

Social Security in Indonesia:
Advancing the
Development Agenda



July 2008

Copyright © International Labour Organization 2008

First published, 2007

Second published, January 2008

Third published, July 2008

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

International Labour Organization
"Social Security in Indonesia: Advancing the Development Agenda"
Jakarta, International Labour Organization 2008

ISBN 978-92-2-020334-7 (print)
978-92-2-020335-4 (web pdf)

Also available in Bahasa: "*Perlindungan Sosial di Indonesia: Persiapan Pengembangan Agenda*"

Jakarta, 2008

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

Printed in Indonesia

Foreword



The enactment of Republic Law number 40 year 2004 concerning the National Social Security System (NSSS) is an important starting point to reform the social security system in Indonesia. As a developing country, Indonesia should have already started to develop its social security system which thoroughly fits with its economic-, labor-, demographic-, and cultural characteristics.

The unique characteristics of Indonesia certainly give different challenges to the development of its social security system in comparison to what has been developed in industrialized countries. Thus, creative, innovative and comprehensive conceptual thinking are considered essential. Moreover, there are many challenges which have to be addressed including limited Government financial resources and a labor market which is dominated by the informal economy in order to design a pro poor approach tackling the dilemmas of vicious cycles of poverty at their very root.

As part of the ILO's attention to the importance of the role of social security, this book describes a comprehensive approach in anticipating the implementation of the NSSS which is mandated by Republic Law number 40 year 2004. This is in line with the aggressive ILO campaign of "Coverage for All" as one of the current attempts to put this issue high on the agenda of governments and policy-makers.

PT. Jamsostek (Persero) highly appreciates this book as one of the ILO's enormous contributions in the labor- and social security sectors. We believe that this book can be an important reference in the attempt to improve social security development in Indonesia.

Jakarta, July 2008

Hotbonar Sinaga

President Director PT. Jamsostek (Persero)

Foreword



In the globalising world, social security is essential for sustainable economic and human development. Without adequate protection against social risks throughout an individual's life cycle, the global market mechanism would not be ensured to function efficiently. Improvement and extension of social security contribute to the international agenda of stability and peace, which are in turn prerequisites for sustainable development and achievement of the Millennium Development Goals.

Social security issues are an important part of the ILO's agenda. Recently the ILO's tripartite constituents have designated the decade 2006-2015 as an Asian Decent Work Decade to make a concerted and sustained effort to realize Decent Work in Asia. Extending social security coverage to excluded populations is one of the chief priorities for national action.

The *National Social Security System Act* (Law No. 40 of 2004) was a major step towards the development of a comprehensive social security system. However, Indonesia has faced a number of challenges in the implementation of the national social security system.

Over years the ILO has supported the development of social security in Indonesia through technical cooperation projects. Based on these experiences, this report reviews recent developments in social security in Indonesia and identifies areas of critical importance where further ILO input could be helpful.

I trust that this report, prepared by Kenichi Hirose, will contribute to the discussions of realistic steps to be taken to improve the existing social security schemes, and an effective action plan to implement the national social security system in Indonesia.

Within the framework of the Decent Work Country Programme for Indonesia, and in collaboration with other international organizations, the ILO continues to be committed in assisting the government and social partners in further developing a better social security system now and in the future.

Jakarta, November 2007

Alan Boulton

Director ILO Jakarta Office

Contents

Summary	11
1. Introduction	17
1.1. Overview of the development of social security in Indonesia	17
1.2. Challenges in social security in Indonesia	18
1.3. Labour force and social security coverage	19
1.4. Organisation of the report	22
2. Implementation of the National Social Security System (SJSN) Law	25
2.1. National Social Security System (SJSN) Law (Law No. 40 of 2004)	25
2.2. Issues in the implementation of the SJSN Law	26
2.3. Delay in the implementation of the SJSN Law	26
3. Reform of Jamsostek	27
3.1. Introduction	27
3.2. Current status of Jamsostek	27
3.3. Change of the legal status of Jamsostek to Trust Fund	28
3.4. Improvements in the Jamsostek governance	31
3.5. Reform of the existing Jamsostek benefit programmes	33
3.6. Feasibility of new benefit programmes for the formal sector	35
3.7. Concluding remarks	39
Appendix to Chapter 3: Summary of recommendations on Jamsostek operations and IT	40
4. Extension of social security coverage to the informal economy	43
4.1. Introduction	43
4.2. Challenges in extending social security coverage to the informal economy workers	43
4.3. Social security assessment of the informal economy workers	44
4.4. Extension of Jamsostek coverage for the informal economy workers	45
4.5. Other gaps in social insurance coverage	48
4.6. Conclusion	52
5. Social assistance for the poor	53
5.1. Introduction	53
5.2. Health insurance for the poor	53
5.3. The cash transfer system	55
5.4. A national employment guarantee programme (NEGP)	58
6. Conclusion and the ways ahead	63
Possible areas of ILO technical assistance in social security	63

Annexes

Annex A: Social security in Indonesia	65
Annex B: Statistics on Jamsostek	74
Annex C: Labour market statistics	81

References	84
-------------------	-----------

Acronyms

ASABRI	Asuransi Sosial Angkatan Bersenjata Republik Indonesia.
ASEAN	Association of Southeast Asian Nations
ASKES	Asuransi Kesehatan Indonesia.
ASKESKIN	Askes' government subsidized programme for the poor
ASSA	ASEAN Social Security Association
APINDO	Asosiasi Pengusaha Indonesia. Employers Association in Indonesia
BAPPENAS	The National Development Planning Agency
BKKBN	Badan Koordinasi Keluarga Berencana Nasional. National Family Planning Coordination Board
BPS	Busan Pusat Statistik. Statistics Indonesia
CCT	Conditional Cash Transfer
DEPNAKER	Depertamen Tenaga Kerja Dan Transmigrasi. Department of Manpower and Transmigration
DEPSOS	Department of Social Welfare
ILO	International Labour Organization
ISSA	International Social Security Association
JAMKESMAS	Jaminan Kesehatan Masyarakat
JAMSOSTEK	Jaminan Sosial Tenaga Kerja. Employees Social Security
JHT	Jaminan Hari Tua. Old-age benefit
JK	Jaminan Kematian. Death benefit
JKK	Jaminan Kecelakaan Kerja. Employment injury benefit.
JPK	Jaminan Pemeliharaan Kesehatan. Health care benefit
NEGP	National Employment Guarantee Programme
PERSERO (PT)	A profit orientated, limited liability, state company
PKH	Program Keluarga Harapan. Conditional Cash Transfer programme
PUSKESMAS	Public health centre
RASKIN	Rice subsidy for the poor
SJSN	Sistem Jaminan Sosial Nasional. National Social Security System
TASPEN	Dana Tabungan dan Asuransi Pegawai Negeri.

SUMMARY

This report summarises the recent developments in social security in Indonesia and identifies areas where additional ILO input could be helpful to Indonesia.

The scope of the report will cover the following key issues in social security:

- Implementation of the National Social Security (SJSN) Law
- Reform of Jamsostek, in particular changing its legal status to Trust Fund
- Extension of social security coverage for the informal economy workers
- Social assistance targeting the poor

Most of the policy analyses and recommendations have been drawn from the product of the technical assistance projects that the ILO has provided to Indonesia since 2000.

1. Implementation of the new National Social Security (SJSN) Law

The National Social Security System Act (SJSN Act) which came into effective on October 2004 is a major milestone in the development of social security system in Indonesia. The law anticipates the achievement of the universal coverage in a phased manner. However, the law provides a basic framework for the development of the social security and social assistance and the detailed rules will be worked out in the subsequent Presidential Regulations. There needs to be a mid-term implementation plan (road map) defining the process of implementing the SJSN Act in stages and strategic action plans that describe the goals to be achieved for each stage of implementation.

Although there is a general recognition that the SJSN Law is a first major step to develop a comprehensive national social security system in Indonesia, action to effect any concrete programmes has been delayed, and seemingly lacking in coordination and real commitment. It is hoped that the Government will develop the Road map as a priority matter so that the implementation of the national social security system can be envisaged at the earliest stage.

2. Reform of Jamsostek

The ILO project “Restructuring the Social Security Scheme” has taken the first step in assisting the ongoing long-term process of social security reform in Indonesia. The findings and recommendations made by the project provide useful information for shaping the future course of implementation of the SJSN Law.

2.1. Changing the legal status of Jamsostek into Trust Fund

The current legal status of Jamsostek as a Persero, or state-owned limited liability company, creates a number of problems including the financial control by Ministry of Finance/ State-owned Enterprises and liability to pay dividends and tax. As envisaged by the National Social Security Law (SJSN), Jamsostek should be transformed into a Not-For-Profit entity operating Trust Funds, which should improve net returns to members.

The term "Trust Fund" in relation to Jamsostek means that it would have a legal entity that is independent from Government but it would be accountable to Parliament via the tripartite Board of Trustees, through the Minister or President, by means of annual and other periodic or special reports. In particular, the reports should be accompanied by a full annual government audit and an actuarial valuation.

The Trust Fund would have the following features:

- The Trust Fund is governed by a tripartite Board of Trustees;
- It would consist of a "Fund" which receives social security contributions, interest from investments and other income and pays benefits and administrative expenses of the programme;
- Thus all income and investments (assets) would be held "in Trust" for the members. Therefore any surplus (income in excess of expenditure) should not be regarded as "profit"; it should be retained in the Fund as reserves. Investments of the assets should be decided by Trustees on the basis of professional advice, according to published Guidelines approved by the President;
- Investment income should be free of tax and returned to members; and,
- Assets are to be used exclusively for the benefit of members.

It should be noted that as long as the above principles are guaranteed there is no need to amend Law No.1 of 1995 on the Limited Liability Company or develop a new Trustees Act. A relatively simple modification in Law No.40 of 2004 on the SJSN or Law No.3 of 1992 on Jamsostek can to achieve tax-free status and thus alleviate the payment of dividends to the Government.

2.2. Improvement in Jamsostek governance

A major weakness of Jamsostek is the poor compliance and weak enforcement of social security laws. This has implications for the sustainability of most of the Jamsostek benefit programmes.

This is partly due to the fact that inspection is carried out by labour inspectors at central and local levels. It is recommended that the responsibility for inspection this should be transferred from Depnaker/Dinas to Jamsostek itself.

Jamsostek has the continuous surplus due to the excess contributions and retain substantial reserves. When Jamsostek is no longer liable for paying dividends and tax, suitable measures should be taken such as (i) increasing benefit levels, (ii) relaxing the qualifying conditions or (iii) decreasing the contribution rates.

2.3. Operations and IT systems

Operational improvements are fundamental to the further development of social security in Indonesia. Unless the institutions achieve a higher level of respect of their membership than at present, confidence in the system will be low, the level of compliance will be difficult to improve and the system may fail.

2.4. Old-age benefit (JHT)

It is recommended that the current provident fund scheme be converted partially or wholly into a pension scheme that provides an adequate income on retirement.

At the same time, the capacity of Jamsostek needs to be strengthened to service a pension scheme, especially its capacity to make periodic payments throughout the life of pensioners.

The level of the old-age benefit is not sufficient for adequate economic protection for life after retirement. The current contribution rate for old-age (5.7%) is too low to produce sufficient savings for old-age.

2.5. Employment injury benefit (JKK) and death benefit (JK)

With respect to employment injury and death benefits, the following recommendations are made:

- The compulsory coverage should be extended to all enterprises including those employing less than 10 employees;
- The employment injury benefits should be improved by extending the scope of commuting accidents, updating the list of occupational diseases, provision for vocational and physical rehabilitation; and provision of continuous maintenance of artificial aids or prosthetics;
- The death benefit should provide survivor's pensions to the dependant family members of the deceased.

2.6. Maternity benefit

The employers' liability maternity benefit can be replaced by a scheme based on social insurance principles without any increase in overall costs for maternity protection to the employers.

In view of the high incidence of maternal deaths during pregnancy or confinement, it is recommended that health care should be extended to all births (i.e. beyond the present limit of three).

2.7. Unemployment insurance

A modest cost scheme is potentially viable, and would increase the degree of social protection for insured workers in Indonesia. A wider coverage or longer-term benefit is not yet feasible given the structure of Indonesia's economy and labour market. For those not able to be covered by any scheme introduced, some form of social assistance may be a fall back option. At the same time, the Government should formulate and implement more active labour market policies for job creation.

Discussion with social partners should continue on priority, timing and funding for an alternative social security programme and on implications for the existing severance pay system.

3. Extension of social security coverage to the informal economy

There is a large unmet need for social security in the informal economy in Indonesia. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programmes based on risks, income and needs, (iv) identify group collection and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

Results of the rural and urban informal economy surveys have demonstrated that a carefully structured programme may be able to attract sufficient contributors to make a contributory scheme viable in terms of numbers, however the dispersed nature of the contributors, the variability of their income, their capacity to pay and the administration issues suggest that solutions will not be simple to develop or to maintain. The extension of social security to the informal sector is feasible if one could develop policy and programme that are flexible, affordable, sustainable and well-marketed and understood.

4. Social assistance targeting the poor

Whilst there has been little visible progress in respect of social insurance for workers in the formal employment sector, the current Government has given high priority for public interventions targeting the poor.

The most notable progress in social assistance is related to new initiatives in (i) health insurance and (ii) the cash transfer scheme for the poor. These new initiatives took place against a background of high price inflation accentuated by major fuel price increases which was increasing the financial stress on low income households. The source of this scheme is the budget surplus as a result of two oil price increases in 2005, which is estimated Rp. 89 trillion.

The first of these was the extension of coverage of the health insurance for the poor, which entitles health card holders to free treatment in public health centres (Puskesmas) and hospitals. The target for coverage is 60 million people, an increase from the initial target of 36.1 million people. In 2007, 76.4 million people were covered by this programme. This means that a group equal to around 35 per cent of Indonesia's nearly 220 million population are entitled to free health care in public facilities. A distinctive feature of this programme is that the health cards are issued by Askes¹, the public sector health insurance scheme. It reimburses hospitals for the cost of treatment of health card holders on the fee-for-service basis.

The second major change was the introduction of a cash transfer programme, also targeted at 15 million households, later expanded to 19.2 million households, assessed to be in poverty or near-poor. This programme provides grants of Rp. 100,000 (US\$10) per month to the designated households. Payment is made via post offices on the basis of a household classification procedure developed by Statistics Indonesia (BPS).

Since 2007, the unconditional Cash Transfer programme has been converted into a conditional cash transfer programme. The target groups are poor households with pregnant women and

¹ Since 2008, PT. Askes has been replaced by Public Health Insurance (Jaminan Kesehatan Masyarakat/Jamkesmas) and its health assistance to poor households (Askeskin). PT. Askes is no longer given the authority to manage the finances. PT. Askes is only responsible for managing membership, member pre-verification, and other services. The verification process consists of service, finance and administration and will be conducted by independent verifiers recruited by the government through the Provincial Health Departments. Furthermore, the fund will be directly distributed from the public fund to hospitals' bank accounts via a bank officially appointed by the government. Jamkesmas will receive a 2.5% management fee from the programme's overall budget.

children between 0 and 15 years of ages. These households receive cash for a maximum period of six years. According to the BPS data, 6.5 million households are estimated to be in this category.

Given that the maximum duration of the conditional cash transfer programme is six years, it is important to develop a suitable exit strategy from the programme. As income from labour is considered to be most sustainable resource to meet the household's basic needs, linkage should be sought to link social protection with employment creation and skill training.

The ILO, in collaboration with BAPPENAS, has formulated a National Employment Guarantee Programme (NEGP) for Indonesia. This programme aims to serve a dual purpose: (1) helping to alleviate situations of poverty, unemployment and underemployment, particularly among youth and in rural areas, and (2) creating productive assets and services for the economy. Implicit in the arguments is also the notion of empowerment of the poor through work provision, and economic decentralisation, both of which are pre-requisites for achieving decent work conditions among the larger workers' community.

In the context of labour surplus developing countries, models of pro-poor growth could be operationalised through setting up projects wherein the un/underemployed labour could be productively deployed to create assets. The approach of NEGP would then serve the purpose of poverty reduction and human capital formation.

5. The ways ahead

To contribute to development of the national social security system, the ILO stands ready to provide further technical assistance in the formulation of effective strategies for the implementation of recommendations made in this report in the framework of Decent Work Country Programme for Indonesia.

In view of the link with ongoing ILO programmes and projects, the following areas have been identified as possible ILO involvement:

1) Implementation of the Conditional Cash Transfer scheme

The ILO, through Time Bound Child Labour programme, can assist in implementing the pilot Conditional Cash Transfer scheme. In particular, the child labour monitoring system can be used for monitoring the compliance of school attendance of children.

The ILO can assist the Indonesian Government (Bappenas) to develop an exit strategy through the employment guarantee scheme. There is a possible collaboration with Youth Employment project and Education and Skill Training for Youth programme.

2) Implementation of the National Social Security System

The ILO can provide technical support on the development of implementation Road map of the SJSN Law.

3) Reform of Jamsostek

The ILO can provide further technical support on clarifications and possible options of the legal status of "Not-for Profit" organisation.

In line with the recommendations in Chapter 3, the ILO can conduct further analysis of the reform of the existing benefit programmes and design of the new benefit programmes.

4) **Extension of Jamsostek for informal sector**

ILO can assist Depnaker in the impact evaluation of the Ministerial Regulation on the Jamsostek coverage of the informal economy workers.

5) **Capacity building of inspection on social security**

The ILO can assist in the development of guideline of social security inspection for the Labour Inspectors (with Depnaker, Jamsostek, Askes).

6) **Social protection of migrant workers**

In the framework of two regional projects (EU and Japan) to advance the ILO Plan of Action on Labour Migration in Asia and the Pacific, steps can be taken to extend social protection for migrant workers in coordination with ASEAN and ASEAN Social Security Association (ASSA).

The migrant workers project can address the issues of remittances (social security contributions), reintegration of returned migrant workers (possible link with small enterprise development project).

7) **Awareness raising and social dialogue on social security**

In the framework of support to build capacity of social partners and to promote social dialogue, the ILO can provide fora to discuss social security issues. Possible activities include:

- Under the Youth Employment programme, an education material of social protection programme could be developed.
- Development of awareness raising materials for employers and workers (Depnaker, APINDO & Unions).
- Organisation of tripartite meetings to discuss the options for social security reform.

1

INTRODUCTION

1.1. Overview of the development of social security in Indonesia

Indonesia has a population of nearly 220 million. However, only a small portion of the population is covered by formal social security systems, which cover only some of the contingencies set out in ILO conventions. Until recently, employment-linked systems of contributory social insurance which currently cover only around 17 per cent of the employed population were the only significant formal systems of social protection in the country, apart from a few social welfare services run or subsidised by the Ministry of Social Welfare and its local government counterparts. The rest of the population when faced with adverse events affecting their livelihood, relied mainly on informal mutual support arrangements based on extended families, local communities, and religious groups. These informal arrangements are referred to as “local wisdom” in Indonesia.

Prior to the 1997-98 Asian economic crisis, the lack of formal social protection for the majority of the population had not been a political priority for Indonesian Governments, despite the Indonesian constitution providing for the development of social security coverage for the population. High rates of economic growth during most of the period of the Suharto regime had provided expanded economic opportunities for many people. The issue of social security had been able to be put to one side, apart from the expansion of contributory social insurance for part to the population engaged in the formal economy. Even in the formal economy coverage was partial, because many small enterprises were either not legally required to or simply did not enrol their employees in social insurance.

The impact of the 1997-98 Asian economic crisis on Indonesia was severe. Output dropped an estimated 13.7 per cent in 1998, and it took four or five years for total output to recover to pre-crisis levels. Unemployment rose sharply, and has continued to trend upwards, exceeding 10 million or nearly 10 per cent of the labour force by 2004. Involuntary under-employment involved a further 13 per cent of the labour force. Many business enterprises collapsed, and poverty levels rose sharply. The longer term downtrend in the national estimate of poverty reversed, and evidence of hardship multiplied. Many former formal sector employees who lost their jobs withdrew their retirement fund balances from Jamsostek under the “five years plus 6 months rule” in order to cover income deficiencies. Many displaced workers returned to rural villages or sought to set up micro businesses in the informal economy. Others moved abroad to seek employment.

Faced with a poverty and livelihood crisis, the Indonesian Government moved to set up a variety of social assistance schemes which were collectively known as the Social Safety Net. Initially much of the cost was funded by external assistance and loans. Subsequently, costs were fiscalised and met from the Government budget, particularly from monies redeployed by reducing the fuel price subsidies. Also associated with the Social Safety Net programme were a number of other initiatives, including subsidised employment schemes, grants to schools, and rural development grants.

The three core social assistance schemes have continued on, and have provided aid to many low income people. The Rice Subsidy scheme has been scaled down to distribute 10kg of rice per poor family with a subsidised price in 2007. Despite some significant problems in the accuracy of targeting and diversion of resources to non-target groups, the social assistance initiatives appear to have played a major role in reducing the adverse impact of the economic crisis on the Indonesian population, and more particularly on the poor.

From around the year 2000 the Indonesian economy resumed a moderate expansion path, with real GDP growth rate at 4 to 5 per cent per year. However, these growth rates have not been sufficient to absorb the growing labour force. Unemployment has trended upwards, and is now at nearly 10 per cent of the labour force is twice the pre-crisis level. For a significant part of the recovery period, there was a marked shift from formal to informal employment. This trend may continue further as further economic problems associated with rising fuel prices are expected to touch off a new wave of retrenchments in the formal economy. The consumer price inflation was 17.1 per cent in 2005 and 6.6 per cent in 2006, and was stabilised at 3.6 per cent in 2007 (annual rate based on January-August data).

1.2. Challenges in social security in Indonesia

From the analysis of the development of social security in Indonesia to date, the following major characteristics have been identified:

(1) Limited coverage

Lack of adequate social security represents one of the greatest challenges facing Indonesia. In the absence of comprehensive social security cover by the national system, the ultimate safety net is provided by the extended family and communities. The absence of well-functioning social security system is also a cause of poverty, ill health and high mortality.

Social security coverage is limited to workers in the formal employment sector which represents only a small fraction of working population. In particular, a large majority of workers in the informal economy are left outside the scope of the social security system.

(2) Limited scope and low level of benefits

The scope and level of social security benefits are also inadequate. Civil servants and members of the armed forces have an integrated package of conditions of service and social benefits, subsidised by State budget. However, the private sector employees avail of only four benefits. Other benefits such as maternity and unemployment benefits are under employers' liability which does not guarantee their payment.

Furthermore, the level of benefits provided from the existing schemes is not sufficient to provide adequate protection for the workers and their families. Old-age provident funds at retirement are paid as a lump-sum which is vulnerable to pressures for speedy consumption.

(3) Problems with legal status and governance

Poor governance is a major problem in Indonesia. Social security organisations are suffering from inefficiency, operational difficulties and investment failure. These led to erosion of confidence from the members, which in turn deteriorates compliance with the legislation.

A unique situation in Indonesia is that social security organisations are run by profit-oriented state-owned limited liability companies. As a consequence, part of the contributions and income from investment of the social security funds are paid as dividends to the government

which is the sole shareholder. Furthermore, the legal restriction which does not endow inspection authority to social security organisations inhibits effective enforcement of the social security laws.

(4) **Lack of policy coordination**

The National Social Security System Law (Law No.40 of 2004, or SJSN Act) is a major milestone in the development of social security system in Indonesia. The law provides a framework for the ultimate social security system. However, the follow up action to implement the law faces significant delay. As of October 2007, the National Social Security Council has not been established yet. There is a lack of strategic plans for the implementation of the SJSN Law.

The fragmented responsibility for the different elements of the present system – spread between different Ministries and public organisations adds another challenge. The division of responsibility, together with the absence of a clear strategy or any coordinating mechanism, has resulted in a piecemeal approach to social security development and to some uncertainty and policy inconsistency. A large scale of decentralization of administrative functions adds further complication in the line of operational control between the central and local levels.

1.3. Labour force and social security coverage

There are the following four existing social security schemes in Indonesia.

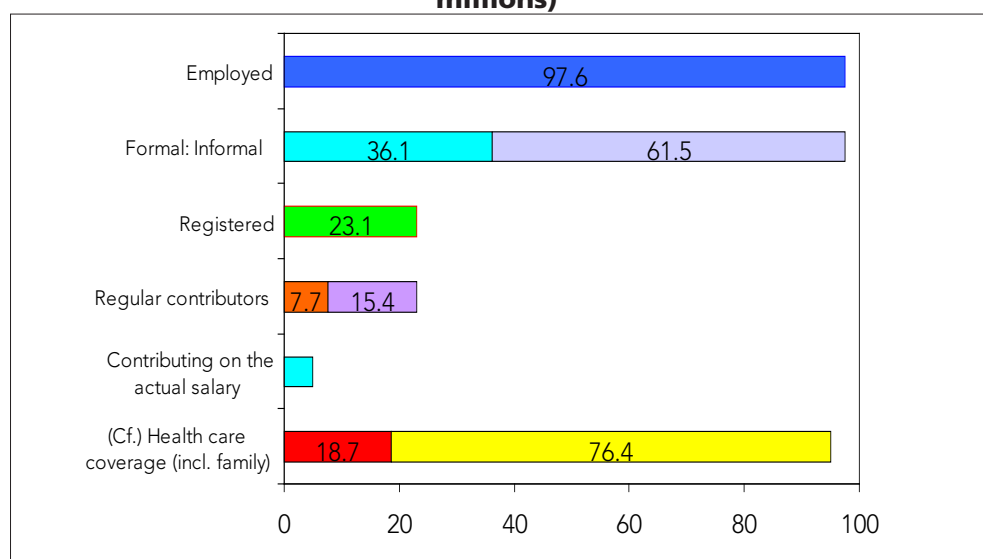
- **Jamsostek** is the social insurance fund for private sector employers and their employees. It provides four programmes: Employment Injury, Death, Health Insurance, and a provident fund type Old Age Benefit.
- **Taspen** is the fund for civil servants. It provides a retirement lump-sum, and a pension programme.
- **Askes** provides Health Insurance cover for public sector employees and some others.
- **Asabri** is the counterpart fund for the armed forces and police. It provides similar lump-sum retirement benefits and pensions. The Armed forces also have some hospitals of their own.

The following Table 1 and Figure 1 present the current status of labour force and social security coverage.

Table 1.
Labour force and social security coverage in Indonesia, 2007

Description	Population in 2007 (in thousands)	As % of employed population
Population 15 years of age and over	162,352	
Labour force (economically active)	108,131	
Employed population	97,583	100%
By status:		
Own account worker	18,667	19%
Self-employed assisted by temporary/unpaid workers	20,849	21%
Employer with permanent workers	2,848	3%
Employee	26,869	28%
Casual employee in agriculture	6,278	6%
Casual employee not in agriculture	4,267	4%
Unpaid worker	17,805	18%
By formal/informal		
Formal economy	36,048	37%
Informal economy	61,535	63%
- Urban informal economy	16,144	17%
- Rural informal economy	45,391	47%
Unemployed population	10,548	
	28,814	30%
Jamsostek total members records held	10,492	11%
Jamsostek members	7,720	8%
Active members	91	0%
Voluntary programme	2,682	3%
Construction programme	6,300	6%
Civil service (Taspen, Askes, Asabri)	16,792	17%
Total (Jamsostek, Taspen, Askes, Asabri)		
Jamsostek health care program (including family)	3,128	
Askes members (including family)	15,600	
Health for the poor (target)	76,400	
Total health insurance coverage	95,128	

Figure 1.
Gaps in coverage, compliance, and collection The case of Jamsostek, Indonesia (in millions)



From the above table, the following observations are made:

- In 2007, out of 162 million population aged 15 years and over, 108 million (or 66.6%) are estimated to be in the labour force. The employed population is 97.6 million. Unemployment rate is 9.75 per cent and under employment is 31.0% of those employed.
- Only 37 per cent of the employed are in the formal economy, and 67 per cent of those employed are involved in various forms of rural and urban informal employment, including agriculture which still employs over 40 per cent of the employed workforce.
- In substance therefore, formal social insurance fund membership is concentrated mainly amongst employees of larger private sector enterprises, plus public sector employees. Labour shedding by large enterprises following the Asian economic crisis, and a shift in economic activity towards smaller enterprises and the informal economy depressed social insurance membership statistics. And even within the formal economy at best under half of the employed workers are actually active members of social insurance funds².
- It can be seen that out of 36 million formal sector workers, only 16.8 million workers or 47% are actually contributing to Jamsostek, Taspen and Asabri schemes. This means that only about 17% of the employed population are currently covered by formal social security schemes. This percentage has been declining as employment shifted towards the informal economy or non-complying small business enterprises.
- Health insurance by Askes and Jamsostek has more extensive coverage including family members. The number of persons covered by the Jamsostek health care programme is 3.1 million (of whom 1.4 million are workers and 1.7 million are dependent family members). The coverage of Askes is 15.6 million (of whom 5.6 million workers, 8.4 million dependent family members, plus 1.6 million 'commercial' members). Thus about 18.7 million people in Indonesia are covered by the formal health insurance schemes.

² The inactive members comprise:

- Members now unemployed and with less than five years of contributions;
- Members who have changed employment to an ineligible employer or self employment and do not exercise their rights to continue to contribute to the fund;
- Unemployed members who have chosen to retain their investment in the fund;
- Members who have discontinued contributions for reasons of employer bankruptcy;
- Members deceased and where family have not claimed their entitlement; and
- Members who are now contributing through another employer and the previous record(s) are inactive.

- Recently there has been a progress in the provision of primary health care and health insurance cover for poor households in the framework of social assistance. The target number of this programme was initially 36.1 million persons, but later expanded to 60 million. In 2007, the coverage increased to 76.4 million. Adding this target number to the formal social health insurance coverage, a total of 95.1 million persons are estimated to have health insurance cover, which is 43.2 per cent of the total population of 220 million.

Reasons for the low penetration of social insurance in the private formal sector include the following.

- Legally only enterprises with 10 or more workers, or a payroll of over one million rupiah a month are required to enrol their workers in Jamsostek, the social insurance fund for the private sector. If the legislation is interpreted as its original intent, then the potential capture group for Jamsostek could be as high as 70% of the formal sector workers.
- Moreover, there are some evidences of contribution evasion by means of underdeclaration of contributory wages. A common type of underdeclaration is to report the basic wage only that excludes various allowances and bonuses. This is common practice for Jamsostek health care programme.
- There is an opting out clause for health insurance from Jamsostek. Although the coverage is compulsory for the employment injury, the old-age and death benefits, an employer is allowed to “opt out” to a private insurance that provides higher level of benefits. This clause inevitably results in the evasion of large enterprises from the scheme and thus limits the redistributive effect.
- Jamsostek has no inspectors under its own control to enforce compliance, and relies on the activities of Labour inspectors currently deployed into regional government.
- Jamsostek has an unfavourable image amongst many workers, and some are reluctant to contribute to it.

Women are particularly disadvantaged in relation to formal social security coverage. The labour force participation rate for women is about 50 per cent which is significantly lower than men (more than 80 per cent), while the unemployment rate (11.8 per cent) and underemployment rate (41.3 per cent) are higher than men (8.5 per cent and 25.1 per cent, respectively) (See Table C2 in Annex C). In addition, women workers are more likely to find themselves in the informal economy and in unpaid work (Tables C1 and C3 in Annex C). Heavy reliance on employment in the informal economy results in them being less likely to be protected by social security systems. Yet they are more vulnerable to risks related to their life cycle and their role in the family.

1.4. Organisation of the report

This report summarises recent developments in social protection in Indonesia and identifies areas where additional ILO input could be helpful to Indonesia.

The scope of the report will cover the following key issues in social security:

- Implementation of the National Social Security (SJSN) Law
- Reform of Jamsostek, in particular changing its legal status to Trust Fund
- Extension of social security coverage for the informal economy workers
- Social assistance targeting the poor

Most of the policy analyses and recommendations have been drawn from the product of the technical assistance projects that the ILO has provided to Indonesia since 2000.

Three annexes supplement the report with detailed description of social security system and updated data on Jamsostek and labour market in Indonesia.

The report was prepared by Kenichi Hirose, Social Protection Specialist, ILO SRO-Manila. However, the report should be regarded as the collective work by the following experts who worked for the earlier ILO projects, namely – Sarthi Acharya, John Angelini, Christian Baeza, Clive Bailey, Carunia Firdausy, David Gent, Santanoe Kertonegoro, James Marzolf, Sofiati Mukadi, Ole Nielsen, Aniceto Orbeta, David Preston, Bambang Purwoko, Pagman Singh, Mike Smith, Hasbullah Thabrany, Wendi Usino.

2

IMPLEMENTATION OF THE NATIONAL SOCIAL SECURITY SYSTEM (SJSN) LAW

2.1. National Social Security System (SJSN) Law (Law No. 40 of 2004)

In 2004, there was a major legislative achievement in the development of national social security system in Indonesia. In 2002, a Task Force was created under Presidential Decree No. 29 of 2002 to prepare draft legislation and a supporting academic paper for a national social security system to provide more effective social security to all. Over three years' discussion, the Task Force developed a draft bill and submitted it to the Parliament (DPR) in early 2004. On 28 October 2004, the Parliament approved the bill after having made a number of revisions during the Parliament discussion.

The law provides a basic framework for the development of the social security and social assistance and the detailed rules will be specified in the subsequent Presidential Regulations. Key features of this law are summarised as follows:

- The law stipulates the principles and goals of the National Social Security System. For the implementation of the National Social Security System, the law stipulates the establishment of a National Social Security Council under the President. The Council will be composed of 15 members representing the Government, social security experts and employers' and workers' organisations and its main function is to formulate the policies and provide supervision for the implementation of the National Social Security System.
- The law anticipates the achievement of the universal coverage in a phased manner. The law only states that it is mandatory for employers to enrol their employees to the social security schemes and that the Government will provide social assistance to the poor. The explanation notes to the law states that "Although membership is mandatory for all citizens, its implementation will take place in accordance with the economic capacity of the people and the Government as well as the feasibility of the programme. The first stage will start with workers in the formal sector, in parallel with voluntary membership of the informal sector workers, including farmers, fishermen and the self-employed."
- The existing four social security schemes (Jamsostek, Taspen, Asabri and Askes) will continue to operate as social security carriers but the legal status of these schemes will be changed from Persero (profit-oriented limited liability state enterprise) to a not-for-profit, social security fund within 5 years transition period i.e. by 2009. Additional social security carriers can be created as needed. The law requires that the financial accounts of different benefit programmes should be managed separately and prohibits the inter-programme fund transfer.
- The scope of the law covers five social security programmes, namely: (i) health insurance, (ii) employment injury, (iii) old-age (provident fund), (iv) pensions, and (v) death benefits. Furthermore, the law states that the government will develop the social assistance for the poor and economically disabled, but its details are entrusted to the Presidential Regulations that follow.
- With respect to financing, the law only stipulates that the contributions for the social security programmes should be paid jointly by the employers and employees but does not specify

the contribution rates or how contributions are shared between employers and workers. The Government will subsidise the contributions concerning the social assistance for the poor and the economically disabled. In the first phase, the Government provides health insurance for the poor and alike (the government allocated Rp. 3.9 trillion for 2005).

2.2. Issues in the implementation of the SJSN Law

The SJSN Law provides only a framework of the ultimate national social security system in Indonesia (That is why this law is called an “umbrella law”). It does not mention the transition measures from the existing segmented schemes to the ultimate system. A number of substantial issues still remain to be worked out in the future. There is a vital need to address the following issues:

- (a) There needs to be a mid-term implementation plan (Road map) defining the process of implementing the SJSN Law in stages. The Road map should clarify the organisational structure of the SJSN and its impact on the existing social security schemes. In line with the road map, strategic action plans should be developed that describe the goals to be achieved for each stage of implementation. It is critical that the road map and action plans should be based on high degree of consensus and commitment at all levels of administration. The National Social Security Council should monitor and evaluate the implementation of the SJSN Act in line with the road map and action plans.
- (b) Detailed provisions of the social security programmes need to be determined in the Presidential Regulations. This will involve the development of policy options for the benefit design (including the determination of the benefit parameters, and the adjustment of the possible duplication of old-age benefits and pensions benefits), determination of the contribution rates based on actuarial projections, financing mechanism (including the determination of the adequate reserve level and investment guidelines), and organisational arrangements.
- (c) The administrative capacity for the existing social security organisations should be strengthened to improve the compliance of the workers in the formal employment sector and to prepare for the expansion of the workers in the informal economy.

2.3. Delay in the implementation of the SJSN Law

As of October 2007, the National Social Security Council has not been established yet. Reportedly, only the Chairman of the Council (Deputy of Coordinating Ministry of Social Welfare - MENKOKESRA) has been appointed by the President, but the other Council members (15 members from tripartite stakeholders and social security experts) have not been appointed. However, preparatory works on social security and social assistance issues are going on in relevant Ministries.

There was a case at Constitutional Court on the interpretation of state monopoly of social security benefits in Article 5 of SJSN Law. From several sources, the court decision was that local government can establish organisations that provide social security benefits but that the article SJSN act in question remains unchanged.

Although there is a general recognition that the SJSN Law is a first major step to develop a comprehensive national social security system in Indonesia, so far it has failed to give meaningful impact except for health insurance cover for the poor. The significant delay in the action to implement the Law has revealed seeming lack of coordination and real commitment. It is hoped that the Government will develop the Road map as a priority matter so that the implementation of the national social security system can be envisaged at the earliest stage.

3

REFORM OF JAMSOSTEK

3.1. Introduction

Over years the ILO has supported the development of social security in Indonesia. In particular, from 1 April 2001 to 31 December 2002, the ILO implemented a technical assistance project “Restructuring of the Social Security System” (INS/00/M04/NET) that was funded by the Government of the Netherlands. The main findings and recommendations of the project have been presented in a comprehensive publication “Social Security and Coverage for All, Restructuring the Social Security Scheme in Indonesia – Issues & Options”.

The first objective of the project was the establishment of a new institutional structure of Jamsostek, which is the major social security institution. The focus was the legal status of Jamsostek as a Persero, a public limited liability company which is required to make profits and pay taxes. This is widely considered to be inappropriate for a social security system based on State responsibility and constitutional rights. The strategy of the project was to reconstitute Jamsostek as a public social security institution that would hold its members’ contributions in trust against future benefit entitlement under the supervision of a tripartite Board. Such changes also require the improvements in governance and operating efficiency.

The second objective was to develop a national strategic plan for the restructuring of the social security system. The project conducted a series of studies on the options for improvements in the existing Jamsostek benefit programme and on the feasibility of new benefit programmes with actuarial valuation.

Although there have been developments since the completion of the project in 2002, most analysis and recommendations remain still valid. This Chapter summarises the key issues from the above-mentioned project publication by taking into account the recent progress, with the objectives of providing information for shaping the future course of Jamsostek reform and the implementation of the SJSN Law.

3.2. Current status of Jamsostek

We first summarise the current status of Jamsostek. Annex B presents key statistics of Jamsostek in more detail.

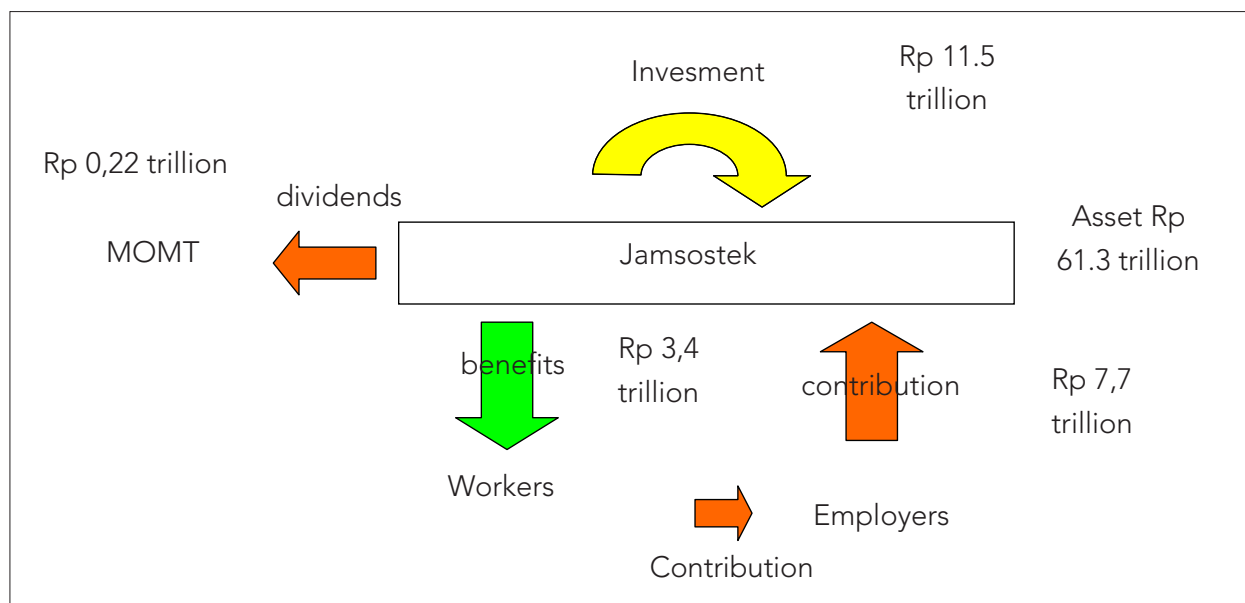
In 2007 there were 23.7 million workers in 143 thousand establishments registered in Jamsostek. However, only 7.9 million workers in 91 thousand establishments were active members. The declining membership is a serious concern. This is in part due to the poor compliance and weak enforcement of the legislation. In addition, there has been an ongoing shift from the formal employment sector to the informal economy. In mid-2007, the number of active members increased to 8.2 million due probably to the effort to improve the compliance.

As shown in Figure 2, during 2006 the total revenue of the Jamsostek was Rp. 13.6 trillion, consisting of Rp. 7.7 trillion of contributions from employers and workers and Rp. 5.9 trillion of

investment income. The expenditure in the same year was Rp. 8.7 trillion, of which Rp. 3.4 trillion was spent as benefits and Rp. 4.3 trillion was credited to members' provident fund accounts.

At the end of 2006, the total asset of Jamsostek was Rp. 49.6 trillion, of which Rp. 42.4 trillion was the old-age provident fund and Rp. 3.7 trillion was technical reserves for the short-term benefits (employment injury, death and health insurance) and catastrophe reserves.

Figure 2.
Cash Flow of Jamsostek fund, 2007



3.3. Change of the legal status of Jamsostek to Trust Fund

3.3.1. Problems with the current legal status of Jamsostek

The current legal status of Jamsostek as a Persero, or state-owned limited liability company, is stipulated by Law No. 3 of 1992 on Employees' Social Security (Jamsostek Law). Under the provisions of Law No.1 of 1995 on the Limited Liability Companies, the State must be the majority shareholder of a Persero. In the case of Jamsostek all the shares are State-owned. Ownership of Jamsostek was initially vested in the Ministry of Finance but currently Minister of State-owned Enterprises is the sole shareholder with a share capital of Rp. 125 billion. However, it is understood that in practice the supervision is still carried out by the Ministry of Finance. This current status means that Jamsostek must operate to generate a profit for its shareholder and, like other limited liability companies operating on a commercial basis, the profit earned is taxable. Only the balances of old-age benefits are tax-exempt.

While Jamsostek is run as a Persero, the following problems arise.

- Financial control is by Ministry of Finance and Ministry of State-owned Enterprises and Operational control is by Depnaker;
- Investment is controlled by Ministry of Finance, although this should be in accordance with the Investment Regulations (No. 22 of 2004);
- Dividends are paid to the Government as the single shareholder, and profits are taxable. As a result, considerable portion of social security contributions are redirected to the

Government. For two decades from 1987 to 2006, Jamsostek has paid in total Rp. 1.4 trillion as dividends. In 2006 alone, it paid Rp. 221 billion as dividends (See Table B8 in Annex B).

The new National Social Security Law (SJSN) envisages that Jamsostek would be transformed into a Not-For-Profit entity operating Trust Funds, which should improve net returns to members. Article 4 of the SJSN Law stipulates that:

“The National Social Security System is run based on the following principles:

- a. Mutual assistance (gotong royong),
- b. Not-for-profit,
- c. Openness,
- d. Risk averseness (prudence),
- e. Accountability,
- f. Portability,
- g. Compulsory membership,
- h. Trust fund (dana amanah),
- i. Management of the Social Security Fund will be utilised exclusively for programme development and for the best interest of the members.”

3.3.2. The notion of Trust Fund

The consensus in favour of changing the status of Jamsostek to that of a trust fund has been forming over years and a number of draft Bills to amend Law No. 3 of 1992 have been prepared but little concerted effort has been made at discussion of the implications or the detailed provisions. This is partly because in the absence of a law (similar to those relating to Persero, Perum, etc.) to regulate the constitution and administration of trust funds in Indonesia (a so-called “Trustees Act”), there is no wide understanding of the implications of trust fund status and no general agreement on how to proceed to transform Jamsostek into a trust fund³.

The term “Trust Fund” (“Dana Amanah” or “Wali Amanah” in Bahasa Indonesia) in relation to Jamsostek means that it would have a legal entity that is independent from Government but it would be accountable to Parliament via the tripartite Board of Trustees, through the Minister or President, by means of annual and other periodic or special reports. In particular, the reports should be accompanied by a full annual government audit and an actuarial valuation.

The Trust Fund would have the following features:

- The Trust Fund is governed by a tripartite Board of Trustees;
- It would consist of a “Fund” which receives social security contributions, interest from investments and other income and pays benefits and administrative expenses of the programme;
- Thus all income and investments (assets) would be held “in Trust” for the members. Therefore any surplus (income in excess of expenditure) should not be regarded as “profit”; it should be retained in the Fund as reserves. Investments of the assets should be decided by Trustees on the basis of professional advice, according to published Guidelines approved by the President;

³ Law No. 11 of 1992 on the establishment of pension funds (dana pensiun) is the closest in concept (in that it provides for full return of proceeds from contributions, etc. to be returned to members through future benefit and provides for control by a board consisting of representatives of employers, members and the bank in which the fund is kept in trust; the board in turn is controlled by the Ministry of Finance).

- Investment income should be free of tax and returned to members; and,
- Assets are to be used exclusively for the benefit of members.

It should be noted that as long as the above principles are guaranteed there is no need to amend Law No.1 of 1995 on the Limited Liability Company or develop a new Trustees Act⁴. One way to achieve tax-free status and to alleviate the payment of dividends to the Government is to insert the following relatively simple provision in Law No.40 of 2004 on the SJSN (or Law No.3 of 1992 on Jamsostek):

“Notwithstanding the provisions of the Law No.1 of 1995 requiring the payment of annual dividends to the Government and the levying of tax on the profits, no such dividends or tax shall become payable in respect of any social security carriers covered by the this (SJSN) Law.”

3.3.3. Issues related to the transform of Jamsostek to Trust Fund

In the process stage of transfer from Persero to Trust Fund, there are a number of issues that need to be resolved within the Government. These issues are as follows:

- Is a separate law required stipulating what a trust fund is (similar to the laws on Dana Pensiun, Perum and Persero), or can a “Trust Fund” simply be established by describing its function in the amending legislation? As discussed earlier, such a Trustees Act is not necessary if one can ensure that the new organisation is non-profit, independent, supervised by tripartite board and free from tax liability.
- Is there a need to wind up Jamsostek legally before the Trust Fund is established? Currently, the share capital held by the Ministry of Finance amounts to Rp. 125 billion. Hence, if the legal status of Jamsostek changes from a public limited company to a trust fund, this amount will have to be redeemed to the Ministry of Finance.
- What should be the reporting line upwards from the Board of Trustees and what should be the frequency of reporting? (e.g. to Minister/President by annual or special report).
- Trust Fund status implies that there should be no residual departmental control over Jamsostek (after the change), other than via periodic reports from the Board of Trustees to Minister/President. Do Ministries of Finance, State Enterprises, Manpower, etc. agree to this?
- In particular, do relevant departments including Department of Manpower and Transmigration, Ministry of Justice and Ministry of State Apparatus Reform, agree that enforcement of the social security laws should be undertaken by Jamsostek (not Depnaker) either directly or by seconded inspectors?

As with any institutional change there are vested interests in retaining the status quo that will tend to inhibit the speed of change and even the change itself. The change in the status of Jamsostek into Trust Fund should overcome such resistance.

The change to the institutional base of the social security system is a matter of national concern, which directly affects workers and employers. Moreover, the arrangements for supervision by the tripartite board and the public accountability process need to have widespread support if Jamsostek is to regain public confidence. Therefore, there is a need for building a broad based consensus among not only interested government departments but also including the social partners and civil society groups (including employers’ and workers’ representatives, women’s groups, professional organisations and consumers’ and patients’ groups, academia, etc.).

⁴ In fact, the current management of Jamsostek intends to gradually reduce the dividends to zero by 2009. The State Ministry of State-Owned Enterprises has plan to established zero dividends for PT. Jamsostek in 2008

3.4. Improvements in the Jamsostek governance

3.4.1. Compliance and enforcement

A major weakness of Jamsostek is poor compliance and weak enforcement of social security laws. The Government Regulation No. 14 of 1993 stipulates that employers have to pay a fine of 2% of contributions due for each month of late payment. In case of fraud, a penalty of Rp. 50 million or 6 months imprisonment can be charged. In practice, however, this clause is rarely applied⁵.

There is a legal obstruction regarding the enforcement by Jamsostek. As far as control of compliance is concerned, Article 31 of Law No.3/1992 states that investigation is carried out by labour inspectors. The decentralisation process adds further complication in the line of operational control. Labour inspectors used to be under the direction of the Department of Manpower but since decentralisation this responsibility has been delegated to Provincial Governors through Dinas Tenaga Kerja. This raises questions about consistency and, since Provinces will be collecting local taxes, also the priority that would be given to collection of social security contributions. Unless there is strict control, the possibility of corruption or collusion between inspectors and errant employers will arise.

It is recommended that the responsibility for inspection should be transferred from Depnaker/ Dinas to Jamsostek itself. Changing the responsibility for enforcement to Jamsostek will inevitably have implications for human resources, particularly recruitment, training and career structure of the Jamsostek staff.

As a transitional measure without amending the relevant legislation, Jamsostek has requested Depnaker to assign labour inspectors who will exclusively conduct social security inspection in coordination with Jamsostek. However, as of October 2007, this arrangement has not been realised.

In addition, Jamsostek organises a number of training programmes with the regional governments, where labour inspectors are now located, but the lack of direct accountability to Jamsostek significantly inhibits effectiveness in enforcement. Despite training initiatives with labour inspectors, their location in regional government has further complicated enforcement.

3.4.2. Financing of Jamsostek

The current legal status of Jamsostek entails considerable financial implications. As a state-owned enterprise, Jamsostek is run on a profit-oriented basis. Part of its surplus (i.e. contributions in excess of benefit and administrative expenditure) is paid to the Ministry of Finance as dividends and corporate tax. In this relation, it should be noted that Jamsostek adopts accounting practices applicable to private insurance companies, which require that substantial technical reserves be kept by Jamsostek.

One reason for the continuous surplus is the low expenditure on short-term benefits in relation to their contributions. The benefits/contributions ratio in each branch shows stable trends in recent years. On average, this ratio is in the range of 30-40% for employment injury, 25-35% for death benefits, 70-80% for health care benefits and 10-20% for special programmes. With the exception of health care programme, all programmes retain substantial reserves which cover about 10 years' current expenditure. (See Table B.4 in Annex B)

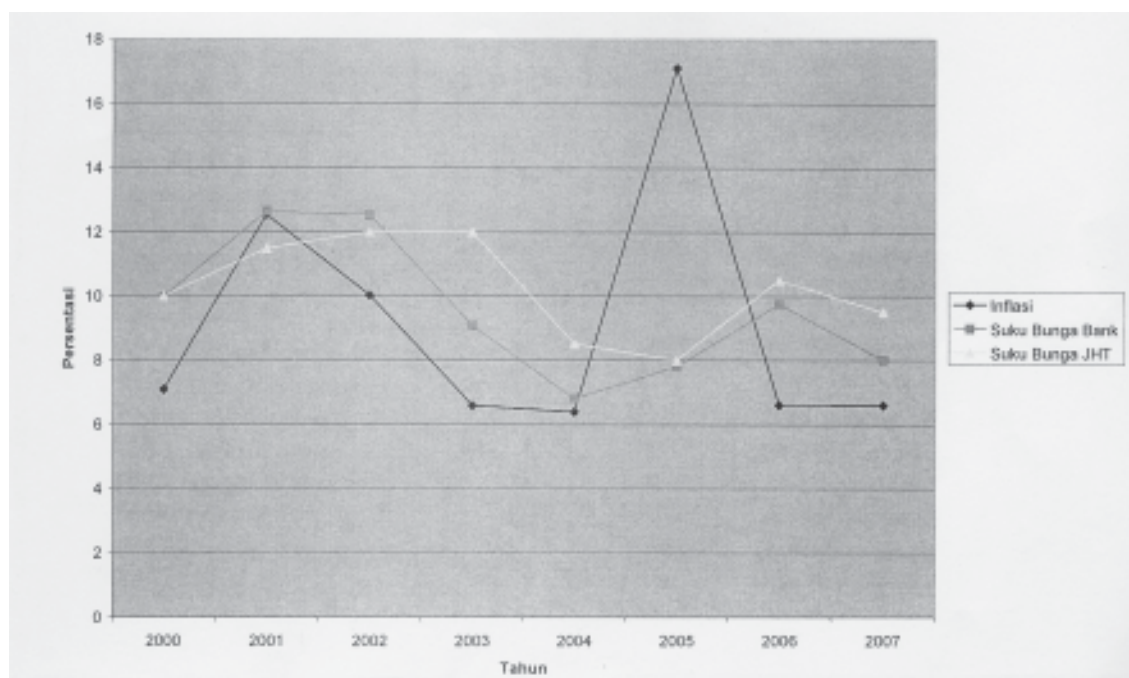
⁵ The report on enforcement of Law No.3 of 1992 by the Department of Manpower and Transmigration in 2001 shows that labour inspectors carried out enforcement in only 11 of the 30 provinces. Despite widespread non-compliance, only 56 employers were prosecuted – 47 of these were from the Jabar province, indicating the unevenness of the enforcement process under government control. One reason for the failure of the present enforcement system is the wide responsibility of labour inspectors who are at the sharp end of compliance.

In order to make the balance of contribution and benefit more equitable, suitable measures should be taken such as (i) increasing benefit levels⁶, (ii) relaxing the qualifying conditions or (iii) decreasing the contribution rates.

3.4.3. Issues in the investment of the Jamsostek fund

As a result of poor investment performance in the past, the Jamsostek's provident fund accounts have substantially lost their real value⁷. However, under the current investment regulation and improved investment management, an equitable interest is expected for the future. This can be seen from the interest trends of JHT given to members from the year 2003 to the year 2007, particularly if it is compared with the general inflation rate and the bank interest rate. It can be seen that the JHT rate for the period of 2003 – 2007 had shown higher rates compared to the bank interest rate and the inflation rate. The exception occurred in 2005, when the inflation rate was far higher than the JHT rate due to the drastic increase of inflation as a result of a fuel price hike. Consideration should be given to improving investment regulations by a further restriction of equities and direct participation; and diversification of the risk in the domestic market through the possibility of foreign investment (initially with a limited scope). Further to the investment regulations, organisation of regular and efficient fund supervisions and the design of the institutional structure that enables effective monitoring and inspection are also crucial for ensuring sound fund governance in the long-term.

Figure 3.
The rates comparison of JHT, Bank Interest and Inflation



6 Jamsostek submitted a proposal to increase employment injury benefit (JKK) and death benefit (JM) to the Minister of Manpower. The proposed increases effective from 2008 are as follows:

- Cash death benefit (work-related) from 42 months' wage to 48 months' wage;
- Cash death benefit (not work-related) from Rp. 6 million to Rp. 10 million; and,
- Funeral benefit from Rp. 1.5 million to Rp. 2 million.

7 Historically, over the period 1978 to 2000, cumulative earnings index from investment has been 38% below the level of inflation and 63% less than the average market rate.

3.4.4. Operations and IT systems

Operational improvements are fundamental to the further development of social security in Indonesia. Unless the institutions achieve a higher level of respect of their membership than at present, confidence in the system will be low, the level of compliance will be difficult to improve and the system may fail.

Recommendations on improving operations and IT systems were formulated based on a detailed study which looked into the operational systems in place at central, regional and branch level, and analysed the existing organisation, work processes, information systems and current and future strategic and operational plans. The recommendations on operations and IT are summarised in Appendix to this chapter.

A project of updating the Jamsostek IT systems is currently in progress. The Jamsostek management has teamed up with a bank to allow on-line access to member account details, so that members can check the state of their balances and contribution records via ATM machines.

3.5. Reform of the existing Jamsostek benefit programmes

3.5.1. Old-age benefit (JHT)

Unlike the public sector pension scheme (Taspen), the old-age programme of Jamsostek (JHT) is essentially a provident fund, which refunds the contributions and interest as a lump-sum. If the final balance exceeds Rp. 3 million then there is a option to receive the amount over a period of up to 5 years during which the outstanding balance will earn interest. However, almost all members withdraw the balance as a lump-sum. In general, provident funds do not meet the requirements of the ILO Social Security (Minimum Standards) Convention No.102 of 1952, in particular because they do not provide benefit in the form of a periodic and predictable payment throughout the period of the contingency and do not replace adequately the loss of income on retirement.

Therefore, it is recommended that the current provident fund scheme be converted –partially or wholly – into a pension scheme that provides an adequate income on retirement.

The following are options for replacing the lump-sum provisions of the Jamsostek old-age benefit scheme into pensions payment:

- Conversion of the lump-sum provident fund into annuity. The necessary legal basis can be achieved by repealing the conditions of the maximum amount (Rp. 3 million) and the maximum period (5 years) in the provision of Article 24 (2)(b) of Government Regulation No.14 of 1993 (made under the social security legislation, Law No.3 of 1992) for paying out the accumulated balances as periodic payments.
- A partially funded public defined-benefit scheme that would pay benefit after a fixed number of years during which contributions have been paid is the system which is recommended for the conversion of the Jamsostek Provident Fund. A variant is a notional defined-contribution scheme whereby workers earn 'pension points' from their social security contributions towards an eventual pension.
- A mandatory defined-contribution scheme in which contributions are collected and invested by Jamsostek or transferred for investment by an approved and regulated private pension company. The accumulated sums would be used at retirement age to purchase an annuity (with the possibility of commuting a part of the accumulated sums to a lump-sum).

- A mixed pension system under which a mandatory flat rate defined-benefit system is provided for all workers, supplemented by a defined-contribution system (with the possibility of investment choice) being mandatory only for workers with an income above a certain level.

At the same time, the capacity of Jamsostek needs to be strengthened to service a pension scheme, especially its capacity to make periodic payments throughout the life of pensioners instead of the one-off lump-sum payments.

The level of contribution rate needs to be reviewed in view of the resulting low level of benefit. Under the current contribution rate (5.7% of payroll), even if the members' individual accounts earn an equitable interest for the future, the estimated benefit level is 2.5 years' contributory salary (Currently, the average amount of the old-age lump-sum for the retirees at age 55 is only 5 months' contributory salary due to intermittent contributions and past unfavourable interest rates). This leads to the conclusion that the current contribution rate for old-age (5.7%) is too low to produce sufficient savings for old-age.

The SJSN Law stipulates both retirement pensions and the provident fund benefits. The National Social Security Council, when it is finally established, should resolve this possible overlap of social security benefits.

3.5.2. Employment injury benefit (JKK) and death benefit (JK)

With respect to employment injury and death benefits, the following recommendations are made:

- The compulsory coverage should be extended to all enterprises including those employing less than 10 employees;
- The scope of commuting accidents should be reviewed with a view to extending it to other work-related journeys;
- The list of occupational diseases should be updated to reflect the developments in this field;
- The medical care needs to be enhanced for the injured and improvement in provision for vocational and physical rehabilitation; and
- The continuous maintenance of artificial aids or prosthetics should be provided – presently these are provided only once with no provision for replacement or repair;
- The death benefit should provide survivor's pensions to the dependant family members of the deceased.

3.5.3. Health insurance (JPK)

Indonesia has, in practice, a three-tier health system, which is additionally fragmented by the size and geographical fragmentation of the country, resulting in at least the following sub-systems:

- First, the Department of Health and the Provincial Authorities (after the decentralisation law) are running the public health care system for the uninsured, mainly the poor;
- Second, the social security organisations (ASKES and Jamsostek) cover the formal sector, civil servants and private workers respectively; and
- Third, private health insurance companies (pure private health insurance and general private insurance that also provide health insurance) and JPKM. There are also Community funds.

The geographic, cultural and political complexity of Indonesia and the weak institutional capacity in the health sector present challenges to the health sector reform. There are three possible scenarios for such reform:

- Reforming each sub-sector separately – addressing the main efficiency and equity issues within each sub-sector while maintaining system segmentation;
- The integration of social health insurance – maintaining separate systems for the workers in the formal sector and for the residual population but developing a unified system for the formal sector with either:
 - A single integrated system with a single payer or insurance carrier; or
 - Virtual integration with several insurers through the uniform benefit-premium structure for all workers;
- Total system integration with the formal sector subsidizing the premium for the poor and the informal economy population.

3.6. Feasibility of new benefit programmes for the formal sector

3.6.1. Maternity benefit

In the last few decades, more women are employed in both formal and informal economies. Despite the change, women are at a disadvantage in the labour market in terms of job opportunities, wages and career development. These trends, which are prominent in most developing countries, require the attention of policy makers to ensure adequate social security protection that promotes greater gender equality.

Under the current system, a female worker can avail of the following maternity protection:

- The Manpower Law (Law No.13 of 2003, Article 82) stipulates the entitlement of 3 months paid maternity leave (of which 1.5 months are taken in pre-natal period and 1.5 months are taken in post-natal period);
- The health insurance benefit (JPK) of Jamsostek can reimburse medical expenses up to Rp. 400,000 per child. It should be noted that health insurance benefit is limited to the first three children in accordance with the family planning policy.

Views were expressed that the present system of maternity protection providing paid maternity leave required by the employers' liability needed review in order to overcome evasion by employers of their statutory obligations and to avoid discrimination against the employment of female workers. Lack of paid maternity leave further disadvantages Indonesian women workers in the formal economy. It was considered that cash maternity benefit could be incorporated into the Jamsostek benefit programme as a social insurance benefit.

The employers' liability maternity benefit can be replaced by a scheme based on social insurance principles. A rough estimate shows that the estimated contribution rate is 0.9% of wages. (This estimated contribution level is subject to verification by actuarial valuation.) The contribution would also cover the cost of health care during pregnancy and confinement with potential savings to the rest of the health care programme. This implies that there is no increase in overall costs for maternity protection to the employers. There will be, however, some pooling of resources between employers who employ more female workers and those employ less, if a uniform rate of contribution is applied.

Entitlement to cash maternity benefit should be based on contribution qualifying conditions and that a female employee or the working male spouse of a female claiming the benefit should have paid at least three contributions in the nine months preceding the date of delivery. Other provisions concerning the number of children in respect of whom maternity benefit might be payable, the period of entitlement and the medical qualifications could remain similar to those covered by the Government Regulation.

In view of the high incidence of maternal deaths during pregnancy or confinement in Indonesia, the possibility of extending health care to all births (i.e. beyond the present limit of three) is recommended. While this might conflict with present family planning policy, distinction should be made between cash incentives (e.g. maternity benefit) that might be paid in respect of a fourth or further birth and the cost of medical care for the mother and baby.

3.6.2. Unemployment insurance

Indonesia has no unemployment benefit system, even for insured workers in the formal sector. The labour legislation including the provision of severance pay proved to be of varying effectiveness and reliability during the aftermath of the 1997 economic crisis. The absence of any unemployment compensation led to newly unemployed workers resorting to large-scale withdrawals of their old-age savings balances from Jamsostek provident fund (the so-called "5 years / 6 months" rule). This of course erodes their long-term position and empties out their old-age benefit accounts. Most informed parties recognise the need for some type of more effective response to the problems created by unemployment, particularly in the wake of the economic crisis.

The predominance of informal economy employment in Indonesia, high under-employment, the limited scope of existing employment related services, and funding difficulties are identified as hindering factors to introduce wide coverage or long duration unemployment benefits in Indonesia. However, it would be possible to introduce a short-term unemployment insurance benefit financed on a contributory basis. This could be added to the existing programmes of Jamsostek.

Analysis of the financial viability of a short-term contributory unemployment insurance benefit concludes that a modest cost scheme is potentially viable, and would increase the degree of social protection for insured workers in Indonesia. A wider coverage or longer-term benefit is not yet feasible given the structure of Indonesia's economy and labour market. For those not able to be covered by any scheme introduced, some form of social assistance may be a fall back option. At the same time, the Government should formulate and implement more active labour market policies for job creation.

3.6.3. Issues in severance pay

Related to unemployment insurance, there has been an on-going debate regarding the severance pay.

After the 1997 crisis, the government has made efforts to increase the level and scope of labour protection. After several increases, severance pay and long service rewards were further increased by the Manpower Act (Law No 13 of 2003). Comparative analysis⁸ with neighbouring Asian countries indicates that the level of severance pay (in terms of the number of month) for a dismissed worker on economic grounds in Indonesia is three to five times higher than in China, India, Korea and Malaysia.

⁸ Chris Manning, "Legislating for Labour Protection: Betting on the Weak or the Strong?" Working papers in Trade and Development No. 2004/08. The Australian National University.

Amendment of the Manpower Act (Law No 13 of 2003) was proposed in 2006 with an aim to provide greater flexibility by deregulation of outsourcing and reduction of severance payment. Labour unions complained about insufficient consultation and organized massive demonstrations, which led to the intervention by the President, promising further dialogue and a commitment to the protection of workers. Currently, a process of bipartite dialogue and research is seeking to identify appropriate reforms, to be subject to further tripartite consideration.

There are different views among the tripartite parties regarding the severance pay.

- Employers points out that there are overlaps in legislations such as Jamsostek, severance payment, and occupational pension plans and suggests that harmonization and integration of these legislations are needed. High labour costs would entail employers' tendency to employ less formal workers and shift to contract workers or to outsourcing. Facing the regional competition, employers do not wish to see their non-wage labour costs rise any further, and propose to transfer their severance pay obligations to Jamsostek as a new dismissal benefits programme.
- Workers do not wish to see any further reduction in their net wages, nor lose severance pay entitlements. However, regarding alternative measures, the unions have not reached to a unified view. KSPSI proposes the creation of a severance pay benefit fund according to the requirement of the corporate accounting rules to set aside the liability of severance pay from employers' internal reserves to an external funding. An estimate shows that employers should set aside 8.33% of payrolls for this purpose. A general view of KSPI is to conduct comprehensive review of the existing labour laws from the long-term perspectives and it does not agree with partial amendments.
- Depnaker considers the introduction of a ceiling to the reference wages used as the basis for calculating the severance pay (such as Rp. 5.5 million, where 99.13% of workers receive salaries below this level). It also studies the feasibility of a programme for compensation of termination of work relation. The funding mechanism needs to be designed
- Jamsostek states that it would be ready to implement the additional work termination programme on condition that sufficient contributions are paid by employers and workers. However, some policy advisor warns that Jamsostek should not accept the transfer of liabilities of severance pay as it could cause financial difficulties in the event of massive labour dismissals.

Discussion with social partners should continue on priority, timing and funding for an alternative social security programme and on implications for the existing severance pay system. ILO could assist this process by facilitating social dialogue⁹. A number of other issues would need to be resolved before any new programme can be introduced in Indonesia. These include decisions on:

- What should be the funding source and, if funded by contributions, who should pay the required contributions?;
- The implications for the existing severance pay system;
- The need to coordinate with employment services; and
- The need to upgrade the capability of Jamsostek to administer the new programme.

⁹ For example, ILO organised a one day seminar on "Social Security and Labour Market Flexibility" on 23 August 2007 in Jakarta.

3.6.4. Social assistance

Social assistance is supposed to provide the bottom tier of support to those in need who lack adequate personal resources or other social security entitlements as a core responsibility of the central government.

In Indonesia, assistance to the poor and needy has been seen as a primary obligation on extended family members or the local community. Beyond this the giving of alms or assistance to the poor was seen by the main religious groups as a duty of individuals who had the means to assist, or as an area of responsibility of community and religious groups, and some NGOs.

Prior to the 1997 crisis Government expenditures in the social area were concentrated on education, health and community development. Major direct poverty relief measures had not been implemented until Social Safety Net measures introduced on an emergency basis after the 1997 Asian economic crisis. The main social assistance programmes covered by the Social Safety Net were the following:

- A rice subsidy scheme for poor people (Raskin) which entitled the 9 million recipients to buy 20 kg of rice per month at a low price from Government supplied stockpiles.
- An Education Scholarship scheme which paid cash grants to students from poor households in order to encourage them to remain in schooling
- Health Cards (Kartu Sehat) for poor people which entitled them to free medical treatment in public health centres (Puskesmas).

The ad hoc Social Safety Net programme, while an innovative response to the crisis, has an inadequate administrative framework, and in practice is not well targeted. Hence, Indonesia will need to consider introducing some form of longer-term social assistance programme.

There are considerable constraints on the feasibility of developing a more systematic process of social assistance in Indonesia on a national basis. These include:

Selama ini terdapat sejumlah kendala besar terkait kelayakan penyusunan proses bantuan sosial yang lebih sistematis di Indonesia. Kendala-kendala tersebut meliputi:

- The nature of Indonesia's developing economy, with majority of the labour force in the informal sector;
- Limited revenue sources;
- Lack of any national administrative structure which could adequately control a social assistance programme;
- Major geographic diversity; and
- Recent moves to devolve more power to regional and local governments.

Among a variety of options for administering a social assistance programme, the most promising options would be to involve some negotiated arrangements between central and local governments within the framework of a national social assistance programme. In practice this would mean considerable diversity in programmes at the local level.

The core social assistance could include the following:

- Rice subsidy or its equivalent for the poor;
- Other food assistance for young children and nursing mothers in poor families;
- Health cards for the poor giving access to free treatment in public facilities and free or subsidised medicines;

- Education scholarships for children for poor families; and
- Cash grants to poor households where the local capacity to run such a system exists.

Possible funding options include a redeployment of part of the oil products subsidy; eventual excise taxes on oil products; redeployment of the funding for the electricity subsidy and credit subsidies; some additional taxes, notably on tobacco products; and co-contributions from local administrations.

Recently there has been a dynamic development in the area of social assistance to the poor, which is in line with the scenario described above. For further analysis reference should be made to Chapter 5.

3.7. Concluding remarks

Despite the decreasing trend of social security coverage of the formal sector workers, the traditional social insurance schemes are still core social security carriers in the current national social security system and have potential to extend to a larger population.

The ILO project “Restructuring the Social Security Scheme” has taken the first step in assisting the ongoing long-term process of social security reform in Indonesia. Building on the useful groundwork done by the project, and the momentum for change created by the earlier project, there is a need for continuous follow-up project which will give a sharper focus on supporting the implementation of the priority programmes and the extension of social security coverage.

Appendix to Chapter 3:

Summary of recommendations on Jamsostek operations & IT

Processes and administration

(i) Registration process

The registration process should be re-engineered to become the prime function for new members and be able to perform the following tasks:

- Obtain complete information about the member,
- Establish the identity of each member by a standard process of sighting identity documents,
- Conduct an index check to determine the existence of any previous record,
- Enter and record the details of the member on the database,
- To ensure that appropriate procedures are initiated to advise the members of their rights and obligations of membership to the fund,
- To create any paper files and documentation that may be required for legal purposes, and
- Contain appropriate system constraints to prevent the creation of duplicate records.

(ii) Membership focus

The focus of membership in Jamsostek should be shifted towards the employee so that the employee is contacted directly (and not via the employer) for annual information of the members' record, deficiencies or non payments of contributions, non compliance, marketing, notification of changes and responses to member enquiries. All members should be aware of their rights and responsibilities of membership in Jamsostek programmes and the responsibilities for notification of changes in circumstances such as address, employment, should be with the employees. The focus of contribution collections should remain on employers.

(iii) Compliance

The legislation and regulations for collection of contributions should be amended to provide Jamsostek with all of the relevant delegations and authority in order to strengthen the compliance of membership and contributions to the fund. This should include amendment to Article 31 (1) of Act No. 3, 1992 to provide authority for Jamsostek inspectors to be empowered to enforce social security provisions. The appeals against enforcement decisions, disability benefits payments and work accident benefits may be separated to another agency to promote impartiality.

(iv) Work accident reporting

The work accident reporting processes should be altered to place the responsibility with Jamsostek to screen and report workplace injuries to the Department of Manpower and Transmigration (Depnaker). The scale of reportable injuries should also be altered to those classified as the more serious injuries that may have resulted from unsafe work practices or environmental factors. The current range of carbonised forms for workplace injury reporting should be altered to reflect the actual reporting and forms distribution process.

Data on occupational accidents and diseases from employment injury programme are key for occupational safety and health policy development and monitoring and evaluation of the national situation in occupational safety and health.



(v) Jamsostek marketing

Jamsostek should conduct a marketing exercise to promote the changes that are to be made following the legislative changes and the acceptance of the IT strategic and development plans. The likely marketing strategy may include the new structural elements such as the trust fund management, new investment practices, focus on employee members, collection of employee contact addresses, Integration of records and compliance.

Data management

(vi) Unique Jamsostek membership number

Jamsostek should establish a unique employee membership number as the primary search element for membership record management. This number could be the existing employee member number or a newly created numbering system for internal use in Jamsostek. This number will facilitate the integration of existing records and to prevent the creation of further multiple records. In the future this number could be integrated with the proposed national identity number system and migrant workers tracking system.

(vii) Record integration

The multiple records should be integrated into a single record that contains the current and historical data about each member. The amount of data available about employee members is limited and to achieve a high degree of integration it will be necessary to conduct a data collection exercise (initially through employers) to obtain the relevant information such as previous membership numbers, contact address etc, from employees.

(viii) Data redundancy

The data architecture should be reviewed in order to eliminate data redundancy and the inclusion of additional essential data fields such as members address. The establishment of a common data record containing the fixed person data should be considered as an element of data architecture.

(ix) Data management

The inactive records and the claimants' paid records should be separated from the active records and archived in the Branch Offices. This process will improve the data access performance of the frequently used active records in the Branch Offices and increase the available disk space.

(x) National index

A national index of members should be created from the integrated membership records and be made accessible in all Jamsostek sites. This index, as a minimum requirement, must be able to identify individual employee members and employers and the location of their data records.

Information Technology

(xi) IT organisation

The successful development and maintenance of IT systems is critical to the operations of Jamsostek and the achievement of its business goals. In recognition of the technical nature and to enhance the liaison and decision making process with the other directors, the IT organisation should be reviewed and the employment conditions for IT staff restructured to

attract capable staff to fill the vacancies and maintain the critical data management positions in all sites.

IT development needs to be seen as investment in the future and to fund the development it may be necessary to borrow from future expenditure. Successful IT developments will produce the efficiencies that result in the need for lower operational staffing numbers that can be offset against the increased staffing that will be required to manage the increase in membership and programmes. It will also provide the opportunity to deliver a greater range of services to members and better control over membership, resources and management information.

(xii) IT development and maintenance

The staffing of the IT section should be reviewed to expand the development component. The redevelopment of the Jamsostek systems will require a dedicated project team that is additional to, and separate from, the existing maintenance team in the IT section. The proposed systems re-development project should report to an executive steering committee.

(xiii) IT standards and procedures

Jamsostek should document standard procedures for:

- IT project methodology and the preferred support tools,
- Development methodology,
- Data standards and data management,
- Infrastructure development,
- Fault reporting and management, and
- Documentation maintenance and standards.

(xiv) IT training

The priority of IT training should be directed to establishing fully trained database administrators, data operators and relief staff in all Branch, Regional and the National offices.

(xv) Business re-engineering

A business re-engineering planning workshop should be conducted to review the business needs and the IT architecture in order to develop an IT strategic plan and development plan.

4

EXTENSION OF SOCIAL INSURANCE COVERAGE INFORMAL ECONOMY

4.1. Introduction

The Constitution of Indonesia stipulates that every citizen has the right to social security and emphasises the role of the State in providing universal social security coverage. However, only a small number of people in Indonesia have adequate social security.

The National Social Security System Law (SJSN Law, Law No. 40 of 2004) which came into effective on October 2004 is a major milestone in the development of social security system in Indonesia. The law anticipates the achievement of the universal coverage in a phased manner¹⁰.

One of the greatest challenges to the achievement of the goal of universal coverage is the informal economy which currently employs two-thirds of all workers. This chapter aims to provide a basis for the formulation of the policy to extend the contributory social security coverage to workers in the informal economy.

This Chapter presents the analysis of social security needs assessment of workers in the informal economy in both urban and rural areas and provides a basis for the formulation of the policy to extend the contributory social security coverage to workers in the informal economy, based on the ILO Working Paper "Extension of Social Security Coverage for the Informal Economy in Indonesia".

4.2. Challenges in extending social security coverage to the informal economy workers

Although the scope of Act No. 3, Year 1992 on the Employees' Social Security covers all workers under any employer-employee relationship, the actual mandatory coverage is limited to employers with 10 or more employees or a monthly payroll of more than Rp. 1 million. This implies that most enterprises that currently comply with the Act are the formal sector enterprises with legal entities.

There are a number of hindering factors for extending contributory social security coverage to the informal sector workers:

- The low and irregular income of the informal economy workers is a major obstacle in ensuring secure resources. As most workers in the informal economy receive irregular income, the establishment of a gross or net monthly salary is difficult and unreliable. In the absence of employers' participation, the total contributions are not affordable by most workers in the informal economy. In addition, unless the employers comply with making social security contributions on behalf of the employees, efficient collection of contributions is difficult with the existing administrative infrastructure.

¹⁰ The current Government gives high priority on the provision of health insurance for the poor. In 2005, Askes is tasked to provide health insurance for 36.1 million poor persons.

- The type and level of benefits are not responsive to the priority needs and resource constraint of workers in the informal economy. Whilst it is desirable to provide the full range of social security benefits, the existing programmes cannot provide the flexibility needed for workers in the informal economy.
- General lack of awareness of social security concept and distrust of government institutions, which are common among workers in the informal economy, negatively affect the willingness to pay contributions.
- The success of the coverage extension critically depends on the concurrent improvement of administrative capacity. This is critical not only because the volume of administrative tasks increases but also because those currently excluded are more likely to pose considerable problems of registration, compliance, collection of contributions, and record keeping.

4.3. Social security assessment of the informal economy workers

For the formulation of the policies and strategies for extension, it is important to analyse the characteristics of the excluded individuals and assess their priority needs of social security.

4.3.1. Classification of the informal economy workers

Though the workers in the informal economy consist of heterogeneous groups, one can classify the workers in the (urban) informal economy in terms of access to and stability of the place of employment and the resources. This classification can help policy planners to develop progressive measures to extend the social security cover to workers in the informal economy. It may also assist in the identification of the poor and vulnerable groups in the informal economy. A realistic strategy would be to prioritise the coverage extension according to the level of organisation and the stability of income.

4.3.2. Identification of priority needs and contributory capacity

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. garbage scavengers, drivers of motor cycle taxis), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to the insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritised. The strategy on how the informal economy workers may adopt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

4.3.3. ILO surveys in the urban and rural informal economy

The ILO conducted two surveys which aim at collecting primary indicators of social security needs and information of the informal economy workers¹¹. Key survey results are as follows:

¹¹ The urban survey was conducted in 2001 in three areas that had heavy concentrations of urban informal economy and a total of 1,999 people were surveyed in East Jakarta, Bandung and Yogyakarta. The rural survey was conducted in November 2003 with a total of 2,169 informants in the rural areas surrounding Bandung at Sakabumi and Pandangaran in West Java, around Cirebon north east of Jakarta, and around Semarang in central Java.

- There is a high need for some form of social protection for the informal economy workers. Health insurance is the highest priority for both urban and rural areas. Work injury and old-age benefits were high priorities in the urban survey, while old-age benefits and education were high in the rural survey.
- A significant portion of the informal economy workers are willing to contribute to a suitable scheme. In the urban survey 41.4% replied that they were prepared to contribute, while 16.0% replied positively in the rural survey.
- At the same time, the survey results confirm the limited contributory capacity for rural and urban informal economy workers. Without any form of cost sharing or subsidy, it would be difficult for the informal economy workers (especially those working in rural areas) to contribute Rp. 25,000 per month for health insurance in addition to premiums for other programmes.

These results indicate that people both in the urban and rural informal economy in Indonesia have an interest in social security and would be prepared to contribute to a scheme that suits their needs and priorities. These findings should be reflected in the policy design of pilot projects.

4.4. Extension of Jamsostek coverage for the informal economy workers

4.4.1. Ministerial Regulation on the Jamsostek coverage for the informal economy workers

In 2006, the Department of Manpower and Transmigration (Depnaker) issued a Ministerial Regulation (PER-24/MEN/VI/2006) on the guidance of the administration of Jamsostek programmes for the workers outside employment relationship, including the workers in the informal economy.

The Ministerial Regulation is based on Act No. 3, Year 1992 (known as Jamsostek Law). Article 4 (2) of the Jamsostek Law stipulates that social security for the “employees outside the contract of employment” (i.e. those workers who do not have an employer-employee relation) will be provided by further Government Regulation.

The following presents specific provisions in Chapter III of the Ministerial Regulation:

- (i) Scope of the coverage
The scope of the Ministerial Regulation covers workers outside employment relationship (Tenaga Kerja Di Luar Hubungan Kerja).
- (ii) Types of programme
The Ministerial Regulation stipulates that Jamsostek provides the workers in the informal economy with the same benefits as the current Jamsostek members. These benefits include, Employment Injury, Death, Old-Age and Health Care. A notable difference is that a worker in the informal economy can join selected programmes according to the financial capacity and social security needs.
- (iii) Voluntary coverage
The Ministerial Regulation stipulates that the coverage of the informal economy workers is voluntary.
- (iv) Determination of contributory income
Contributions are flat rate amounts set on the basis of a percentage of the regional minimum wages. For instance, the monthly minimum wage in Jakarta (which is one of the highest

regions in Indonesia) is Rp. 900,560 in 2007. In view of the difficulties in establishing monthly income for workers in the informal economy, it would be reasonable to make such an assumption.

(v) Rates of contribution

The following Table 2 specifies the rates of contribution and the amount on the basis of minimum wage in Jakarta for the four benefit programmes for the informal economy workers¹². The contributions are to be paid solely by workers.

Table 2.
Contribution rates of Jamsostek for the informal economy workers

Programmes	Contribution rate	Monthly contribution (Jakarta 2007)
Employment injury (JKK)	1%	Rp 9.006
Old-age (JHT)	2%	Rp 18.011
Death (JK)	0,3%	Rp 2.702
Health care (JPK)	3% (single)	Rp 27.017
	6% (married)	Rp 54.034
Total	6,3% (single)	Rp 56.735
	9,3% (married)	RP 83.752

(vi) Collection of contribution

The contributions are paid monthly or quarterly. The Ministerial Regulation allows for the collection by organised groups.

(vii) Benefit design

As noted earlier, the benefit design of the Ministerial Regulation is similar to that of the formal sector employees (Government Regulation on the Implementation of Jamsostek, No.14, Year 1993).

4.4.2. Observations

Depnaker started pilot projects in three sites in 2006 and implemented additional three pilot projects in 2007. At the end of 2006, there were 13,580 workers participated in this programme.

With regard to the design of the informal economy programme, the following observations are made:

- Under the current Jamsostek Law (Law No. 3 of 1992), the actual mandatory coverage is limited to employers with 10 or more employees or a monthly payroll of more than Rp. 1 million. Thus, the employees working in small-sized enterprises are still outside the scope of Jamsostek coverage. To cover this gap, adequate action be taken to include the employees in small-sized workers in Jamsostek system.

¹² For comparison, contribution rates for the formal employee are as follows:

Programmes	Employer	Workers	Total
Employment injury (JKK)	0.24% ke 1,74%	0,24% ke 1,74%	
Old-age (JHT)	3,7%	2%	5,7%
Death (JK)	0,3%		0,3%
Health care (JPK) (JPK)	3% (single)		3% (single)
	6% (married)		6% (married)

- Although it is not feasible to enforce compulsory coverage for the informal economy workers, the voluntary coverage, coupled with the provision on partial coverage of programmes, may lead to considerable adverse selection problem, in particular in health care programme.
- Although a flexible approach that allows for more choices to the members will facilitate the entry of currently excluded workers, voluntary membership should be seen as a transitional measure to alleviate temporary administrative and budgetary constraints. In the long-term the government must accept its responsibility to provide for a minimum social security system for all citizens.
- While a formal sector employee pays only 2%, an informal economy worker has to pay 6.3% (single) or 9.3% (with family) for full coverage. The main reason for high contribution rates is that these workers have to pay the total amount of contributions in the absence of employers' participation. It is also due to the fact that the informal sector scheme has simply adopted the contribution structure for the formal employee (where health insurance contribution rate is relatively high due to the ceiling of contributory wage for this programme) without proper risk assessment of informal economy workers. It would be difficult for the informal economy workers (especially those working in rural areas) to sustain the payment of contributions without subsidy or any form of cost sharing.
- Although the Ministerial Regulation takes into account some specific features of the workers in the informal economy, some of the provisions which were designed for the formal employed workers may be difficult to administer. For example, in employment injury benefits, it would be difficult to establish definitions of occupational accident or diseases due to irregular working hours and the fact that some jobs are done in the home or on the streets and that some employ family workers including children. Thus, instead of limiting benefits to work-related accidents and diseases, it may be more manageable to cover accidents and diseases in the framework of health care and death and invalidity benefits programmes.

4.4.3. Strategies to enhance the implementation

A shift of focus to the informal economy will require additional resources for the development and implementation of a programme to reinforce the compliance with the regulations, which involves marketing, promotion, additional staffing, training, accommodation, IT programmes and transport. The efficiency should also be enhanced to provide services for smaller workplaces.

To develop effective strategies for enhancing the informal economy programme, the following issues should be taken into account:

(i) Awareness-raising (sensitization)

There are low awareness and lack of understanding of social security among the informal economy workers. However, as the ILO social security needs assessment survey indicates, given the right information, informal economy workers are willing to participate in social security programme, where health is a high priority.

The government should therefore conduct awareness and information on the new system through (1) socialisation and orientations of the programme, (2) development of information, education and communication (IEC) materials, (3) documentation and information-sharing of best practices and lessons learned in the pilot projects.

(ii) Efficient administration and enforcement

Workers without employer-employee relationship are more likely to pose considerable problems of registration, compliance, collection of contributions, and record keeping. The

extension of the Jamsostek coverage should be accompanied with the improvements in the supporting administration capacity. Without these improvements expansion of the membership will be difficult to achieve or remain less efficient.

In particular, unlike the case of employed members where the employers remit social security contributions on behalf of the employees, efficient collection of contributions is critical for the informal economy workers. The group collection is considered to be a cost-efficient way of contribution collection. To encourage local communities and other organised groups, incentives could be given to these groups by reduced contribution or additional benefits.

(iii) Coordination with other programmes

The programme for the informal sector workers is closely linked with the programmes to cover the persons who have insufficient capacity to pay contributions. An effective coordination should be ensured between the Jamsostek programme for the informal economy and the social assistance programme for the poor.

In view of the SJSN Act, there is a need to consider the coverage of social security for the informal economy workers in a wider framework of national social security system.

(iv) Monitoring, evaluation and policy review

Regular monitoring is important in the implementation of the programme. After certain time of programme implementation, an evaluation should be conducted to measure the progress of implementation and, if necessary, review the implementation strategy. The key issue to be looked into is whether the programme can provide the type and level of the benefit which are responsive to the priority needs and income constraints of workers in the informal economy.

4.4.4. Concluding remarks

The Ministerial Regulation is a first concrete step to extend the social security coverage for workers in the informal economy. The approach of the Ministerial Regulation is to apply the provisions designed for the formal employed workers to the informal economy workers. Further analysis of this programme could be conducted by the ILO to develop models of a viable social security scheme for informal economy workers.

4.5. Other gaps in social insurance coverage

4.5.1. Casual and contract workers

One of the major areas of non-compliance with regard to Act No. 3 of 1992 is that employers declare that workers employed in their enterprises are paid on a daily basis or are contractors and thus are not insurable under Jamsostek. Although this is common practice, it is not consistent with the legislation. There are numerous references in the Act and in the Regulation which clearly state that the intention of the legislation is for them to be included in the Jamsostek scheme.

Relevant examples are:

- Elucidation of Article 8 of the Act on employment injury states that “contractor who is not an employer is considered to be working for the employer who contracts the job”.
- Elucidation of Article 4 clarifies the meaning of an employee as anyone “working in employment as an individual or an enterprises and who receives wages, including daily, casual, and contractual workers.....”

- Article 1 (3) of Regulation No. 14, 1993 defines how the income for daily workers, contractual, piece rate and seasonal workers are to be calculated.

It is thus evident that there is a statutory obligation on employers to enrol their casual, piece rate and contract workers. It is also evident that without an effective compliance regime the common practice of excluding these workers will continue.

4.5.2. Migrant workers

When examining a policy to extend the social security coverage, particular consideration must be made to the international migrant workers as a growing number of Indonesian workers, a large majority of whom are women, leave the country to work overseas. The number of documented overseas workers increased from 232,275 in 1997-98 to 435,219 in 2000 and to 480,393 in 2002¹³. As of end-2006, a total of 77,122 overseas workers were registered with Jamsostek.

Migrant workers face multiple disadvantages in their working conditions, including the lack of social protection. The following issues should be addressed:

- Review the current policy that excludes migrant workers from Jamsostek and cover them in the scheme or develop a programme that meets their needs;
- Develop a partnership with the key agents in the process (Depnaker, employment agencies and Jamsostek) to provide social security cover to migrant workers. Incorporating the employment agencies as employers on the social security IT system could also provide the management information that is not currently available to Depnaker; and,
- Initiate steps to conclude multilateral and bilateral agreements with major receiving countries that ensure the maintenance of rights and equality of treatment on social security.

Extending social protection for migrant workers constitutes one of the key pillars of the ILO Plan of Action on Labour Migration in Asia Pacific. It states that

"The Asian Regional Meeting in 2001 asked the ILO to help design a social security treaty for migrant workers, especially for coverage of old age benefits and payment of pensions in countries where the migrants retire. Possibilities for harmonizing benefits that can be availed of by each other's nationals when employed in another member country will be studied, including the requirements and qualifications for membership and for entitlement to various benefits. There may be a need in some cases to amend existing social security legislation to allow for pension-rights to be given to non-nationals. The International Social Security Association (ISSA) will be asked to help design bilateral agreements on social security, or if the countries are ready design multilateral treaty for several Asian countries (i.e. ASEAN) and to encourage agreement. Both ISSA and the Social Security Department of the ILO will be asked to provide technical expertise on social security issues under the Plan of Action."

Within the ILO/EC Asian Programme on Governance of Labour Migration, ILO has commissioned a feasibility study on social security agreements for migrant workers in ASEAN countries. The key observations are:

- Social security agreements between ASEAN countries would strengthen protection for migrant workers.

¹³ The number decreased in 2001 and in 2003 due to temporary suspension of placements to Middle East and Taiwan, stricter requirements for placement as well as outbreak of SARS. However, the statistics of the migrant workers are likely to be under-estimated since many undocumented workers seek for employment abroad.

- A single ASEAN multilateral agreement would be the ideal solution, but could be difficult to achieve, especially for long-term benefits. Bilateral agreements would be a more feasible option.

There is an increasing need for improved social protection for migrant workers. In line with the strategies outline above, Indonesia should take steps to extend social security for migrant workers.

4.5.3. Micro-insurance schemes

(i) Basic ideas

Micro-insurance schemes based on group contributions can be considered as an alternative interim measure to provide social security for the informal economy workers¹⁴.

There are several advantages that support the success of this approach. Firstly, such schemes are expected to be more accountable with the commitment by the leader and participation in management and sense of ownership by members. Secondly, these schemes can have benefits and contributions structure that is more responsive to the needs of the members. Self-help groups supported by trained facilitators are seen as the key to successful implementation of a social security programme for informal economy workers.

An inherent concern about micro-insurance schemes is its long-term sustainability. Lack of necessary preconditions has led many micro-insurance schemes to have a short life span before they become insolvent, usually as a result of imprecise assessment of risk, failure in investment and inadequate delivery of services. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardise the development of a future government subsidised system by legitimatising evasion through support of informal arrangement.

Therefore, to extend the coverage by means of micro-schemes while ensuring their sustainability, the Government is expected to play an important role as a coordinator and as the guarantor of last resort. In the long run, therefore, the most sustainable arrangement may be to bring these decentralised schemes under the Government umbrella in which self help groups can facilitate registration of members and collection of contributions.

(ii) A proposed pilot project

Some experimentation is required to identify suitable programmes, administrative models, appropriate partnerships and the effectiveness of various models. These models could make use of some of the existing self-help groups that are already established and steps could be taken to extend those groups and to develop new groups based on the most successful methods currently in use.

The following principles are recommended for the development of strategies for extension of social security to the informal sector.

- Self-help groups should be the core of the social security models.
- Groups should have external local facilitators from the social security agency and selected NGO and be supported by local administrations and other local partners.
- Contributions and benefits should incorporate flexibility to cope with the situation of the informal economy workers.

¹⁴ ILO has been implementing a global programme, Strategies and tools against social exclusion and poverty (STEP), which aims to extend social protection, in particular health insurance, to the excluded and the poor by promoting the development of community-based micro health insurance schemes and strengthening their administrative capacities.

- Subsidies from all levels of government would encourage contributors and offset the high contribution to personal income ratio which is a feature of micro-insurance schemes,

In conjunction with the other reforms of social security in Indonesia it would be desirable to conduct a pilot project to extend social security opportunities to the informal economy workers and their families. The suggested group insurance schemes in Indonesia are:

- Area based and to a lesser degree occupation based;
- Able to provide mutual support for members;
- Have identified group leaders; and
- Externally supported by trained facilitators.

The process of conducting a pilot scheme should consider the following key points:

- Identify the priority social security needs of informal economy workers in the target areas;
- Develop a flexible programme for the informal sector that could allow a mix of options for cover to accommodate individual needs and capacity to pay premiums;
- Develop the administrative arrangements for establishment of the fund, collection of contributions and process of claims;
- Develop a model of linking the micro-insurance schemes with the national social security schemes;
- Determine the role of the key stakeholders in national and local governments, NGOs and the service delivery agency;
- The potential for subsidies to be provided to contributors to assist in the promotion of the schemes and to support their short-term sustainability;
- Establish appropriate options for pooling of funds, re-insurance and guarantees against unanticipated situations;
- Improve knowledge and capabilities of local resources in implementing social security system; and
- The length of the trial and the future of the scheme after the trial period.

The pilot scheme could assess the suitability and effectiveness of:

- The programmes and schemes for segments of the informal economy such as urban, rural and for occupational groupings;
- Administrative processes and costs;
- Group dynamics such as group building, management and sustainability;
- Training of group leaders and group facilitators;
- Providers of services, local government, social security organisations, NGOs and private companies;
- Financial impact of fully self-funded and subsidised schemes; and
- Most appropriate models for extension to other areas.

4.6. Conclusion

There is a large unmet need for social security in the informal economy in Indonesia. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programmes based on risks, income and needs, (iv) develop efficient group collection and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

In general, there is no single solution to achieve the over-arching goal of universal coverage of social security. An effective policy needs to be formulated, implemented and periodically reviewed in the light of national conditions and in consultation with all stakeholders.

Results of the rural and urban informal economy surveys have demonstrated that a carefully structured programme may be able to attract sufficient contributors to make a contributory scheme viable in terms of numbers, however the dispersed nature of the contributors, the variability of their income, their capacity to pay and the administration issues suggest that solutions will not be simple to develop or to maintain. The extension of social security to the informal sector is feasible if one could develop a viable scheme that is flexible, affordable, sustainable and well-marketed and understood.

International experience tells that the process of extension is complex and that it usually requires a long time (sometimes several decades) to achieve the universal coverage. It is not accomplished without strong long-term commitment and integrated efforts of the relevant stakeholders.

Limited population coverage of social security is one of the major deficits for the fulfilment of Decent Work and the extension of social protection coverage should be given a priority in the Decent Work Country Programme for Indonesia.

5

SOCIAL ASSISTANCE FOR THE POOR

5.1. Introduction

Whilst there has been little visible progress in respect of social insurance for workers in the formal employment sector, the current Government has given high priority for public interventions targeting the poor.

The national poverty line in Indonesia is defined in terms of ability to afford a minimum food intake, and some non-food items. The poor are those who fall below this real income or consumption standard line. This is equivalent to US\$ 1.55 per day which is stricter than the conventional \$2 per day measure. The Indonesian national poverty measure identified 36.1 million people as poor in 2004, equal to 16.66 per cent of the population.

The most notable progress in social assistance is related to new initiatives in (i) health insurance and (ii) the cash transfer scheme for the poor. These new initiatives took place against a background of high price inflation accentuated by major fuel price increases which was increasing the financial stress on low income households. The source of this scheme is the budget surplus as a result of two oil price increases in 2005, which is estimated Rp. 89 trillion. The full year amount is estimated Rp. 137 trillion. If the oil price is further increased at the global market price, the potential budget surplus up to Rp. 180 trillion is expected.

5.2. Health insurance for the poor

In 2005 Indonesia instituted a new health card system for the poor to replace the former Kartu Sehat which had been issued to poor people as part of the Social Safety Net Programme.

The distinctive feature of the new system was the issue of health cards by Askes, the existing health insurance provider for many formal sector workers, with the Government paying premiums on behalf of the card holders. The health insurance programme for the poor is called Askeskin.

The contribution rate was set initially at Rp. 5,000 (about US\$ 0.55) per month per card holder. A simple estimate of the annual contribution would result in Rp. 3.6 trillion for 60 million members. The government allocated Rp. 3.9 trillion in 2005 for basic health care and health insurance.

Two distinct phases characterise the new health card programme.

- In the first Semester covering the period January to May 2005, a target of 36.1 million covered individuals was set. This was equivalent to the estimated number of poor people in Indonesia, at just under 17 per cent of the population. Districts were allocated quotas on the basis of the estimated number of poor people resident in the district, with the local authorities providing the lists of qualifying individuals to the local branch of Askes. The cards then issued covered both free outpatient primary care in the local health centres (Puskesmas), and free treatment at hospitals, generally 3rd class public hospitals. Askes received funds to cover both areas, and in turn reimbursed hospitals and health centres on a fee for service basis for health services provided to card holders.

- For the second semester covering June to December 2005, a higher target of 60 million was set, to include the estimated number of poor and near-poor. However, a major change in coverage was made. Direct funding of the health centres was resumed, with funding going from the Ministry of Finance via the BRI Bank to the District Health Office. Fund holding by Askes was limited to the amount allocated to pay for use of hospital services. Health card holders continued to get free treatment in the health centres. Under the revised system funding for services delivered by Puskesmas is thus allocated directly to each district, as previously, with an allocation also to the provincial government to fund support services. Askes receives the funding for hospital health services for the poor who hold their issued cards.

As of mid-2007, the coverage of this programme was estimated at 76.4 million. It should be noted that the funding arrangement was changed again in 2006 where the funds for both primary out-patient care through health centres and in-patient care at hospitals are channelled through Askes. In the second-half of 2007, the funding arrangement was once again changed to a separate system for direct funding to local health centres and for social health insurance through Askes covering in-patient care. One reason for the frequent policy changes would be the insufficient budgetary allocation by the government. In 2007, the Department of Health initially allocated only Rp. 1.7 trillion for this programme, while the estimated premium for Askes was Rp. 4.3 trillion.

As with the earlier Kartu Sehat, the biggest difficulty experienced in card issue has been in actual identification of the poor. Statistics Indonesia (BPS) data which was used as the basis for financial allocations to districts and in estimating "quotas" of poor people until recently had simply been a sample survey of under 1 per cent of the population. Hence, other methods had to be used to decide who are the poor at the local level. Districts set up sub-district teams to do this. Some used the local Family Planning (BKKBN) estimates of household economic level. Others applied Statistics Indonesia (BPS) criteria, or their own methods. In effect there has been no uniform assessment system.

Problems experienced so far with the new system in terms of coverage include:

- Problems in reaching all the poor. In the first phases only an estimated 80 per cent of the quota numbers were actually achieved. People without local residence cards tended to be particularly disadvantaged.
- Targeting accuracy is problematic, with some poor households missing out on card allocation, and some non-poor people receiving cards.
- Regarding poverty assessment there is no effective integration with the parallel BPS (Statistics Indonesia) poverty assessment for the cash transfer scheme, nor with the older BKKBN (Family Planning) assessment of household poverty.
- Socialisation problems in getting some card holders to believe that they will actually receive the services covered by the cards
- Excess allocation of cards by some districts. Askes can ask these districts to pay for the excess. Some districts in oil-rich East Kalimantan have done so, as their local policy is to widen coverage.
- The "temporary letter" from village heads giving people the equivalent of Health Card free services in Puskesmas still seems to be operating.

In effect, a number of the problems which characterised the earlier allocation of the Kartu Sehat have recurred with the new system. However, discussions are going on about possible use of the new BPS household poverty assessments for the health card. This is intended to be the long-term allocation system, but was not up and running in time for the 2005 issue of health cards.

There are also some administrative issues in the interface between Askes and the government, and Askes and the hospitals.

- The costing basis for bulk funding Askes is still in evolution, with limited information available so far to assess premium and benefit setting. The initial allocation of Rp. 5,000 per month per card holder was reduced to Rp. 3,000 once the shift back to direct funding of district health centres was made.
- It has not yet been possible to replace fee-for-service funding to hospitals by capitation payments, although this is the intent of the policy direction. Cost estimates are Rp. 150,000 a day for 5-6 days for inpatient care.
- Excess claims are investigated by monitoring teams. However, there is a fund to cover some catastrophic care cases.
- Hospitals have complained about late reimbursement by Askes.
- Reimbursement of hospitals on a fee-for-service basis is likely to create long-term problems of cost control.
- The return to direct government funding of the health centres removes any funding pressure for efficiency improvement in these centres. Currently, the Puskesmas are of highly variable quality.

The involvement of Askes in the issue of health cards and the reimbursement of hospital providers now means that there is a degree of integration between health insurance cover for formal sector workers, and social assistance health cover for the poor.

5.3. The cash transfer system

5.3.1 Cash transfer programme for the poor in 2005

The second major initiative commencing in October 2005 was the issue of grants of Rp. 100,000 per month (US\$10) to households of poor and near poor families. The initial target was 60 million people in 15.5 million households, which was extended to more than 70 million people in 19.2 million households in the second round.

The mechanism of this programme is described as follows. The poor are to be initially identified by local authorities and classified by economic level on the basis of 14 criteria developed by BPS (Statistics Indonesia) (See Box 1.). Local authorities at the lowest level produce lists of households of people identified to be poor. These households are then visited by a BPS enumerator who helps them fill out the assessment form. This is then sent to the local BPS office where the forms are graded and a list of poor households is developed. This list is then supplied to the Post Office, while entitlement cards are issued to the households assessed as poor. Cash transfers are made via the BRI Bank to the Post Office, which in turn makes payments in quarterly lump-sums to the designated households. These must produce their BPS card to receive payment. Payments are made in lump-sums of three months allocation at a time.

This is a massive new undertaking which is likely to stretch the limits of the Indonesian administrative system. The cash transfers are estimate to cost 1.5 trillion rupiah (US\$150 million) per month.

Box 1. Criteria for receiving cash transfers

1. Size of House (square meters)
2. Flooring Material of House
3. Material used for Walls of House
4. Sanitary Facilities in house
5. Source of Drinking Water
6. Source of Main Lighting
7. Kind of Fuel used for daily cooking
8. Source of Main Lighting
9. How many times a week the family buy Meat/Chicken/Milk
10. How many times per day the family eat
11. How many new clothes the family buy for majority of members per year
12. Financial ability to go to clinic (Puskesmas) if sick
13. Main Job of Head of Family
14. Possession of specified assets worth over 500,000 rupiah (Savings, Gold, Colour TV, Livestock)

Other questions asked:

- a. Name of Head of Family
- b. Education Level of Head of Family
- c. Number of Family Members
- d. Children aged 7-18
- e. Females 10-49 in household, and if married

Source: Translation of BPS Form PSE05.RT.

This unconditional cash transfer is a one-year programme. The government has allocated Rp. 23 trillion, of which Rp. 15 trillion is for the payment of the first three quarters (benefits and administrative costs) in 2005.

Regarding the effectiveness of this system, the following issues can be pointed out:

- The accuracy of targeting, including poor people who miss out and leakages of assistance to non-poor people.
- Whether there should be some extra conditionality on the eligibility of assistance, such as children attending school, and medical vaccinations achieved.
- Tradeoffs between cash transfers and direct provision of services. The merits of a cash transfer approach as against the alternative of direct services delivery to the poor via health, education, and nutrition programmes.
- Whether payment should be made to the (usually male) Head of Family, or the mother of children in the household as has been the case with some of the Latin American cash transfer programmes (e.g. Mexico).
- The administrative effectiveness of the scheme.

It should be noted that the Ministry of Social Welfare (Depsos) considered that poverty was on the rise again in late 2005 in the wake of the major fuel price increases. It thought that the gradual downtrend of poverty visible in the BPS statistics up to 2004 would reverse in late 2005. It considered the cash transfer system to be a needed offset to this trend. The Ministry currently uses

a poverty income guideline of Rp. 125,000 per person per month as a measure of the poorest of the poor, Rp. 150,000 for other poor, and Rp. 175,000 for the near poor. These guidelines would classify 15 million households containing over 60 million people as poor or near poor, representing about 28 per cent of the Indonesian population of nearly 220 million people. On this basis payment of Rp. 100,000 per month to a poor family of 4 would raise their income by 16 to 20 per cent.

5.3.2 Conditional cash transfer programme

In 2007, the (unconditional) cash transfer programme was replaced by a conditional cash transfer programme (Program Keluarga Harapan). In July 2007 the government launched pilot programmes in seven Provinces.

The target groups are poor households with pregnant women and children between 0 and 15 years of ages. These households receive cash for a maximum period of six years. According to the BPS data, 6.5 million households are estimated to be in this category.

Table 3 below shows the cash benefit of conditional cash transfer:

Unlike the previous programme, the receipt of the cash benefits is payable as long as certain conditions on health and education are met¹⁵. This programme has just started, hence feedback on its effectiveness is limited. However, issues expected to arise with respect to ILO include:

Table 3.
Amount of conditional cash transfer programme

Cases	Annual amount per household	
Fixed amount	Rp	200.000
a. Child below 5 of ages	Rp	800.000
b. Pregnant and feeding mother	Rp	800.000
c. Child in primary school	Rp	400.000
d. Child in secondary school	Rp	800.000
Average amount per household	Rp	1.390.000
Minimum amount per household	Rp	600.000
Maximum amount per household	Rp	2.200.000

- It is expected that the accuracy of targeting will improve compared to the previous unconditional cash transfer programme. However, the impact of this conditional cash transfer programme should be evaluated carefully. The programme should be reviewed regularly in the light of the impact evaluation.
- A well-functioning monitoring system of conditionality is a key to the successful implementation of this programme. In particular, ILO's child labour monitoring system in Indonesia can serve for the monitoring of the school attendance in the education component.

15 There are 12 indicators described as follows:

Health indicators: (1) Four prenatal care visits for pregnant women, (2) Taking iron tablets during pregnancy, (3) Delivery assisted by a trained professional, (4) Two postnatal care visits, (5) Complete childhood immunizations, (6) Ensuring monthly weight increases for infants, (7) Monthly weighing for children under three and biannually for under-fives (8) Vitamin A twice a year for under-fives

Education indicators: (9) Primary school enrollment of all children 6 to 12 years old, (10) Minimum attendance rate of 85% for all primary school-aged children, (11) Junior secondary school enrollment of all 13 to 15 years old, (12) Minimum attendance rate of 85% for all junior secondary school-aged children.

- Given that the maximum duration of the conditional cash transfer programme is six years, it is important to develop a suitable exit strategy from the programme. As income from labour is considered to be most sustainable resource to meet the household's basic needs, linkage should be sought with ILO's work in enterprise development and skills development, such as small business development projects, youth employment projects and local economic development projects.

5.4. A National Employment Guarantee Programme (NEGP)

5.4.1. Rationale of the NEGP

For developing countries, social protection is closely related to poverty reduction and sustainable economic and human development. While the conditional cash transfer provides grants to targeted poor households on the condition that they engage in human capital investment such as basic education, health care and nutrition, there is yet another approach to link the social protection with employment creation and skill training.

Current data suggest that there are economically deprived persons in both rural and urban areas who are in perpetual need of employment or better employment to eke out livelihood for themselves. For these poor and economically vulnerable people, their socio-economic status would be significantly improved if they avail of better quality and more secure employment. An improved utilisation of this human power in conjunction with mobilisation and use of central and local resources is thus a major challenge. In addition, an approach to income generation for the poor, in a regionally dispersed fashion, will synchronise with the new political decentralisation initiatives.

The ILO, in collaboration with BAPPENAS, has formulated a National Employment Guarantee Programme for Indonesia. This programme aims to serve a dual purpose: (1) helping to alleviate situations of poverty, unemployment and underemployment, particularly among youth and in rural areas, and (2) creating productive assets and services for the economy. Implicit in the arguments is also the notion of empowerment of the poor through work provision, and economic decentralisation, both of which are pre-requisites for achieving decent work conditions among the larger workers' community.

The remainder of this section presents the design for a National Employment Guarantee Programme for Indonesia.

5.4.2. The design of the NEGP in Indonesia

The programme consists of three pillars:

- (1) Employment creation for the poor, particularly youth in rural areas and the hinterland;
- (2) Productive asset formation, in turn which could generate more employment as spin-off; and
- (3) Establishment of an active link of workers and their households with other (typically, human development) programmes.

Each of these would reinforce the other to form synergies.

(i) Targeting

The programme proposes to target on the poor (and near-poor) who, as per the latest SUSENAS surveys and BPS's calculations, add up to about 15 million households in the

country. For operationalising this (guarantee) programme, it is important to first identify the poor households through a census count, using relatively simple variables in the checklist: human capacities, physical assets and demographic characteristics. To double check on the list and also bring about greater legitimacy, participation from desa/kota communities as well could sought. Some region-specific targeting—for identifying poorer locales—is also proposed, for which the ‘small area estimating technique’ could be of use. More research in this direction, however, is necessary before the method is standardised. Finally, a major issue is also of itinerant populations, and special effort would be required to accurately enumerate such populations.

(ii) Governance of NEGP

It is proposed that a National Council be constituted, with the BAPPENAS as the nodal agency (the chair) and Depnaker, the operational ministry (co-chair). Other members: representatives from line ministries (agriculture, education, health, others—all those who commission or use civil projects), BPS, provincial governors, and invitees from the private sector, NGOs and the civil society. This will be the apex policy and planning authority. Correspondingly, at the provinsi there should be a Provinsi Council, and at the kabupaten a Kabupaten Council, each having stakeholder representations.

The main administrative unit where the programme will be anchored is the kabupaten. A programme officer should head a secretariat consisting of technical, statistical/data, MIS and administrative officials. S/he would liaise with kecamatan and desa on the one hand, and provinsi and centre on the other. The programme officer is to work under the overall supervision of the bupati.

A close cooperation between various ministries and departments, between provinsi, and between kabupaten within the provinsi, in addition to cooperation between different levels of governance from the desa to the centre, are essential for the success of this programme. Finally, an organic link with different stakeholders is paramount.

(iii) Workers’ rights, obligations and wages

Workers aged 17 years and above, belonging to poor households (as per the list), must register with the kabupaten (programme officer) and obtain a Work Eligibility Card. A card-holder household will be eligible for a maximum of three person-months of work in a year at a pre-determined wage rate. More than one worker from a household could participate in the programme within the three person-month work quota.

Those wishing to work would be expected to approach the desa head [in turn who would (periodically) report the demand for work to the kabupaten programme officer]. The desa head would direct the workers to nearby sites where work is available, preferably within the kabupaten, based on a dynamic information system linking the kabupaten with the technical and line departments, whose data would be shared with the desa heads. Workers must offer to work for a minimum period of, say a month at a stretch. The programme officer will have the right to sequence the labour supply in such a manner as to ensure a smooth flow of workers round the year.

Wages would be paid piece rate: i.e. in proportion to the work done. A comprehensive Wage Manual will require to be prepared for this purpose. The wage rate is to be so fixed that it does not destabilise the labour market; nevertheless it would set a floor wage, and also aim to bring some gender parity [suggested national average across jobs and locations: Rp. 350,000 per month]. Other on-site facilities such as crèches, first aid, drinking water etc. will form a part of the package.

(iv) The asset link

The programme expects to create durable assets and tangible services. The assets need not be small and localised at a village level only; instead, labour could be deployed on any activity that is demand-led and adds value to the local or larger economy. A bouquet of categories of projects where this labour could be deployed is presented below:

- (1) Unskilled labour component in large development projects;
- (2) Unskilled labour component in the services required for up-keep of select infrastructure projects and activities;
- (3) Medium/small sized (labour intensive, demand-led) assets useful to the local settings in rural or semi-urban areas;
- (4) High risk projects in the private sector with a large labour component (in which wages paid from the programme for unskilled labour would be a subsidy);
- (5) Village-based small projects, as in Padat Karya of the yesteryears.

It is estimated that initially projects in the first two categories would engage up to 15 per cent of the workers, the fourth category about five per cent, while categories (3) and (5) are expected to employ the rest 80 per cent.

(v) Monitoring and evaluation

A strong monitoring and evaluation system will serve the programme to protect the interests of workers, projects and taxpayers. The M&E system would include: keeping accounts of employment, expenditure and completion of projects, inspection of working conditions, wages and other problems of deployment at work sites, user-evaluation of completed projects, expenditure audit, and assessment of overall impact of the programme on the living conditions of workers and their households. Periodic open-house discussions at desa/kota levels to review the programme's priorities and local actions necessary to bring about improvement are also suggested. Finally, there is a proposal for redressing grievances.

(vi) Capacity building and social security

The programme aims to establish a long-term association with the workers and their households in such a manner that it is possible to target other human development programmes like education, health and social security on them in a participative manner.

- (1) For capacity building, there are three aspects put forward:
 - a. Select capacity building of the participating workers through skill impartation;
 - b. Sustained schooling of the young in the targeted households;
 - c. Very select health intervention.

For (a), the programme will identify areas of training and selectively pay for the time and cost, while for (b) and (c) a village-based monitoring system is proposed.

- (2) For social security, a participatory health insurance scheme is suggested in which workers will pay Rp. 50,000 and the programme will pay a matching Rp. 50,000 annually, for each participating household. The money is expected to be expended on selective ailments and family planning.

(vii) Financing

The annual expense of the proposal works out to about Rp. 31.9 trillion, minus the indirect expenses. The cost is worked out based on: (a) A monthly wage of Rp. 350,000 (national average); (b) Apportioning of up to 20 per cent workers on larger (or private) sites where the



programme only pays the wages; (c) Keeping the wages to material expense ratio at 45 (wages):55 (material), on aggregate for projects exclusively designed for the programme; and (d) A token contribution for health insurance.

The expense is proposed to be shared by the government at different levels of its governance apparatus, though the major expense will be borne by the central government. Additionally, some earmarked taxes are proposed.

5.4.3. Concluding remarks

In the context of labour surplus developing countries, models of pro-poor growth could be operationalised through setting up projects wherein the un/underemployed labour could be productively deployed to create assets. The approach of NEGP would then serve the dual purpose of poverty reduction and human capital formation.

6

CONCLUSION AND THE WAYS AHEAD

The social security situation in Indonesia presents a series of rather sharply contrasting trends.

- Formal contributory social insurance provides only four benefit programmes, and these enrol a small proportion of the economically active population. At best under half of formal sector workers currently representing only about 17 per cent of the employed population are currently enrolled in these programmes, and in the private sector at least membership has been declining. This decline undermines one of the key traditional approaches for expanding social security coverage. Due to the delay in implementation of the SJSN Law, a number of the issues and reforms needed to address the issue remain unresolved. Despite the declining trend of formal sector workers, traditional social insurance schemes constitute core social security carriers and have potential to extend to a larger population.
- On the other hand, social assistance programmes have expanded rapidly since their initiation in the Social Safety Net, with a further major wave of expansion introduced in 2005. The new measures aim to increase social assistance coverage in the form of health insurance and cash benefits for around 60 million people, or about 27 per cent of the population. The rapid expansion of social assistance has been accompanied by issues of the long-term effectiveness of programme design, and the accuracy of social assistance targeting.
- Therefore the existing gap in social security coverage are largely concentrated in the non-poor informal economy workers, who have weak contributory capacity due to low and irregular income pattern Depnaker has recently taken a first step to extend mandatory membership of Jamsostek to the informal economy, but to make specific programme membership voluntary. The effectiveness of this approach is likely to be low in view of the fact that most small employers and their staff currently avoid their legal requirements to enrol in Jamsostek.

Possible areas of ILO technical assistance in social security

To contribute to development of the national social security system, the ILO stands ready to provide further technical assistance in the formulation of effective strategies for the implementation of recommendations made in this report within the framework of Decent Work Country Programme for Indonesia. In view of limited resources, the particular contributions ILO can make to assisting Indonesia to improve social security coverage and effectiveness need to be carefully thought through.

In view of the link with ongoing ILO programmes and projects, the following areas have been identified as possible ILO involvement:

1) Implementation of the Conditional Cash Transfer scheme

The ILO, through Time Bound Child Labour programme, can assist in implementing the pilot Conditional Cash Transfer scheme. In particular, the child labour monitoring system can be used for monitoring the compliance of school attendance of children.

The ILO can assist the Indonesian Government (Bappenas) to develop an exit strategy through the employment guarantee scheme. There is a possible collaboration with Youth Employment project and Education and Skill Training for Youth programme.

2) Implementation of the National Social Security System

The ILO can provide technical support on the development of implementation Road map of the SJSN Law.

3) Reform of Jamsostek

The ILO can provide further technical support on clarifications and possible options of the legal status of “Not-for Profit” organisation.

In line with the recommendations in Chapter 3, the ILO can conduct further analysis of the reform of the existing benefit programmes and design of the new benefit programmes.

4) Extension of Jamsostek for informal sector

ILO can assist Depnaker in the impact evaluation of the Ministerial Regulation on the Jamsostek coverage of the informal economy workers.

5) Capacity building of inspection on social security

The ILO can assist in the development of guideline of social security inspection for the Labour Inspectors (with Depnaker, Jamsostek, Askes).

6) Social protection of migrant workers

In the framework of two regional projects (EU and Japan) to advance the ILO Plan of Action on Labour Migration in Asia and the Pacific, steps can be taken to extend social protection for migrant workers in coordination with ASEAN and ASEAN Social Security Association (ASSA).

The migrant workers project can address the issues of remittances (social security contributions), reintegration of returned migrant workers (possible link with small enterprise development project).

7) Awareness raising and social dialogue on social security

In the framework of support to build capacity of social partners and to promote social dialogue, the ILO can provide fora to discuss social security issues. Possible activities include:

- Under the Youth Employment programme, an education material of social protection programme could be developed.
- Development of awareness raising materials for employers and workers (Depnaker, APINDO & Unions).
- Organisation of tripartite meetings to discuss the options for social security reform.

ANNEX A: SOCIAL SECURITY IN INDONESIA

A.1. Overview of the Indonesian social security system

There are four major social security schemes operating in Indonesia. These schemes provide workers in formal employment with social insurance cover for retirement, work accident, health, and death. The schemes are funded by contributions from employers, employees or combination of contributions from both.

(i) JAMSOSTEK (PT Jaminan Sosial Tenaga Kerja)

Historically, the scheme of formal private sector workers, called Perum ASTEK, was first implemented in 1978 under the Government regulations Nos. 33 and 34 of 1977. The scheme provided old-age, death and employment injury benefits. After the promulgation of the Employees' Social Security Act (Law No. 3 of 1992) and the Government regulation on the implementation of the Employees' Social Security Programme (No. 14 of 1993), the scheme was reformed to Jamsostek. From 1992, Jamsostek began providing health care benefits in addition to the above three benefits.

(ii) TASPEN (PT Tabungan Asuransi Pensiun)

Taspen provides annuity pensions and endowment insurance benefits for government civil servants.

(iii) ASKES (PT Asuransi Kesehatan Indonesia)

Askes is a health care scheme for government civil servants and retirees and their families. It also provides health care service on behalf of Asabri for members of the armed forces and their families.

(iv) ASABRI (PT Asuransi Sosial Angkatan Bersenjata Republik Indonesia)

Asabri is a social insurance system designed to provide pension and endowment insurance benefits to Indonesian armed forces personnel.

Table A.1 summarises the existing social security systems, their legal entities, contributions, benefits and management institutions. The present social security programme has developed in a fragmented, uncoordinated way. However, this weakness has been recognised by the responsible ministries. Key principles of the National Social Security System (SJSN) Act include the universal social security coverage and the establishment of a comprehensive and integrated social security system.

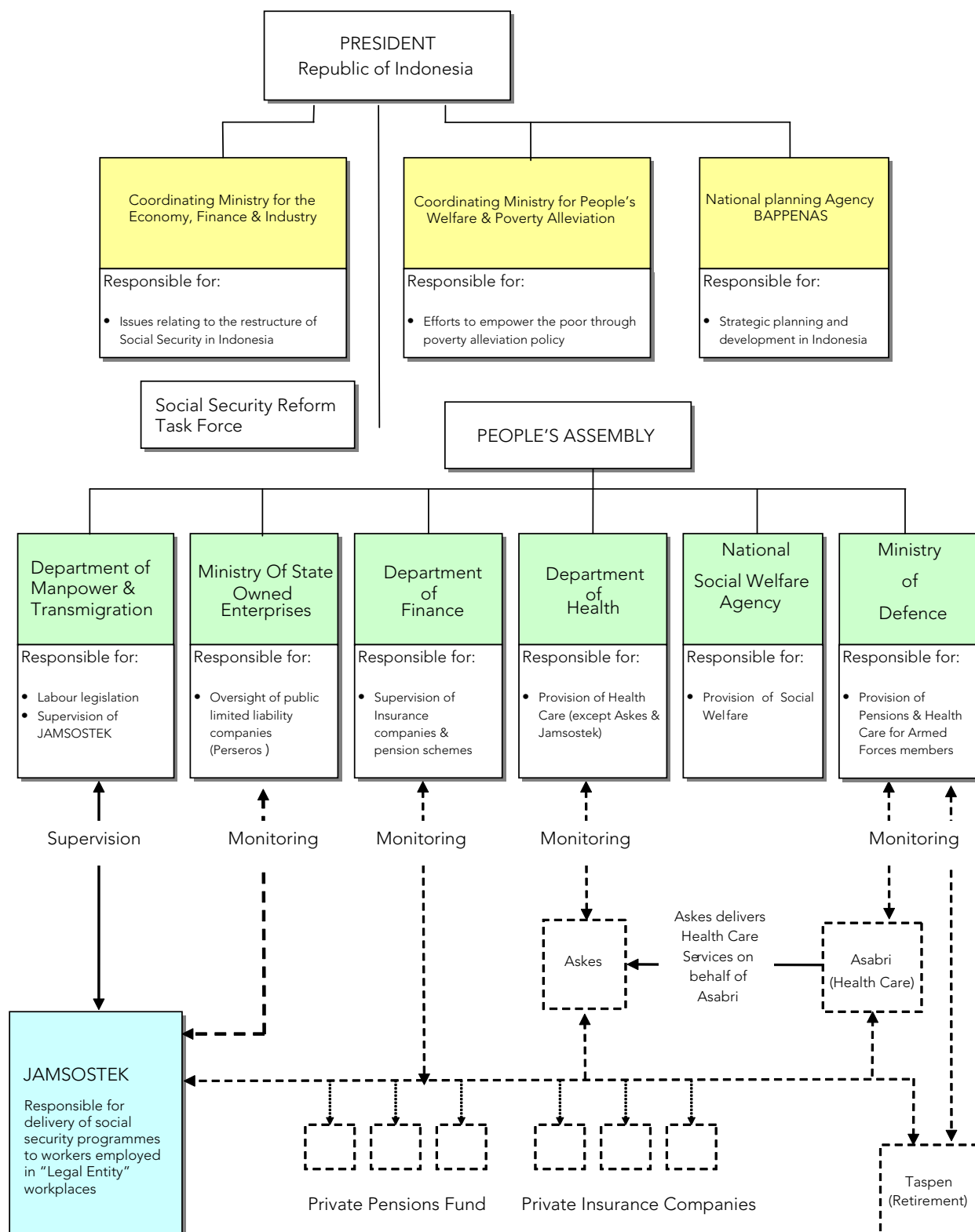
Responsibility for different elements of the social security system in Indonesia rests with various government departments and public agencies, as illustrated in Figure A.1. The Department of Manpower and Transmigration (Depnaker) is responsible for Labour legislation, for Jamsostek and the implementation of its related legislation. The Ministry of State Owned Enterprises is responsible for the supervision of all public limited liability companies (Perseros like Jamsostek, Askes and Taspen). The Ministry of Finance is responsible for the supervision of social insurance schemes (Minister of Finance is the single shareholder in these companies) and private pension

schemes. The Department of Health and Social Welfare is responsible for the provision of health care but Jamsostek and Askes implement health insurance schemes. Social welfare is the responsibility of the National Social Welfare Agency.

The current social security eligibility extends to employees of the civil service, military and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy and the unemployed or aged, rely on private insurance or support from immediate and extended families and the local community. In the short-term, it is likely that social security provisions may be extended to include more of the people employed in the formal sector and the self-employed. The extension of social security entitlements to the entire population will be a long-term goal.

Table A.1. Overview of the Indonesian social security system

OVERVIEW of IN DONESIAN SOCIAL SECURITY SYSTEM (Existing)									
SCHEME	GOVERNMENT EMPLOYEES SCHEMES Law No. 8/1974 on government personnel policy					PRIVATE EMPLOYEES SCHEME Law No. 14/1969 on basic manpower regulations			
LEGAL PROVISION	Armed Forces Presidential Decree 8/1977					Civil Servants Presidential Decree 8/1977			
PROGRAMME	Retirement Govt Reg No. 67/1991	Pension Law No. 6/1966	Health Care MOD Decree	Retirement Govt Reg No. 25/1981	Pension Law No. 11/1969	Health Care Govt Reg No. 69/1991	Work Accident	Old Age	Health Care
FINANCIAL CONTRIBUTION	Employee	3.25%	4.75%	2.00%	3.25%	2.00%		2.00%	
	Govt/ Employer		State Budget		State Budget		0.24% - 1.74%	3.70%	3.0% - 6.0%
BENEFITS		Lump-sum payment on retirement	Annuity benefit for life	Medical expenses, hospitalisation, maternity & medical equipment	Lump-sum payment on retirement	Defined range of health care services	Transport, doctors, medicine, hospitalisation & disability	Lump-sum payment of contribution plus interest	Ambulatory care, hospitalisation, & maternity
		PT Asabri, Govt Regulation No. 68/1991	PT Asabri	The Armed Forces Hospital/Askes	PT Taspen, Govt Regulation No. 26/1981	PT Askes, Govt Regulation No. 6/1992	PT Jamsostek, Govt Regulation No. 36/1995	PT Jamsostek	PT Jamsostek (optional)
INSTITUTIONS									PT Jamsostek

Figure A.1. Social security responsibilities in Indonesia

A.2. Overview of Jamsostek programme

This section summarises key structure of the main social security scheme, Jamsostek. Table A.2 gives a brief overview of Jamsostek programmes.

Jamsostek is responsible for the administration of the following social insurance

Old Age Benefit Scheme	<i>Jaminan Hari Tua (JHT)</i>
Employment Accident Benefit Scheme	<i>Jaminan Kecelakaan Kerja (JKK)</i>
Death Benefits Scheme	<i>Jaminan Kematian (JK)</i>
Health Care Benefit Scheme	<i>Jaminan Pemeliharaan Kesehatan (JPK)</i>

There is a separate special programme for casual workers in the construction, called Jakon. This scheme provides employment injury and death insurances only. Employers pay contributions which are determined by the local Jamsostek branch offices based on the value of the project.

A.2.1. Legislative framework on the coverage

(i) Act No. 3, Year 1992 on the Employees' Social Security

Article 1 of this Act defines an employee as anyone able to perform work including contract workers. The definition of employers in Article 1 provides for individuals, associations or legal entity managing enterprises in Indonesia. The definition of employer is further extended in Article 2 which states that social undertakings and other establishments not in the form of an enterprise shall be treated as an enterprise if such an undertaking has manager(s) employing other persons as an enterprise employs employees i.e. an employer-employee relationship. This implies that any employer-employee relationship would in effect come under the jurisdiction of this Act and not restricted to legal entities. It appears as though the current interpretation of the Act has restricted membership to formal sector enterprises and statistics used to determine the contribution rate and compliance are based on the formal sector enterprises that are legal entities.

It should be noted that the current Act can accommodate a possible provision regarding the workers in the informal economy. Article 4 (2) stipulates that social security for the "employees outside the contract of employment" (i.e. those workers who do not have an employer-employee relation) will be provided by further Government Regulation. It is understood that the Government Regulation referred to in this article should include provisions of social security for workers in the informal economy. To date such Government Regulation has not been issued. Depnaker is in consideration to develop the Government Regulation.

Article 3 (2) of this Act confers the rights of social security to every employee and Article 4 (1) made contributions mandatory. The remaining articles of this Act defined the programmes, contributions, benefits and operation of the employees' social security scheme.

(ii) Regulation No. 14, Year 1993 on the Implementation of the Employees' Social Security Programme

This Regulation reduced the obligation of employers to register their employees in the social security scheme only to those employers with 10 or more employees and a monthly payroll of not less than Rp. 1 million (Note: Rp. 1 million is equivalent to around US\$ 100, or 2 to 3 times the minimum salary). The elucidation section of the Laws and Regulation manual indicates that the intent is to provide social security coverage to all employees but

Table A.2. Jamsostek programmes overview

JAMSOSTEK PROGRAMMES				
	PROGRAMMES and PAYMENTS of BENEFITS			
Programme	Retirement Programme	Life Programme	Accident Protection	Health Care
Type of Scheme	Provident Fund	Death Benefits Scheme	Employment Accident Scheme	Health Care Scheme
Current Law	Provident Fund Benefits in Government Regulation No. 14/1993	Death Benefits provisions in Government Regulation No. 14/1993	Employment Accident provisions in Government Regulation No. 14/1993	Health Care provisions in Government Regulation No. 14/1993
Description	Provides an age retirement programme and for compulsory early retirement as a result of invalidity or unemployment	This programme covers loss of life during and within the work area or due to illness or natural causes	This programme covers work related accidents at work and includes travelling to or from work	The Health Care programme provides for hospital and medical treatment for the member, spouse and natural children.
Coverage	Compulsory for all "legal entity" workplaces with at least 10 employees or a monthly payroll of at least Rp 1 million	Compulsory for all "legal entity" workplaces with at least 10 employees or a monthly payroll of at least Rp 1 million	Compulsory for all "legal entity" workplaces with at least 10 employees or a monthly payroll of at least Rp 1 million	Compulsory for all "legal entity" workplaces with at least 10 employees or a monthly payroll of Rp 1 million. Exemptions are allowed for employers that have provided similar health care services for employees.
Contributions	Employer – 3.7% of gross wages Employee – 2% of gross wages	Employer – 0.3% of gross wages	Employer 0.24% - 1.74% of gross wages depending on industry	Employer – 3% (single) or 6% (family) of gross wages. The contributory wage is subject to a maximum of Rp. 1 million per month.
Benefits	Provides lump-sum of combined contributions plus interest or periodical payments for the following life events of the member: At age 55 years, Total permanent disability, Benefits to the surviving spouse or children in the event of death of member before age 55 years When membership ceases due to unemployment after at least 5 years membership	Provision of payments for: funeral expenses of Rp 1,500,000 death allowance of Rp 6,000,000	The Accident benefits are: Transportation costs Costs of medical examinations, medicinal treatment and nursing Rehabilitation expenses Monetary allowances for partial permanent invalidity, total permanent invalidity, loss of functions, and death allowance	The Health care benefits are: Primary out-patient care Subsequent out-patient care In-patient hospital care Pre natal, delivery and post natal care Diagnostic support Special care Immediate life saving emergency services Maximum of Rp 6,500,000

implementation is to be progressive and the first compulsory stage is the enterprises with 10 employees or Rp. 1 million payroll. Article 2 (4) of the Regulation provides that employers providing health care (by Askes or private health insurance) may opt out of the Jamsostek health insurance component if the benefits they provide for their employees are 'superior to the basic health care package'.

In accordance with the existing legislation all workers are entitled to be voluntary members of the Jamsostek scheme but in practice this option is rarely exercised. Jamsostek has considered the recruitment of voluntary contributors (including informal economy workers) but at this stage this is confined to a model based on the existing programmes and contributions calculated on the national average contribution salary. It is unlikely that members of the informal economy would be prepared to contribute up to 13.2% of the national average monthly salary when formal employees only contribute 2% of their wages (the remaining 11.2% is paid by the employer).

(iii) Act No. 7, Year 1981 on the Obligatory Report of Enterprises

This Act requires all enterprises to register with the Directorate of Labour Inspection in Depnaker. Under the decentralisation arrangements, this responsibility now rests with the Disnaker or district offices of Depnaker that are under the control of Provincial administrations.

A.2.2. Benefit programmes

(i) Old-age benefit (JHT)

The old-age programme is essentially a provident fund based on individual accounts, providing for refunds of the contributions and interest credited to the account in a lump-sum in the event of certain conditions. If the final balance exceeds Rp. 3 million then the amount can be received over a period up to 5 years during which the outstanding balance will earn interest. This programmed withdrawal, however, does not have any insurance element which allows for sharing the longevity risk. The conditions for withdrawal are (i) attaining 55 years of age, (ii) total and permanent disablement, (iii) death before reaching age 55, (iv) death of accident at work, (v) repatriation of foreign workers and (vi) 6 months' unemployment period for workers who made at least 5 years' contributions (called the 5-years/6-months rule).

- The average old-age benefit attaining 55 years of age in 2000 was Rp. 2.1 million, or 5.5 months' average contributory salary (8.5 months' minimum wage). This benefit level is far from sufficient to provide an adequate income protection for the life after retirement. The low benefit level results from (i) an unfavourable rate of return, (ii) high administrative costs, (iii) low compliance rates and (iv) an insufficient contribution rate (5.7%).
- Since the economic crisis the number of withdrawals has increased significantly as a result of a sharp increase in the claims on grounds of the 5-years/6-months rule. As seen from Table B.7 in Annex B, this trend has been continuing until 2006. This suggests that since the economic crisis period the old-age benefit has been used as an unemployment benefit to cope with the emergent need of cash for the unemployed workers. However, these immature withdrawals of the old-age savings in turn weaken the old-age income protection.

(ii) Employment injury benefits (JKK) and Death benefits (JK)

Employment injury programme provide typical compensation benefits against work-related accidents and diseases. Main observations are as follows:

- The estimated incidence rate is about 1.3% per active insured worker, which appears to be significantly low. As a consequence of employment accidents, 86.5% of cases recover from illness but 9.5% remain permanently disabled and 4.0% die.
- As seen in Table B.6 in Annex B, medical costs have the largest share in the employment injury benefits (48%), followed by death benefits (34%), permanent disability benefit (12%) and temporary disability benefit (7.5%).

Death benefits are cash benefits payable to the family in the event of non work-related death of an insured worker.

Table B.3 in Annex B presents the increase in the employment injury benefits and death benefits since 2000.

(iii) Health care benefits (JPK)

The Jamsostek health care scheme covers worker members, spouse and the first 3 children only (the limited number of children is imposed by the family planning policy). The health care programme covers the medical costs for primary and secondary out-patient care, in-patient hospital care, and special and emergency care. Concerning the utilisation of the out-patient care, an insured person visits hospitals on average 1.9 times a year (1.7 for primary care by general practitioners, 0.09 for primary dental care, 0.1 for secondary care by specialists). For the in-patient care, the average incidence rate of hospitalisation is 25 cases per thousand and the average admission period is 2.81 days per case.

The adequacy of the medical cost rests on further detailed examination of the unit cost. Assuming the current price level of medical services and the current contribution rates, a further increase in the utilisation rates of in-patient care in particular, coupled with very low contributory base and relatively high administrative costs, could potentially risk the financial viability of the health care programme.

A.3. Overview of Taspen and Askes programmes

A.3.1. Taspen – Insurance and pension programme for civil servants and retirees

Taspen is a state-owned enterprise assigned by Government to manage the social insurance programme for civil servants. The scheme provides lump-sum (insurance) benefits and pensions.

(i) Coverage

Membership in the Taspen programme is compulsory for civil servants. In 1997, about 4 million current members and 1.5 million retirees were covered. In 1997, there were 1.646 million retirees and 743 thousand receiving survivors' pension.

(ii) Contribution

Civil servants make monthly contributions of 8% of salary, of which 3.25% of salary is used to finance the lump-sum (insurance) benefits (THT) and the remaining 4.75% of salary goes into the pension fund. TASPEN is designated to pay all of the lump-sum benefits and 25% of the pension benefits. The rest of 75% of pensions cost is paid from the Government budget.

(iii) Benefits

The benefits from Taspen include the pension plan providing periodical retirement pensions or survivors' pensions, and the lump-sum benefit (THT) payable upon death or retirement of an insured worker. The lump-sum benefit is equal to 16.5 months of salary in the event of death in service or on attainment of retirement age (56 years). The pension amount is



calculated at the rate of 2.5% of the final monthly salary for each year of service. On death, before or after retirement, a monthly pension is paid to the widow or widower (or to the children if there is no spouse).

A.3.2. Askes – Health care programme for civil servants and voluntary private organisations

Askes is a state-owned corporation providing health care to its members based on the concept of managed health care.

(i) Coverage

Askes provides two types of membership. The compulsory health insurance cover (Askes Social) is provided for active and retired workers in civil services, army and police as well as their covered family members (spouses and up to two dependent children under 21 years of age). In 1991, the compulsory membership was expanded to include veterans and pioneers or fighters of national independence. Also in 1991, Askes introduced a commercial health insurance based on voluntary membership for employees of state companies and private corporations (Askes Commercial).

The number of compulsory members has been stable for the recent years and in 2003 it stood at 13.8 million, of which 5.6 million were contributing members, and 3.6 million spouses and 4.7 million dependent children. The commercial health insurance has been growing rapidly. The number of commercial members increased from 0.66 million in 1999 to 1.42 million in 2003.

(ii) Contribution

The contribution rate is set at 2%. There is no ceiling on the contributory wages. The full contribution collection is usually the case for Government employees as their contributions are deducted from salary.

(iii) Benefits

The Askes provides benefit package for comprehensive health care, including preventive, curative, promotive and rehabilitative, based on the managed care system. The health care providers are mainly public health centres and hospitals. Prescribed drugs in the list are covered subject to certain ceilings.

The standard benefits include: (1) primary health care; (2) secondary health care; (3) inpatient care; (4) normal and abnormal delivery; (5) simple laboratory and X-ray procedure; (6) pharmaceutical; (7) supplement, eye glasses, dental prosthesis. A standard plus package includes, in addition to these seven standard elements, special care such as CT scan and MRI, and extremities prosthesis.

ANNEX B: STATISTICS ON JAMSOSTEK

Table B.1. Jamsostek - Number of registered workers and employers, 1997-2006

Year	Active		Inactive		Total	
	Employers	Workers	Employers	Workers	Employers	Workers
1997	57,439	7,287,361	15,838	2,285,801	73,277	9,573,162
1998	59,848	7,498,777	19,733	2,697,850	79,581	10,196,627
1999	57,634	8,139,921	23,168	2,954,654	80,802	11,094,575
2000	58,105	8,180,683	26,334	5,371,458	84,439	13,552,141
2001	63,776	9,263,947	29,553	7,207,587	93,329	16,471,534
2002	66,227	8,391,451	34,702	9,185,227	100,929	17,576,678
2003	67,093	8,380,126	42,714	10,215,372	109,807	18,595,498
2004	70,378	7,812,409	48,288	11,820,129	118,666	19,632,538
2005	75,616	7,843,742	55,344	13,100,169	130,960	20,943,911
2006	82,352	7,719,695	60,872	15,361,672	143,224	23,081,367
2007	90,697	7,941,017	68,516	15,788,933	159,213	23,729,950

Source: Jamsostek, Statistik Deskriptif, 2007

Table B.2. Jamsostek - Number of employers and workers covered by health care benefits, 1992-2006

Year	Employers	Workers		Family	Total covered
		Single	Married		
1992	845	55,412	49,139	127,782	232,333
1993	3,144	130,915	116,094	261,304	508,313
1994	5,624	242,876	215,381	505,362	963,619
1995	7,943	369,801	327,936	721,432	1,419,169
1996	9,452	539,642	421,952	764,024	1,725,618
1997	10,892	566,341	422,753	959,917	1,949,011
1998	14,225	612,673	497,805	1,227,597	2,338,075
1999	15,628	644,461	591,357	1,331,758	2,567,576
2000	16,707	684,096	637,748	1,378,133	2,699,977
2001	17,847	647,434	651,099	1,553,775	2,852,308
2002	18,305	577,387	642,494	1,460,797	2,680,678
2003	20,676	573,911	656,133	1,450,477	2,680,521
2004	21,259	537,296	689,154	1,435,986	2,662,436
2005	22,473	525,672	741,928	1,592,412	2,860,012
2006	25,583	603,589	808,763	1,715,668	3,128,020
2007	28,932	669,648	951,527	3,600,469	5,221,644

Source: Jamsostek, Statistik Deskriptif, 2007

Table B.3. Key features of the benefits of Jamsostek, 2000-2008 (proposed)

	2000	2002	2005	2008 (PP No. 76/2007)
I Employment injury (JKK)				
1. Maximum reimburse rate of transportation cost				
a. By land	Rp 150,000	Rp 150,000	Rp 150,000	same
b. By sea	Rp 300,000	Rp 300,000	Rp 300,000	same
c. By air	Rp 400,000	Rp 400,000	Rp 400,000	same
2. Temporary incapacity				
a. First 4 months	100% of wages	100% of wages	100% of wages	same
b. The next 4 months	75% of wages	75% of wages	75% of wages	same
c. Thereafter	50% of wages	50% of wages	50% of wages	same
3. Maximum reimburse rate of medical treatment	Rp 6,400,000	Rp 6,400,000	Rp 8,000,000	12,000,000
4. Disability benefit				
a. Permanent and partial disability (Lump-sum)	(coefficient %)x 70 months wages	(coefficient %)x 70 months wages	(coefficient %)x 70 months wages	(coefficient %)x 80 months wages
b. Permanent and total disability:				
(i) Lump-sum	70% x 70 months wages	70% x 70 months wages	70% x 70 months wages	70% x 80 months wages
(ii) Pensions (for up to 2 years)	Rp 50,000	Rp 50,000	Rp 200,000	same
c. Functional disablement	(% of disability) x (a).	(% of disability) x (a).	(% of disability) x (a).	same
5. Death (of an insured worker)				
(i) Lump-sum	60% x 70 months wages	60% x 70 months wages	60% x 70 months wages	60% x 80 months wages
(ii) Pensions (for up to 2 years)	Rp 50,000	Rp 50,000	Rp 200,000	same
(iii) Funeral expenses	Rp 600,000	Rp 1,000,000	Rp 1,500,000	Rp 2,000,000
6. Rehabilitation	140% of the reference prices at Dr. Suharso Hospital Surakarta	140% of the reference prices at Dr. Suharso Hospital Surakarta	140% of the reference prices at Dr. Suharso Hospital Surakarta	same
a. Prostheses (e.g. artificial limbs)				
b. Orthopaedics (e.g. wheelchairs)				
7. Occupational diseases	31 types (including cases after the termination of employment)	31 types (including cases after the termination of employment)	31 types (including cases after the termination of employment)	same
II Death (not work-related) (JK)				
(i) Lump-sum	Rp 3,000,000	Rp 5,000,000	Rp 6,000,000	Rp 10,000,000
(ii) Funeral expenses	Rp 600,000	Rp 1,000,000	Rp 1,500,000	Rp 2,000,000
III Old-age (JHT) (withdrwal of individual account)	The final balance of the individual account (accumulated contributions and interest)	The final balance of the individual account (accumulated contributions and interest)	The final balance of the individual account (accumulated contributions and interest)	same
IV Health care (JPK)	Medical services (in kind)	Medical services (in kind)	Medical services (in kind)	same

Table B.4. Consolidated revenue and expenditure of Jamsostek, 2000-2006

(In Rp. millions)							
Year	2000	2001	2002	2003	2004	2005	2006
Short Term Benefits							
Total							
Contributions	553,101	751,806	945,770	1,094,153	1,200,598	1,390,985	1,656,857
Benefits	247,230	328,259	403,343	488,358	547,683	658,155	773,490
Technical reserve	1,211,483	1,543,634	1,869,210	2,246,949	2,677,893	3,161,634	3,728,851
Benefits/Contributions	44.7%	43.7%	42.6%	44.6%	45.6%	47.3%	46.7%
Reserve/Benefits	4.9	4.7	4.6	4.6	4.9	4.8	4.8
Employment injury (JKK)							
Contributions	247,288	325,597	409,213	476,386	525,185	604,571	704,153
Benefits	100,236	131,246	161,388	186,848	193,365	220,656	220,563
Technical reserve	551,040	721,707	922,657	1,156,276	1,421,439	1,729,110	2,126,140
Benefits/Contributions	40.5%	40.3%	39.4%	39.2%	36.8%	36.5%	31.3%
Reserve/Benefits	5.5	5.5	5.7	6.2	7.4	7.8	9.6
Death benefits (JK)							
Contributions	102,740	140,192	176,519	208,697	234,862	273,575	321,591
Benefits	24,635	36,185	52,360	65,768	70,276	75,541	107,743
Technical reserve	461,863	558,655	646,214	751,141	876,013	1,018,220	1,161,819
Benefits/Contributions	24.0%	25.8%	29.7%	31.5%	29.9%	27.6%	33.5%
Reserve/Benefits	18.7	15.4	12.3	11.4	12.5	13.5	10.8
Health care (JPK)							
Contributions	173,096	257,961	325,149	365,628	393,201	461,029	555,125
Benefits	120,067	157,036	185,185	227,287	273,562	349,679	429,387
Technical reserve	17,310	25,796	32,515	36,563	39,320	46,103	55,519
Benefits/Contributions	69.4%	60.9%	57.0%	62.2%	69.6%	75.8%	77.3%
Reserve/Benefits	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Special programmes							
Contributions	29,976	28,055	34,888	43,442	47,350	51,811	75,989
Benefits	2,293	3,793	4,410	8,455	10,480	12,279	15,797
Technical reserve	181,270	217,082	245,803	279,121	315,306	335,687	344,946
Benefits/Contributions	7.6%	13.5%	12.6%	19.5%	22.1%	23.7%	20.8%
Reserve/Benefits	79.1	57.2	55.7	33.0	30.1	27.3	21.8
Old-Age Benefits (JHT)							
Contributions	1,929,719	2,607,221	3,308,495	3,822,374	4,327,298	4,988,958	6,057,509
Benefits	863,422	980,281	1,288,697	1,581,732	2,082,802	1,915,556	2,619,793
Interest credited to balances	725,914	1,456,432	1,873,430	2,518,452	2,335,047	2,324,272	4,332,900
Old-age liabilities = JHT Reserve	10,810,014	13,957,799	17,932,860	23,210,451	28,437,555	33,510,682	42,419,598
Benefits / Contributions	45%	38%	39%	41%	48%	38%	43%
Reserve ratio	12.52	14.24	13.92	14.67	13.65	17.49	16.19
Consolidated Account							
Revenue	3,655,872	5,300,630	7,239,301	8,259,817	8,803,316	9,909,934	13,633,187
Contributions	2,482,819	3,359,027	4,254,264	4,916,527	5,527,896	6,379,942	7,714,367
Investment income	1,141,045	1,922,441	2,966,380	3,329,367	3,269,141	3,518,510	5,906,792
Others	32,008	19,162	18,657	13,923	6,279	11,482	12,029
Expenditure	2,040,288	3,036,522	3,936,984	5,109,209	5,493,137	5,552,974	8,727,588
Benefits	1,110,652	1,308,540	1,692,040	2,070,089	2,630,485	2,573,711	3,393,284
Interest credited to balances	725,914	1,456,432	1,873,430	2,518,452	2,335,047	2,324,272	4,332,900
Administrative expenses	203,721	271,550	371,514	520,668	527,605	654,991	1,001,404
Management expenses	5,969	6,978	8,601	9,957	12,225	13,690	14,206
Operational expenses	46,766	48,213	59,052	65,521	85,297	84,427	89,752
Personnel expenses	91,228	122,373	183,952	285,695	322,990	380,619	661,046
General admin. expenses	59,759	93,986	119,908	159,495	107,093	176,255	236,400
Surplus	1,615,584	2,264,108	3,302,317	3,150,607	3,310,179	4,356,961	4,905,600
Tax	2,985	3,456	-25,720	-3,010	213,675	170,195	177,749
Dividends	44,280	101,790	64,710	336,530	133,810	105,340	220,540
Reserve	12,040,602	15,501,433	19,802,070	25,457,400	31,115,448	36,672,316	46,148,449
Technical reserve for S.T. benefits *	1,211,483	1,543,634	1,869,210	2,246,949	2,677,893	3,161,634	3,728,851
Old-age liabilities = JHT Reserve	10,810,014	13,957,799	17,932,860	23,210,451	28,437,555	33,510,682	42,419,598
Total assets	12,601,907	16,536,666	21,317,262	26,900,924	33,403,074	38,814,399	49,623,627
Expenditure / Contributions	82%	90%	93%	104%	99%	87%	113%
Reserve ratio	5.9	5.1	5.0	5.0	5.7	6.6	5.3
Admin. Expenses / Contributions	8%	8%	9%	11%	10%	10%	13%

* Including catastrophe reserve
Source: Jamsostek annual reports

Table B.5. Jamsostek - Contributions and benefits by programme, 1978-2006

Year	Work injury (JKK)			Death (JKM)			Old-age (JHT)			Health care (JPK)			Special programmes (JAKON)		
	Cases	Contributions	Benefits	Ratio	Cases	Contributions	Benefits	Ratio	Cases	Contributions	Benefits	Ratio	Contributions	Benefits	Ratio
1978	3,905	1,769	339	19.2%	597	699	147	21.0%	760	1,356	5	0.4%	-	-	-
1979	7,013	3,319	728	21.9%	1,498	1,799	435	24.2%	3,009	5,368	41	0.8%	-	-	-
1980	10,544	4,004	1,259	31.4%	1,931	2,226	406	18.2%	6,124	10,924	219	2.0%	-	-	-
1981	11,943	5,848	1,799	30.8%	1,993	3,430	368	10.7%	6,806	16,785	306	1.8%	-	-	-
1982	12,771	7,800	2,320	29.7%	1,688	4,048	417	10.3%	6,628	20,308	681	3.4%	-	-	-
1983	12,255	8,627	2,909	33.7%	2,000	4,729	605	12.8%	9,524	23,214	1,804	7.8%	-	-	-
1984	12,536	10,933	2,684	24.6%	2,404	6,033	759	12.6%	13,602	29,707	2,863	9.6%	2,838	651	22.9%
1985	13,824	13,959	3,209	23.0%	2,429	7,940	873	11.0%	15,637	38,628	2,640	6.8%	5,784	1,227	21.2%
1986	14,785	14,850	3,706	25.0%	3,203	8,936	1,159	13.0%	20,882	42,419	4,211	9.9%	7,612	2,441	32.1%
1987	19,582	17,766	5,135	28.9%	3,125	10,201	1,405	13.8%	22,751	49,076	4,656	9.5%	7,557	2,902	38.4%
1988	20,871	19,910	6,193	31.1%	3,377	11,864	1,791	15.1%	24,122	55,301	6,037	10.9%	12,208	4,143	33.9%
1989	26,557	22,231	8,513	38.3%	3,493	13,596	2,100	15.4%	21,254	66,444	6,627	10.0%	19,182	5,143	26.8%
1990	28,641	29,469	11,184	38.0%	4,279	18,220	3,072	16.9%	31,060	89,093	9,530	10.7%	22,192	7,165	32.3%
1991	35,710	37,748	14,953	39.6%	5,225	24,646	3,727	15.1%	32,990	116,584	14,632	12.6%	71,605	14,046	19.6%
1992	42,966	49,733	19,728	39.7%	5,594	31,679	4,032	12.7%	40,893	154,448	18,905	12.2%	44,964	16,131	35.9%
1993	52,627	62,215	26,699	42.9%	5,875	32,554	6,438	19.8%	37,251	323,080	21,646	6.7%	44,113	19,796	44.9%
1994	64,577	65,771	35,483	53.9%	6,479	28,207	8,253	29.3%	38,555	525,837	30,764	5.9%	44,205	12,644	28.6%
1995	65,949	97,475	40,486	41.5%	7,143	43,073	8,569	19.9%	200,530	656,929	119,181	18.1%	41,328	6,396	15.5%
1996	82,066	112,828	50,313	44.6%	7,899	48,295	9,660	20.0%	275,878	902,314	179,187	19.9%	58,361	7,317	12.5%
1997	95,759	148,306	71,144	48.0%	9,074	62,893	11,160	17.7%	286,600	1,139,344	239,304	21.0%	60,727	7,840	12.9%
1998	88,595	164,289	75,120	45.7%	10,729	69,927	12,874	18.4%	543,672	1,303,147	702,955	53.9%	34,628	7,988	23.1%
1999	82,456	193,141	87,695	45.4%	17,575	82,127	21,615	26.3%	658,796	1,497,381	851,807	56.9%	31,894	4,548	14.3%
2000	98,902	242,252	102,440	42.3%	16,817	102,490	24,652	24.1%	677,532	1,929,719	863,422	44.7%	29,976	2,293	7.6%
2001	104,774	322,164	131,267	40.7%	10,036	138,836	35,431	25.5%	560,864	2,608,371	983,587	37.7%	27,687	3,793	13.7%
2002	103,804	407,694	158,045	38.8%	10,806	175,872	50,426	28.7%	555,708	3,310,157	1,268,807	38.3%	35,010	4,079	11.7%
2003	105,846	465,772	190,607	40.9%	10,784	204,177	63,504	31.1%	573,404	3,821,766	1,553,750	40.7%	43,440	8,450	19.5%
2004	95,418	525,185	192,461	36.6%	11,559	234,862	68,971	29.4%	661,720	4,327,432	2,059,314	47.6%	47,302	10,444	22.1%
2005	99,023	604,571	219,232	36.3%	12,469	273,575	74,499	27.2%	636,006	4,988,958	1,938,415	38.9%	49,346	11,714	23.7%
2006	95,624	704,153	222,238	31.6%	12,579	321,591	90,647	28.2%	705,940	6,057,509	2,624,286	43.3%	70,395	13,779	19.6%

Source: Jamsostek Statistik Deskriptif, 2007

Table B.6. Jamsostek - Cases and benefits of the employment injury benefit programme, 1995-2006

	Cases	Temporary	Permanent	Death	Funeral	Transportation	Medical	Pensions	Total
1995	65,949	4,295	8,488	8,028	180	1,022	7,001	-	29,016
1996	82,066	5,006	9,518	9,091	157	1,335	25,171	-	50,278
1997	95,759	7,532	10,547	16,962	218	2,382	33,102	-	70,744
1998	88,595	5,853	10,573	12,608	458	7,687	41,845	927	79,950
1999	82,456	4,493	7,167	13,135	434	1,133	33,584	577	60,523
2000	98,902	6,828	13,077	15,491	403	2,024	37,033	249	75,107
2001	104,774	9,779	22,263	33,981	106	3,010	60,558	616	130,313
2002	103,804	12,774	27,455	43,988	1,619	2,218	68,946	1,046	158,045
2003	105,846	16,669	33,484	53,407	1,689	2,422	81,855	1,081	190,607
2004	95,418	15,650	28,373	61,507	1,716	1,966	82,219	1,030	192,461
2005	99,023	16,426	28,870	77,422	1,973	2,351	90,599	1,090	218,731
2006	95,624	16,746	26,985	75,180	2,468	2,219	95,770	2,871	222,238

Source: Jamsostek, Statistik Deskriptif, 2007

Table B.7. Jamsostek - Cases of old-age benefits by grounds, 1990-2006

	Attaining age 55	Total permanent disability	Death before age 55	Death of accident at work	Foreign workers leaving Indonesia	5 years / 6 months	Total
1990	20,415	98	4,967	269	183	5,128	31,060
1991	19,761	138	5,896	448	199	6,548	32,990
1992	21,762	171	6,374	466	210	11,910	40,893
1993	21,189	136	6,711	532	248	8,512	37,328
1994	22,967	150	7,494	625	255	7,064	38,555
1995	21,831	97	6,678	570	297	171,057	200,530
1996	8,151	69	8,020	393	418	258,827	275,878
1997	28,612	745	12,052	1,893	1,538	241,760	286,600
1998	33,657	351	12,081	1,563	2,889	493,131	543,672
1999	33,650	58	10,742	1,376	2,178	610,791	658,795
2000	34,085	38	9,382	1,283	689	632,055	677,532
2001	32,022	49	11,939	1,315	816	514,723	560,864
2002	27,131	76	11,624	1,641	1,191	514,045	555,708
2003	32,002	68	12,615	1,546	1,246	525,927	573,404
2004	31,751	74	13,411	1,421	1,228	613,835	661,720
2005	44,036	68	14,428	2,010	2,928	572,536	636,006
2006	43,575	135	14,691	1,274	3,302	642,963	705,940
(Cf.) Average JHT benefits in 2000	Rp 2,126,160	Rp 3,703,544	Rp 1,236,978	Rp 13,275,954	Rp 3,912,383	Rp 1,201,600	Rp 1,274,363

Source: Jamsostek, Statistik Deskriptif, 2007

Table B.8. Jamsostek - Profits and dividends, 1987-2006

(in Rp. millions)

Year	Profits after tax	Dividend	Percentage of dividend
1987	8,080	4,450	55.1%
1988	24,530	13,490	55.0%
1989	58,000	31,610	54.5%
1990	40,330	21,070	52.2%
1991	46,420	13,930	30.0%
1992	55,590	19,430	35.0%
1993	20,440	7,620	37.3%
1994	62,030	22,990	37.1%
1995	81,420	30,530	37.5%
1996	142,610	53,520	37.5%
1997	196,530	50,000	25.4%
1998	225,940	78,610	34.8%
1999	355,610	44,690	12.6%
2000	209,250	44,280	21.2%
2001	323,560	101,790	31.5%
2002	982,670	64,710	6.6%
2003	535,240	336,530	62.9%
2004	421,060	133,810	31.8%
2005	640,840	105,340	16.4%
2006	722,920	220,540	30.5%
Total	5,153,070	1,398,940	27.1%

Source: Jamsostek, Statistik Deskriptif, 2007

Note: Profits after tax consists of:

- Contributions for short-term benefits
- Investment income
- less: Benefits of short-term benefits
- less: Increase in technical reserves
- less: Interest credited to old-age provident fund balances
- less: Administrative expenses
- less: Income tax

ANNEX C: LABOUR MARKET STATISTICS

Table C.1. Employed population by sex and employment status, 2004 -2007

Main Employment Status	2004	2005	2006	2007
Both sexes				
Own account worker	18,309,288	17,480,227	18,301,661	18,667,332
Self-employed assisted by temporary/unpaid workers	21,512,405	21,239,114	20,632,984	20,848,535
Employer with permanent workers	2,965,893	2,908,726	2,813,769	2,847,692
Employee	25,459,554	25,741,089	25,972,945	26,869,051
Casual employee in agriculture	4,449,921	4,950,562	5,886,366	6,278,470
Casual employee not in agriculture	3,732,838	4,090,075	4,244,130	4,267,064
Unpaid worker	17,292,137	18,538,325	17,325,247	17,804,997
Total	93,722,036	94,948,118	95,177,102	97,583,141
Males				
Own account worker	12,844,876	12,084,927	12,956,601	12,489,205
Self-employed assisted by temporary/unpaid workers	16,896,284	16,733,500	16,604,840	16,131,917
Employer with permanent workers	2,602,297	2,486,121	2,442,297	2,346,554
Employee	17,629,206	17,551,791	17,455,666	18,255,598
Casual employee in agriculture	2,841,687	3,055,334	3,834,436	3,985,257
Casual employee not in agriculture	3,228,822	3,494,554	3,543,824	3,609,686
Unpaid worker	4,538,339	5,332,360	5,026,663	5,333,065
Total	60,581,511	60,738,587	61,864,327	62,151,282
Females				
Own account worker	5,464,412	5,395,300	5,345,060	6,178,127
Self-employed assisted by temporary/unpaid workers	4,616,121	4,505,614	4,028,144	4,716,618
Employer with permanent workers	363,596	422,605	371,472	501,138
Employee	7,830,348	8,189,298	8,517,279	8,613,453
Casual employee in agriculture	1,608,234	1,895,228	2,051,930	2,293,213
Casual employee not in agriculture	504,016	595,521	700,306	657,378
Unpaid worker	12,753,798	13,205,965	12,298,584	12,471,932
Total	33,140,525	34,209,531	33,312,775	35,431,859

Source: Labour Force Situation in Indonesia, BPS, various years

Table C.2. Population of 15 years of age and over by sex and employment status, 2003-2007

	2003	2004	2005 Feb	2005 Nov	2006 Feb	2006 Aug	2007 Feb
Both sexes							
Population 15 years of age or over	151,406,298	153,923,648	155,549,724	158,491,396	159,257,680	160,811,498	162,352,048
Labour force	102,750,092	103,973,387	105,802,372	105,857,653	106,281,795	106,388,935	108,131,058
Employed	92,810,791	93,722,036	94,948,118	93,958,387	95,177,102	95,456,935	97,583,141
Unemployed	9,939,301	10,251,351	10,854,254	11,899,266	11,104,693	10,932,000	10,547,917
Labour force participation rate	67.86%	67.55%	68.02%	66.79%	66.74%	66.16%	66.60%
Unemployment rate	9.67%	9.86%	10.26%	11.24%	10.45%	10.28%	9.75%
Underemployment rate	31.8%	29.8%	31.2%	30.8%	31.4%	30.5%	31.0%
Males							
Population 15 years of age or over	75,400,971	76,633,218	77,403,682	79,738,436	79,859,762	80,441,969	81,195,531
Labour force	64,599,820	65,927,164	66,221,884	67,731,519	67,672,558	67,749,891	67,944,695
Employed	59,499,768	60,581,511	60,738,587	61,439,086	61,864,327	61,977,289	62,151,282
Unemployed	5,100,052	5,345,653	5,483,297	6,292,433	5,808,231	5,772,602	5,793,413
Labour force participation rate	85.68%	86.03%	85.55%	84.94%	84.74%	84.22%	83.68%
Unemployment rate	7.89%	8.11%	8.28%	9.29%	8.58%	8.52%	8.53%
Underemployment rate	24.8%	23.0%	24.3%	24.2%	24.8%	24.5%	25.1%
Females							
Population 15 years of age or over	76,005,327	77,290,430	78,146,042	78,752,960	79,397,918	80,369,529	81,156,517
Labour force	38,150,272	38,046,223	39,580,488	38,126,134	38,609,237	38,639,044	40,186,363
Employed	33,311,023	33,140,525	34,209,531	32,519,301	33,312,775	33,479,646	35,431,859
Unemployed	4,839,249	4,905,698	5,370,957	5,606,833	5,296,462	5,159,398	4,754,504
Labour force participation rate	50.19%	49.23%	50.65%	48.41%	48.63%	48.08%	49.52%
Unemployment rate	12.68%	12.89%	13.57%	14.71%	13.72%	13.35%	11.83%
Underemployment rate	44.3%	42.2%	43.6%	43.2%	43.7%	41.6%	41.3%

Source: Labour Force Situation in Indonesia, BPS, various years

Table C.3. Percentage of informal economy workers in the employed population by area and by sex, 2003 -2007

Main Employment Status	2003	2004	2005 Feb	2005 Nov	2006 Feb	2006 Aug	2007 Feb
Both sexes							
Urban							
Employed population	37,097,046	37,258,506	37,711,128	37,481,100	37,886,742	38,366,942	38,676,852
Informal economy	15,627,945	15,385,170	16,044,846	15,534,805	15,854,278	15,889,493	16,143,998
informal economy (%)	42.1%	41.3%	42.5%	41.4%	41.8%	41.4%	41.7%
Rural							
Employed population	55,713,745	56,463,530	57,236,990	56,477,287	57,290,360	57,089,993	58,906,289
Informal economy	44,383,545	43,827,833	44,582,448	43,835,175	44,915,210	44,056,352	45,390,688
informal economy (%)	79.7%	77.6%	77.9%	77.6%	78.4%	77.2%	77.1%
Urban+Rural							
Employed population	92,810,791	93,722,036	94,948,118	93,958,387	95,177,102	95,456,935	97,583,141
Informal economy	60,011,490	59,213,003	60,627,294	59,369,980	60,769,488	59,945,845	61,534,686
informal economy (%)	64.7%	63.2%	63.9%	63.2%	63.8%	62.8%	63.1%
Males							
Urban+Rural							
Employed population	59,499,768	60,581,511	60,738,587	61,439,086	61,864,327	61,977,289	62,151,282
Informal economy	36,845,668	36,625,793	37,316,997	37,712,638	38,481,445	38,047,855	37,876,122
informal economy (%)	61.9%	60.5%	61.4%	61.4%	62.2%	61.4%	60.9%
Females							
Urban+Rural							
Employed population	33,311,023	33,140,525	34,209,531	32,519,301	33,312,775	33,479,646	35,431,859
Informal economy	23,165,822	22,587,210	23,310,297	21,657,342	22,288,043	21,897,990	23,658,564
informal economy (%)	69.5%	68.2%	68.1%	66.6%	66.9%	65.4%	66.8%

Source: Labour Force Situation in Indonesia, BPS, various years

REFERENCES

Laws in Indonesia mentioned in this report

Law No.3 of 1992 on the Employees' Social Security (Jamsostek)

Law No.1 of 1995 on the Limited Liability Companies (Persero)

Law No.13 of 2003 on Manpower

Law No.40 of 2004 on the National Social Security System (SJSN)

Social security statistics

Jamsostek: Statistik Descriptif, PT Jamsostek, 2007

Jamsostek: Annual report, various years

Askes: Askes in Statistics, 2004

Implementation of the SJSN Law

Jean-Noel Martineau and Yves Guerard, "Implementing the National Social Security System (SJSN Law No. 40 of 2004) Phase I Report", First initiative, May 2005

GTZ, Proceedings of the "National Meeting on the National Social Security System and the National Social Health Insurance Program Towards the Creation of the Prosperous Indonesian Society (15-16 March 2006, Jakarta)".

Reform of Jamsostek

ILO: Social Security and Coverage for All, Restructuring the Social Security Scheme in Indonesia – Issues & Options, 2003.

Extension of social security coverage to the informal economy

ILO: Extension of social security coverage for the informal economy in Indonesia: surveys in the urban and rural informal economy, Working paper 11 ILO SRO-Manila, December 2004

Firdausy, Carunia Mulya, The implementation of the national social security system to the informal sector workers in Indonesia (A report submitted to ADB, October 2004).

Social assistance for the poor

ILO: The Indonesian Poverty Reduction Strategy Paper: An ILO perspective. (ILO Jakarta and Geneva, October 2002)



BAPPENAS and ILO, A national employment guarantee programme for Indonesia – an approach, December 2005

Bambang Widianto, Transitioning from universal price supports to targeted assistance: Indonesia experience with UCT and developing CCT (Powerpoint presentation at meeting “Protecting the poor and vulnerable in Lebanon, Syria, Jordan and Iraq: Design and implementation issues of selected safety net and unemployment assistance instruments” (Amman 4-7 June 2007))

World Bank: Making the New Indonesia Work for the Poor, November 2006