

Policy Article

Bridging the Gap: Strengthening Adaptive Social Protection for Indonesia's Missing Middle Class

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Summary

Indonesia faces unique and interconnected social and economic challenges stemming from high informality rates, rapid aging, and vulnerability to disasters. These challenges disproportionately affect a critical demographic—the “missing middle class”—a group often overlooked in traditional social protection frameworks. Addressing their needs through an Adaptive Social Protection (ASP) system is essential for ensuring economic stability, upward mobility/productivity, and resilience against shocks.

Keywords: Adaptive Social Protection (ASP); Middle Class; Vulnerability; Disaster Risk Management; Economic Mobility; Gender Inequality

Understanding the “Missing Middle Class” in Indonesia

According to the World Bank definition, the middle class in Indonesia comprises individuals with incomes ranging from IDR 1.2 million to IDR 6 million per month, or equivalent to IDR 14.4 million to IDR 72 million per year. Meanwhile, the lower-middle class consists of individuals earning IDR 532,000 to IDR 1.2 million per

month, or IDR 6.38 million to IDR 14.4 million per year. The middle class is generally characterised by higher education levels, stable employment, and economic status between poverty and wealth. This group plays a crucial role in the national economy, acting as the primary driver of economic growth through high domestic consumption. The strength of the middle class creates a stable consumption base, which in turn drives more productive investments and bolsters the

growth of various economic and social sectors. Based on the composition of Gross Domestic Product (GDP), household consumption accounts for more than half of Indonesia's GDP, indicating the significant contribution of this group. Additionally, with a significant population and as major taxpayers, the middle class provides the largest tax contribution compared to the upper and lower economic classes, strengthening the country's revenue base.

In 2024, Indonesia's middle class comprised only 17 percent of the total population, or approximately 48 million people, while 49 percent remained part of the "aspiring middle class" - a segment of the population highly vulnerable to falling into poverty¹. The remainder is divided into the vulnerable/at-risk-of-poverty group (24 percent) and those living below the poverty line (9 percent). This reflects a worrying downward trend over the past five years. In 2019, Indonesia's middle class accounted for 21.45 percent of the population, but this figure dropped to 17.13 percent in 2024. Meanwhile, the percentage of the poor slightly decreased by 0.37 percentage point from 9.41 percent in 2019 to 9.04 percent in 2024. On the other hand, the percentage of the vulnerable poor sharply increased, from 20.56 percent in 2019 to 24.23 percent in

2024. Similarly, the aspiring middle class experienced a slight increase from 48.20 percent in 2019 to 49.22 percent in 2024 (see **Table 1**). These figures reflect an economic stability decline, increased economic vulnerability, and a weakening welfare. This condition indicates the need to strengthen social protection to support the aspiring middle class and vulnerable groups while maintaining and expanding the established middle class to drive sustainable economic growth.

Based on generational characteristics, the middle class is predominantly represented by Generation X at 24.7 percent, followed by Millennials (Generation Y) at 24.6 percent, Generation Z at 24.23 percent, and the remaining 12.62 percent are boomers and 1.12 percent are pre-boomers (see **Table 2**). This data indicates that the middle class is evenly distributed among these three generations. The distribution highlights the diverse needs of each group and underscores the importance of designing policies that address their varying life stages, necessitating the creation of inclusive, cross-generational policies. Generation X, who are approaching retirement, should have their needs prioritized in terms of financial security and retirement planning. Meanwhile, policies

Table 1. Indonesia Population by Expenditure Class in 2019 and 2024

No.	Category	Expenditures Per Month Per Capita	2019 (Million Individuals)	2019 (%)	2024 (Million Individuals)	2024 (%)
1.	Upper Class	>Rp9,904,844	1.02	0.38	1.07	0.38
2.	Middle Class	Rp2,040,262 - Rp9,909,844	57.33	21.45	47.85	17.13
3.	Aspiring Middle Class	Rp874,398 - Rp2,040,262	128.85	48.20	137.50	49.22
4.	At-Risk Class	Rp582,932 - Rp874,398	54.97	20.56	67.69	24.23
5.	Poor	<Rp582,932	25.14	9.41	25.22	9.04
TOTAL POPULATION			267,28		279,33	

Source:

- <https://www.cnbcindonesia.com/news/20240828135227-4-567097/bps-948-juta-warga-kelas-menengah-ri-turun-kelas-gara-gara-pandemi>
- https://www.instagram.com/databoks.id/p/C_Scr70y0a3/?img_index=1

¹ <https://www.cnbcindonesia.com/news/20240828135227-4-567097/bps-948-juta-warga-kelas-menengah-ri-turun-kelas-gara-gara-pandemi>

Table 2. The Indonesia Middle Class by Generation in 2024

No.	Generation	Year of Birth	Total Number (Individuals)	%
1.	Pre-Boomers	Before 1946	536 thousands	1.12
2.	Boomers	1946 - 1964	6.1 million	12.62
3.	Generation X	1965 - 1980	11.85 million	24.77
4.	Millennial/Generation Y	1981 - 1996	11.77 million	24.6
5.	Generation Z	1997 - 2012	11.54 million	24.12
6.	Generation Alpha	2013 - 2024	6.1 J million	12.77
TOTAL MIDDLE CLASS			47.85 million	

Source: <https://www.cnbcindonesia.com/news/20240830190043-4-567915/siapa-saja-kelas-menengah-di-indonesia-ini>

should focus on skill development and career advancement for Millennials and Generation Z, who are still in the early phases of their careers. This approach will help ensure that they are well-prepared to thrive in an ever-evolving job market and can begin saving for their retirement early on.

The economic vulnerability of the middle-class population, particularly the aspiring middle class, is an issue that cannot be overlooked. External shocks, such as disasters, inflation, and economic downturns, can potentially regress this group into poverty. The economic burden on the middle class is compounded by their role as the backbone of the nation's tax revenue. Recent policy interventions, such as increases in value-added tax (VAT) rates, fuel subsidy restrictions, carbon taxes, mandatory vehicle insurance, and the People's Housing Savings Programme (*Tabungan Perumahan Rakyat/Tapera*), have further strained their purchasing power. This cumulative pressure reflects the fragile financial state of a large portion of society and highlights the urgent need for a stronger social protection system.

Thus, both existing and future policies must be designed to help people cope with significant financial pressures, manage immediate shocks, and address long-term uncertainties. Without adequate efforts to protect this group, whose role is vital to the

national economy, the opportunities for improving social mobility and productivity will remain fragile. Moreover, Indonesia's economic stability risks being undermined. Therefore, strengthening inclusive and long-term social protection is essential to ensure that the middle class, especially the aspiring middle class, can survive and contribute optimally to sustainable economic development.

Indonesia's Social Protection Landscape: Strengths and Challenges

Indonesia has made significant progress in strengthening its social protection system.

Key programmes such as the Non-Contributory Health Insurance Component of National Health Insurance Programme (*Penerima Bantuan Iuran Jaminan Kesehatan Nasional/IPBI JKN*), the Family Hope Programme (*Program Keluarga Harapan/PKH*), and the Non-Cash Food Assistance (*Bantuan Pangan Non-Tunai/BPNT*) have provided crucial support to millions of low-income households, helping to reduce poverty over the past decades. These programmes, complemented by continuous improvements to the Unified Social Welfare Data (*Data Terpadu Kesejahteraan Sosial/DTKS*), which is currently transitioning towards a Single Social and Economic Registration Data (*Satu Data*

Tunggal), prioritise over 100 million low-income individuals and form the backbone of Indonesia's targeted assistance efforts. Additionally, the country continues to advance its digital payment systems and enhance financial inclusion, facilitating efficient cash transfers to poor and vulnerable households, especially during disasters and other emergencies.

Despite these strengths, significant challenges persist within the social protection system that require urgent attention. One of the primary challenges is the limited coverage of social protection for workers in the informal sector, which constitutes 59 percent of Indonesia's workforce. Many of these workers, particularly women, lack access to formal social protection schemes, such as social security for employment, including pensions and old-age benefits. Moreover, women experienced compounded disadvantages, earning 22 percent less than men and being underrepresented in social security programmes (Sakernas, February 2024).

Furthermore, the current social protection system is largely designed to address chronic poverty and is not adequately equipped to respond to sudden shocks, such as disasters or the slow-onset impacts of climate change. Indonesia is highly vulnerable to climate change, with rising sea levels and extreme weather events threatening livelihoods, particularly in coastal and rural areas. Unfortunately, long-term disaster and climate adaptation measures have not yet been fully integrated into the social protection framework. Currently, disaster and climate change management in Indonesia primarily focuses on short-term impacts, which remain essential for saving lives and providing safety nets for individuals and families struggling to meet basic needs due to disasters. However, greater attention is needed to address long-term impacts, such as livelihood loss caused by disasters. Social safety nets must not only provide temporary relief but also empower communities to recover and improve their economic

conditions post-disaster, ensuring the sustainability of their lives and well-being.

The Case for Adaptive Social Protection (ASP)

To address these challenges, Indonesia has adopted the Adaptive Social Protection (ASP) approach as part of its Long- and Medium-Term Development Plan (Rencana Pembangunan Jangka Panjang/RPJP and Rencana Pembangunan Jangka Menengah/RPJM). ASP integrates traditional social protection programmes with disaster risk management and climate adaptation strategies, thereby creating a flexible and dynamic system capable of responding to the country's complex vulnerabilities. The adoption of ASP is crucial for Indonesia for several reasons

- 1. Disasters:** Indonesia is highly vulnerable to various types of disasters, whether caused by natural, human-made, or technological hazards. Data from the National Disasters Management Agency (*Badan Nasional Penanggulangan Bencana/BNPB*) shows that Indonesia experienced more than 3,000 disaster events between 2000 and 2020. An ASP system can provide more timely and measured responses to frequent shocks, ensuring that assistance reaches those most in need during disasters.
- 2. Climate Change:** As the impacts of climate change intensify, Indonesia must integrate its long-term strategies, such as livelihood diversification and coastal protection, into its social protection system. These measures will help vulnerable populations adapt to the effects of extreme weather events.
- 3. Economic Shocks:** ASP systems are expected to better adapt to economic fluctuations, including inflation, job losses, and other macroeconomic instabilities to protect vulnerable populations from falling deeper into poverty. This includes communities from the economic crises triggered by disasters.

Reimagining Indonesia's Future: A Call for Policy Shifts to Strengthen Resilience and Inclusivity

The complex economic and social landscape faced by Indonesia underscores the pivotal role of the middle class, along with the aspiring middle class, in sustaining economic growth and resilience. However, this critical group remains highly vulnerable to rising living costs, financial insecurity, and limited opportunities for mobility and productivity. It is now imperative to reassess existing policy approaches and create a more robust framework that not only supports the middle class but also empowers those striving to ascend into it.

Strengthening the Middle Class and the Aspiring Middle Class

To safeguard the middle and aspiring middle class, Indonesia must ensure accessibility to basic needs to protect its financial stability. Expanding access to education, healthcare, and affordable housing is essential to alleviate the financial pressures that often drive individuals and families into economic crises. Without such support, the aspiration for greater mobility and productivity will remain unattainable for many.

In addition, targeted tax incentives should be introduced to provide financial support for middle-income groups to thrive. Such policies would help foster greater financial stability, enabling families to invest in their future. At the same time, it is crucial to prioritise career development opportunities and skill-building programmes, especially for Millennials and Generation Z. By equipping younger generations with the skills needed to excel in an evolving job market, Indonesia can ensure that they not only prosper but also make meaningful contributions to the nation's economic growth.

For Generation X within the middle class, access to social security for health (*Jaminan Kesehatan Nasional*/JKN) and social security for

employment (*Jaminan Sosial Ketenagakerjaan*) is fundamental to maintaining their economic stability, particularly during crises and as they prepare for old age. In disaster situations, social assistance schemes must strategically prioritise this group to prevent economic setbacks for their families. Meanwhile, for Boomers and Pre-Boomers, social protection through adequate pension benefits and easy access to quality healthcare facilities is crucial. Ensuring these needs are met not only supports individual well-being but also contributes to broader social and economic stability.

Expanding Social Protection Coverage

One of the most pressing gaps in Indonesia's current social protection policy landscape is the exclusion of a significant portion of the productive and vulnerable workforce, particularly those working in the informal sectors, from the social security for employment membership. With 59 percent of the population employed in the informal sector, limited access to basic social security programmes such as social security for employment, especially pension funds, leaves millions vulnerable to poverty and economic shocks. In addition, strategies to improve the capacity of informal workers through education and skills training programs are needed to support their social and economic mobility. It is essential to prioritise the inclusion of informal workers in these vital programmes to ensure they are not marginalised as the nation progresses.

Additionally, Indonesia's social protection system must be adaptive—capable of responding more effectively to economic shocks and climate-related crises. Investing in adaptive safety nets is not an option but a necessity, and building resilience for the most vulnerable groups is imperative. The development of the ASP system must be flexible enough to absorb and respond to crises, ensuring that no one falls deeper into vulnerability or poverty during disasters

occurrence. Existing programmes, such as PKH, the Nusantara's Economic Heroes (Pahlwan Ekonomi Nusantara/PENA), Sembako, and livelihood insurance, must be complemented with more responsive delivery mechanisms and expanded accessibility for affected communities. This step is crucial to help families maintain their well-being during crises while strengthening the foundation of an inclusive and resilient social protection system.

Building Resilience Through Adaptive Systems

Indonesia's vulnerability to natural disasters and climate change is undeniable. According to BNPB, in 2024, Indonesia experienced 2,107 disasters, with Sumatra, Central Java, East Java, West Java, South Sulawesi, and West Kalimantan being the most frequently affected regions. Vulnerable groups, such as persons with disabilities, the elderly, female heads of households, and children, require special attention. However, the current systems are not yet equipped to address all these challenges. To truly protect its population, disaster risk management must be fully integrated into existing social protection schemes. The ability to provide timely assistance during crises will depend on how effectively Indonesia combines social programmes with disaster response mechanisms.

Equally important is the need to improve the integration and quality of data within DTKS. This will significantly enhance the country's capacity to respond to crises, particularly in disaster-affected areas where vulnerable populations are most at risk. By enhancing the responsiveness of existing systems to shocks, Indonesia can create a safety net that is not only reactive but also proactive in safeguarding lives and livelihoods. Supported by climate change

adaptation strategies that have been in place for 13 years since 2012, the Climate Village Programme (*Program Kampung Iklim/Proklam*) has been consistently implemented as a concrete effort by local communities to achieve low-carbon development and adapt to climate change.

Addressing Gender Inequality

According to the World Economic Forum's (WEF) Global Gender Gap Report 2024, Indonesia ranks 100th out of 146 countries globally. In 2023, Indonesia also recorded a score of 0.447 on the Gender Inequality Index (GII)². Indonesian women face disparities in various dimensions, such as secondary education attainment (a gap of 5.02 percent compared to men), labor force participation (a gap of 29.74 percent compared to men), and wages (a gap of 22 percent compared to men). Due to this, women are vulnerable to economic insecurity. These inequalities limit women's ability to accumulate assets, plan for retirement, secure their families' futures, and make them more vulnerable to job losses, domestic violence, and the dual burden of household responsibilities. Given those preconditions, closing the gender wage gap and promoting equitable employment policies must be top priorities in Indonesia's policy initiatives.

Policy reforms must focus on minimising inequality and inequity for women across all sectors, including education, labor force participation, wages, and family and community life. Such reforms would promote a more inclusive and equitable social and economic environment for women. One critical issue that requires attention is the provision of maternity leave rights, which remains inconsistent in Indonesia. This inconsistency is closely linked to business compliance with existing regulations and weak enforcement of women's labor rights. Implementing maternity leave policies is

² WEF (2024). Global Gender Gap 2024: Insight Report. June 2024. https://www3.weforum.org/docs/WEF_GGGR_2024.pdf

crucial as an effort to reduce vulnerability and provide a safety net for women to maintain income while caring for newborns³.

Furthermore, Indonesia must prioritise expanding social security coverage for women who are underrepresented in existing systems or schemes. Social protection must address women's maternity conditions, particularly for vulnerable groups such as female heads of households, elderly women, and pregnant and breastfeeding women. For instance, the participation of married women raising children in social security for employment (implemented by Badan Penyelenggara Jaminan Sosial Ketenagakerjaan/BPJS Ketenagakerjaan) is significantly lower than men in similar circumstances. This disparity leaves women more vulnerable and increases their risks in the workplace. Expanding access to and providing incentives for pensions and old-age benefits for women, particularly those working in the informal sector, is critical to addressing the systemic gaps that have long hindered their economic security.

Focusing on Generationally Inclusive Policies

The future of Indonesia lies in the hands of its younger generation. However, the current systems do not adequately support their socio-economic growth and stability. For Generation X, who are approaching retirement age, offering retirement planning and financial security measures is crucial to ensure they are not financially vulnerable in their later years. Access to old-age benefits and pension schemes is essential for this generation. For Millennials and Generation Z, who are still in the early stages of their careers, the government must create opportunities for skill development and career advancement to prepare them for the rapidly evolving job market. This also includes providing tax relief programmes, housing subsidies, and access to health and

employment-based social security, which can help strengthen their financial stability. Meanwhile, for the elderly generation, access to healthcare facilities and pension benefits will help sustain their well-being in later life. Tailoring policies to meet the unique needs of each generation—offering financial security for those nearing retirement and career opportunities for younger workers—is key to maintaining a sustainable and resilient middle class.

Final Thoughts: Go Beyond the Conventional Approach

Indonesia stands at a crossroads where challenges such as economic instability, rising inequality, and climate vulnerability demand policies that transcend conventional approaches. By strengthening the middle class, expanding social protection coverage, integrating adaptive systems, and addressing gender inequality, Indonesia can shape a future that not only protects but also empowers its most vulnerable populations. Through these comprehensive efforts, the nation can build a more resilient, inclusive, and equitable society where economic opportunities and security are accessible to all.

³ Setyonaluri, D., & Milawati, R. S. (2023). Mendorong Kesejahteraan Perempuan: Menjamin Cuti Maternitas melalui Program Jaminan Sosial Ketenagakerjaan. *Jurnal Perempuan*, 28(3), 189-203.