

## EXECUTIVE SUMMARY

# Kartu Prakerja: Indonesia's Digital Transformation and Financial Inclusion Breakthrough

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The COVID-19 pandemic has emphasized the importance of having Government-to-Person (G2P) payments that could deliver the much-needed social assistance to the affected individuals and family in a safe, secure, and efficient manner. The Medium-Term National Development Plan (RPJMN) 2020-2024 has also strategically put the advancement of digitalization as well as integration of social assistance and subsidy programs to strengthen social protection. An assessment built on COVID-19 social assistance responses' beneficiaries experience could shed light on if and how well the envisioned recipient-centric G2P payment system<sup>10</sup> would have served the same demands as well as the constraints that need to be addressed to maximize the benefits of the recipient-centric model to both recipients and the G2P social assistance programs.

Therefore, the World Bank and the National Team for the Acceleration of Poverty Reduction (TNP2K)'s Secretariat, supported by the G2Px Initiative Fund and the Indonesia Human Capital Acceleration Multi Donor Trust Fund (IHCA-MDTF)<sup>11</sup>, conducted a study to learn the implementation of COVID-19 social assistance responses, understanding the adequacy of the responses in meeting the beneficiaries' needs, and supporting further improvement of G2P payment system based on the lessons learn from the COVID-19 large-scale and rapidly changing circumstances. While this study covers the flagship programs of Government of Indonesia's social assistances, including Program Kartu Prakerja, Program Keluarga Harapan (PKH), and Program Sembako, this document solely presents the results of Kartu Prakerja program, as the results analysis of PKH and Program Sembako are still ongoing. The complete study results will be available later in 2022.

Launched in April 2020, Kartu Prakerja is the first active labor market policy and social assistance program in Indonesia with end-to-end digital implementation and recipient-centric G2P payment mechanism. Kartu Prakerja allows its beneficiaries to choose the account providers (bank or non-

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<sup>1,2</sup> TNP2K Secretariat; <sup>3,4,5,6,7,8,9</sup> World Bank

<sup>10</sup> Recipient-centric G2P or also known as G2P 3.0 is a term used to describe G2P payment system which enables beneficiaries to choose over multiple channels. For more information:

[https://www.cgap.org/sites/default/files/publications/2019\\_09\\_FocusNote\\_Future\\_G2P\\_Payments\\_0.pdf](https://www.cgap.org/sites/default/files/publications/2019_09_FocusNote_Future_G2P_Payments_0.pdf)

<sup>11</sup> IHCA-MDTF is co-funded by Bill & Melinda Gates Foundation and Tanoto Foundation

bank) and the type of accounts (bank or e-money<sup>12</sup> account). This is expected to improve efficiency for the beneficiaries, Payment Services Providers (PSPs), as well as program administrators (the government).

The study on Kartu Prakerja combined both quantitative and qualitative approaches. A phone survey was conducted by SurveyMETER in October 6-25, 2021, to 1,000 Kartu Prakerja beneficiaries across 50 subdistricts across 50 districts in 25 provinces. These beneficiaries were selected into the program in Batch 7-11 (or enrolled between September-November 2020). During the same period, in-depth interviews were conducted with the program owner (PMO or Project Management Office of Kartu Prakerja) and PSPs at the central level to learn their experiences with the current G2P payment systems of Kartu Prakerja, including breakthroughs and challenges related to G2P payment delivery. To confirm and explore further the quantitative results, the team also conducted Focus Group Discussion (FGD) and in-depth interviews with several groups of Kartu Prakerja beneficiaries.

### **Key Message 1:**

#### **9 out of 10 respondents had completed Kartu Prakerja program from selection until receiving the post-training incentives.**

Among those who were selected into the program, 95.7% purchased the first training within 30 days. Meanwhile, those who did not purchase the training within the designated time will have their enrolments revoked and the benefits allocated will be returned and used for the next batch. To receive the post-training incentives, Kartu Prakerja beneficiaries are required to complete and give rating and review their first trainings as well as link bank/e-money account to Kartu Prakerja system. Among those who purchased the first training or called “effective beneficiaries”, 94.9% confirmed receiving the post-training incentive. The remaining analysis in this executive summary were based on the effective beneficiaries.

More than 6 out of 10 beneficiaries first heard Kartu Prakerja program mainly from family, colleagues, or friends, while others from social media and news. Most of Kartu Prakerja beneficiaries reported to register smoothly to the program (66.9%) and were able to purchase Kartu Prakerja training easily (78.2%). Prior to receiving Kartu Prakerja, 83.1% beneficiaries claimed that they had never attended any training, both offline and online.

### **Key Message 2:**

#### **Majority of the respondents were satisfied with their first Kartu Prakerja trainings and driven by intrinsic motivation and/or post-training incentives to complete their first trainings.**

Around 96.1% of all Kartu Prakerja beneficiaries conveyed satisfaction of their first training. Most of the beneficiaries completed the first trainings to increase their competency or were interested in the training contents (41.4%) and/or to receive the post-training incentives (43.0%). Around 79.9% of the beneficiaries shared that they chose the first training on their own, while the remaining 21.1% were influenced by other household members, colleagues, or friends. On average, Kartu Prakerja

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<sup>12</sup> Per PBI No. 23/6/PBI/2021, the technical terminology is registered server-based electronic money account. In simple term, electronic money or e-money usually uses mobile phone as the media device and requires the completion of customer due diligence (KYC) process to record the identity information of the account owner.

beneficiaries purchased 1-2 trainings using the benefit. The trainings bought were commonly on the topics related to their employment sectors.

### **Key Message 3:**

#### **The use of e-money as one of the payment methods contributed positively to financial inclusion goal.**

The study found that 76.6% of beneficiaries preferred using e-money account to receive post-training incentives while the rest opted for bank account. Easiness, habit, and trust are main factors in selecting the type of account to be used. For most beneficiaries, opening an e-money account is considered easier than a bank account. The addition of e-money in Kartu Prakerja payment mechanism has also contributed positively to the financial inclusion in Indonesia. The study found that the majority of Kartu Prakerja beneficiaries (58.5%) are either first-time users of e-money (49.8%) or bank account (8.7%).

Kartu Prakerja's innovative program design and payment mechanism indeed bring various advantages to the beneficiaries, program owner, as well as PSPs. The study confirmed that Kartu Prakerja beneficiaries have benefited from an easy onboarding process, e-money that encourages cashless transactions as well as more available access points to choose from and grievance mechanisms. PMO as program owner also gains advantages in its implementation, in the form of an easy and intuitive onboarding process, efficient monitoring and evaluation system, and support to financial inclusion. Meanwhile, Kartu Prakerja's PSPs shared that they had gained additional new users, potential cross-selling, additional new access points, as well as the drive to innovate digital services.

### **Key Message 4:**

#### **Most beneficiaries immediately cash out their incentives after receiving them in their payment accounts. Majority of the respondents use the incentive to purchase food and/or for working capital.**

Once incentive reached the preferred accounts, 69% beneficiaries cash out the whole amount while the rest 31% either cash out the incentive partially or none at all. The absence of supportive digital ecosystem and beneficiaries' preference to use their other (non-Kartu Prakerja) accounts are some reasons for the low digital transactions in the bank/e-money accounts used to receive the post-training incentive. Majority of beneficiaries also did not experience any difficulty during the cashing-out process and spent a relatively short amount of time to receive the money on hand. Overall, post-training incentive was used for food consumption (74.2%), working capital (43.7%), and/or bills payment (37.8%). Around 96.4% of all beneficiaries reported satisfied with the cashless disbursement method, with no difference between bank and e-money users. The main reason was due to how fast beneficiaries received the incentive after completing the training.

### **Key Message 5:**

**Expansion of more bank account provider options to receive the post-training incentive would increase bank account use. The inclusion of one private bank early this year is a welcome addition to the notion.**

Almost 90% beneficiaries considered that Kartu Prakerja had provided sufficient selection of PSPs to select from. However, some beneficiaries preferred to use their existing bank accounts to receive the post-training incentive. More bank account provider options could bring more positive impact, particularly in the usage of bank accounts. However, the addition process of PSPs into Kartu Prakerja's payment ecosystem must be carefully evaluated by taking into account all cost and potential benefits. The addition of one more private bank account provider into Kartu Prakerja's post-training incentive payment system in early 2022 is a welcome development.

### **Policy implication towards advancing G2P payments in Indonesia**

Kartu Prakerja's experience provided many important lessons-learned in advancing G2P payment mechanism in Indonesia. Kartu Prakerja is the first government program to implement recipient-centric G2P payments in Indonesia by introducing some innovations. Prakerja program included 100% end-to-end digital process from onboarding to incentive payment resulting with large-scale G2P payment in a fast and transparent manner. Kartu Prakerja also enabled its beneficiaries to choose the most suitable transaction account based on their consideration of channel location, range of services, etc. Expanding account provider options, including e-money providers, allowed competition among PSPs to encourage innovations and service improvement. Kartu Prakerja has invited all interested PSPs (state owned and private) to participate in Kartu Prakerja payment ecosystem. Further expansion of bank account provider options is expected to increase bank account use.

Like other transformative social assistance programs, Kartu Prakerja provides access to transaction accounts to its beneficiaries. In addition, Kartu Prakerja has provided a better opportunity for its beneficiaries to access Digital Financial Services. Unfortunately, such access has not been fully utilized by the beneficiaries. To address this issue, Kartu Prakerja needs to work with many stakeholders. Opportunity has been created but more support from the government and relevant financial inclusion policy makers will be needed to create more use cases options and encouragements so that vibrant use of digital payments can be reached. Lastly, financial inclusion policy makers could collaborate with payment providers in offering tailored financial literacy programs for beneficiaries and leveraging G2P payment programs, such as Kartu Prakerja, to promote financial inclusion further.

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