

Without intervention, model shows COVID-19 will drag at least 3.6 million Indonesians into poverty

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Credit: AI-generated image ([disclaimer](#))

The COVID-19 lockdowns are projected to cause a decline in economic growth due to the restrictions on labour activities and economic production.

For Indonesia—a [developing country](#) with the second-biggest population in East Asia and the Pacific—the human costs of the [pandemic](#) could be catastrophic.

The pandemic threatens to raise [poverty](#) again after decades of positive trends in reducing the [poverty rate](#). It reached single digits (9.82%) for the first time in 2018.

Our team at the National Development Planning Agency (Bappenas) conducted simulations using household survey data to see how the pandemic—along with the [social safety nets](#) currently being provided—will affect poverty in Indonesia.

If the rate of economic growth slows to zero, our results indicate the poverty rate will rise to 10.54%. At least 3.6 million people will be plunged below the poverty line, adding to the 24.79 million people recorded in September 2019.

How does the model work?

That result is based on the worst scenario should Indonesia's GDP growth plummet to 0%.

Our simulations generated a total of 10 scenarios. These are based on two groups of assumptions.

First, whether Indonesia is able to maintain its target economic (GDP) growth. We consider two scenarios, one using [the government's current goal of 2.3%](#), and another based on 0% growth.

Second, how accurately the government can execute its three [recently expanded programs](#) – conditional cash transfer through the Family Hope Program, the Staple Food Assistance and also an unconditional cash

transfer scheme—due to COVID-19.

Under an optimistic scenario, in which the government maintains [its growth target of 2.3%](#) supported by the "right" intervention, the poverty rate could be as low as 9.24%.

This is only a slight increase from the baseline in September 2019, when poverty reached [a low of 9.22%](#).

However, this is only possible if the government's unconditional cash transfer program is perfectly targeted.

This means the assistance reaches every eligible person who who has been erroneously excluded from food assistance and conditional cash transfer through the Family Hope Program. Currently, only 42.6% and 44% of people enrolled in the Family Hope Program and food assistance, respectively, actually receive the assistance.

For the calculation itself, we used differing poverty thresholds to determine whether a person is poor or not—instead of just [the national threshold](#) of around US\$28.70 per month per person. We did this because economic conditions vary between provinces, especially during the COVID-19 pandemic.

We considered at least four variables affecting people's consumption during the pandemic:

- [current level of consumption](#) as a proxy for income
- sector-specific [economic growth](#) (agriculture, services, or manufacturing), based on internal Bappenas data
- employment status based on estimates of potential laid-off workers obtained from the Ministry of Manpower
- receipts of government support through fiscal stimulus packages

such as Family Hope Program, food assistance and unconditional cash transfer.

These variables will determine people's consumption levels by the end of 2020. If a person's consumption is below the poverty threshold, it means he or she is poor.

How certain can we be about these numbers?

All projections related to the pandemic come with a wide margin of error; it is impossible to be certain about the magnitude of pandemic impacts.

If the GDP growth approaches a double-digit negative figure, as was the case [during the 1998 financial crisis](#), increases in poverty will be much larger than what this model suggests.

However, what is certain is that, regardless of the extent of government interventions and growth scenarios, poverty will rise everywhere for the first time in the developing world.

This includes Indonesia, at least in the short term.

What does this mean for poverty alleviation?

In keeping with the country's newly earned democratic traditions, the government has encouraged open discussions on the likely impact on poverty. It has even prepared for [a zero-growth scenario](#).

Lessons learned from past policies have also led to significant improvements in policy planning.

However, success still depends on the capacity of local governments to efficiently manage existing cash assistance and other safety-net schemes, as well as actively updating databases for better targeting.

Even for the Bappenas projections to materialize under a non-negative growth scenario, local government officials must be more pro-active in three aspects.

First, local supply chains should be protected to avoid food shortages and food price inflation.

Second, local [government](#) must identify and target the new poor emerging after the pandemic and reach out to those in informal sectors.

Third, after months of social assistance intervention and restrictions on economic activity, [economic empowerment programs](#) for those in informal sectors is essential to help them return to work when the economy restarts.

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