviation effectiveness, with the remaining 46.7% explained by other factors. The effectiveness of BPNT is evident in its impact on stabilizing food prices and increasing access to more balanced nutrition (Olken et al., 2019). The program also encourages economic digitalization through cashless transactions at e-warongs, which contribute to local economic development.

Synergy Between Social Assistance Programs

Data shows that the integration of various social assistance programs through the KKS system increases the effectiveness of the overall social protection system (Suryahadi et al., 2021). PKH recipients who also receive BPNT, KIS health insurance, and other complementary programs show a higher graduation rate. The Next Generation Integrated Social Welfare Data System (SIKS-NG) has improved coordination and synchronization between programs (Bazzi et al., 2020). Twice-annual data updates ensure accurate targeting and reduce duplication of beneficiaries between programs.

Regional Disparity Analysis

Despite improvements in inequality nationally, significant disparities remain between regions. The rural poverty rate was recorded at 11.79%, while the urban poverty rate was 7.09% in March 2024 (BPS, 2024). This gap indicates the need for differentiated strategies in implementing social assistance programs (Mukherjee et al., 2024). Eastern Indonesia, particularly Papua and Nusa Tenggara, still exhibits higher levels of poverty and inequality than other regions. Geographical conditions, limited infrastructure, and the socioeconomic characteristics of indigenous communities are factors influencing the effectiveness of social assistance programs in these regions (Dewi et al., 2024).

Macroeconomic Impact of Social Assistance Programs

The social protection budget allocation of IDR 496.8 trillion in 2024 has a multiplier effect on the national economy (Kementerian Keuangan, 2024). Social assistance programs not only serve as automatic stabilizers during recessions but also as a demand-side stimulus that boosts domestic consumption (Suryahadi et al., 2021). The spillover effects of social assistance programs are evident in increased economic activity at the local level, particularly in the retail and service sectors. The program's digitalization through cashless systems also contributes to financial inclusion and the development of the fintech ecosystem (J-PAL, 2020).

Effectiveness Evaluation Based on Performance Indicators

Based on various performance indicators, social assistance programs demonstrate varying levels of effectiveness:

Table 1. Social Assistance Program Effectiveness Indicators 2019-2024

Indicator	2019	2020	2021	2022	2023	2024
Gini Ratio	0,382	0,381	0,384	0,381	0,388	0,379
Poverty Rate (%)	9,22	10,19	10,14	9,57	9,36	8,57
Number of Poor People (Millions)	25,14	27,55	27,54	26,16	25,90	24,06
PKH Coverage (Millions of Beneficiary Families)	10,0	10,0	10,0	10,0	10,0	10,0
BPNT Coverage (Millions of Beneficiary Families)	15,6	20,0	18,8	18,8	18,8	18,8
Social Protection Budget (Rp Trillions)	308,4	405,1	408,8	460,6	439,1	496,8

Data shows a strong negative correlation between increases in the social protection budget and poverty and inequality levels. Despite fluctuations during the 2020-2021 pandemic, the long-term trend shows consistent improvement.

Cost-Effectiveness Analysis

The Family Hope Program (PKH) demonstrates high cost-effectiveness, with relatively low costs per beneficiary but significant impacts. With an average annual assistance value of IDR 1.89 million per beneficiary, PKH can increase family consumption by 14% and encourage investment in human capital (Cahyadi et al., 2020). The Non-Cash Cash Transfer (BPNT) program, with a cost of IDR 2.4 million per beneficiary per year (IDR 200,000 x 12 months), has a direct impact on food security and consumption stabilization (Olken et al., 2019). Although its impact on poverty reduction is not as optimal as PKH, BPNT makes a significant contribution to family nutrition and health (Alderman & Yemtsov, 2014).

CONCLUSION

This study concludes that social assistance programs have made a significant contribution to reducing economic inequality in Indonesia during the 2019–2024 period. The Gini ratio decreased from a high of 0.388 in March 2023 to 0.379 in March 2024, the best achievement in the past decade. The poverty rate was also successfully reduced from 16.66% in 2004 to 8.57% in September 2024. The Family Hope Program demonstrated the highest effectiveness, with a 6.21% independent graduation rate and a 14% increase in family consumption. This program serves not only as a safety net but also as a springboard for upward socioeconomic mobility. Integration with complementary programs such as BPNT (Non-Cash Food Assistance), KIS (Health Insurance Card), and other empowerment programs enhances the overall effectiveness of the social protection system. The transformation of the distribution system from cash to non-cash through the Prosperous Family Card (Kartu Keluarga Sejahtera) has improved targeting accuracy and program transparency.

The Next Generation Integrated Social Welfare Data System enables better coordination between programs and reduces duplication of beneficiaries. Despite positive results, significant regional disparities remain between urban and rural areas, as well as between Western and Eastern Indonesia. The rural poverty rate (11.79%) remains significantly higher than the urban poverty rate (7.09%), indicating the need for a more differentiated strategy. The social protection budget allocation of IDR 496.8 trillion in 2024 has a multiplier effect on the economy by increasing domestic consumption and stimulating the local economy. Social assistance programs also contribute to the digitalization of the economy and financial inclusion. To achieve optimal effectiveness, increased coordination between programs, refinement of the targeting system based on real-time data, and the development of a more systematic program exit strategy are needed. Focusing on developing the economic capacity of beneficiaries through empowerment programs and skills training is key to long-term success in reducing economic inequality and achieving inclusive development.

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