

Indonesia

Restructuring of the social security system (Part 10)

ILO PROJECT INS/00/M04/NET

Study on extension of social security to excluded groups



International Labour Organization
Social Security Policy and Development Branch
Geneva, July 2003

Table of contents

Glossary	v
Preface	vii
1. Executive summary	vii
1.1 Introduction	1
1.2 Summary of recommendations	1
2. Introduction	5
2.1 Project background	5
2.2 Summary of activities	6
3. The incidence of poverty in Indonesia²	7
3.1 Introduction	7
3.2 Present economic conditions and Indonesia's recovery efforts	7
3.3 Poverty estimates	9
4. Social security in Indonesia	17
4.1 Introduction	17
4.2 General	17
4.3 Social security responsibilities	18
4.4 Regional autonomy	19
4.5 Government and private employees social security schemes	19
4.6 Labour force and social security membership	19
4.7 Jamsostek programs	22
4.8 Statistical overview of Jamsostek programs	22
4.9 Social security coverage of the general population in Indonesia	24
4.10 Health care	24
4.11 Legislative framework	24
4.12 Piece rate and contract workers	25
4.13 Other legislative considerations	26
5. The employment sectors in Indonesia	27
5.1 The formal employment sector	27
5.2 The informal economy	28
5.3 Government stakeholders in the informal economy	30
5.4 Ministry of cooperatives and small and medium enterprises	31
5.5 Ministry of industry and trade	32
5.6 Ministry of manpower and transmigration	32
5.7 Private sector involvement in informal economy	32
5.8 Relevant trials and pilot studies in Indonesia	32
5.9 International experience in extending social security to the informal sector	35
6. Findings and options	37
6.1 Introduction	37
6.2 Extending coverage of formal sector	37
6.3 Extending coverage within the existing legislation	38
6.4 Non compliance with existing legislation	38
6.5 Jamsostek performance and service standards	38
6.6 Compliance process	39
6.7 Informal sector findings	42
6.8 Summary of informal sector findings	49
6.9 A potential social insurance model	53
6.10 A future project	55
6.11 Overseas migrant workers	57
6.12 Social security institutions for extension of social security coverage	60
6.13 Jamsostek operating costs	61

7.	Annexes	65
7.1.	Annex 1 – Terms of reference	65
7.2.	Annex 2 – Average wages for contributors to Jamsostek	67
7.3.	Annex 3 – Selected international experience in extension of social security	68
7.4.	Annex 4 - Annual report, Ministry of manpower and transmigration 2001	70
7.5.	Annex 5 – Informal sector survey – Tables of results	72
7.6.	Annex 6 - Transaction costs based on maximum contributions	77
7.7.	Annex 7. Operating and administration costs of Jamsostek	79
7.8.	Annex 8. – Minimum wages by province/region 2002	80
7.9.	Annex 9 - Allocation of revenues of Jamsostek	81
7.10.	Annex 10 - Bibliography	82
7.11.	Annex 11 - List of organizations contacted	84

List of figures

Figure 1.	Table of estimates of the people below poverty line	10
Figure 2.	Table of the official BPS poverty line (in Rupiah)	11
Figure 3.	Table of estimates of the incidence of poverty, 1996-1999	12
Figure 4.	Numbers below the poverty line 1984 - 1999	12
Figure 5.	Table on the proportion of population below the BPS poverty line by province	13
Figure 6.	Table on the incidence of poverty by main sector of occupation (%)	14
Figure 7.	Table of poverty profile by education level of household head (%)	14
Figure 8.	Social security responsibilities	18
Figure 9.	Labour force and social security statistics	20
Figure 10.	Indonesian social security system - overview	21
Figure 11.	Membership statistics	22
Figure 12.	Jamsostek programs overview	23
Figure 13.	Enterprises by employment sector	25
Figure 14.	Workers by sector and industry 2000	27
Figure 15.	Table of comparison between formal and informal economy	29
Figure 16.	Industry groupings in the informal sector	30
Figure 17.	Composition of employment in Indonesia in 2000	30
Figure 18.	Government stakeholders in the informal economy	31
Figure 19.	Distribution of formal sector enterprises	37
Figure 20.	A social insurance model based on self-help groups	54
Figure 21.	A possible organization for a social security pilot	56
Figure 22.	Table - Destination of migrant workers by region	58
Figure 23.	Regional office locations	61
Figure 24.	Jamsostek program cost estimate 1997	62
Figure 25.	Summary of estimated transaction costs in Jamsostek	63
Figure 26.	Average wages for Jamsostek contributors 2001	67
Figure 27.	Survey - Table of occupations	72
Figure 28.	Survey - Table of monthly incomes	72
Figure 29.	Survey - Table of possible social security contributions	73
Figure 30.	Survey – Preparedness to pay voluntary contributions	73
Figure 31.	Survey – Desired social security cover and priority	73
Figure 32.	Survey – Table of preferred social security provider	74
Figure 33.	Survey – Likely social security provider	74
Figure 34.	Survey – Education profile	74
Figure 35.	Survey – Employment status	74
Figure 36.	Survey – Table of membership of cooperatives or other organizations	74
Figure 37.	Survey – Table of existing social security cover	75
Figure 38.	Survey – Table showing marital status	75
Figure 39.	Survey – Table of age ranges	75
Figure 40.	Survey – Table of married respondents and dependents	75
Figure 41.	Survey – Employment satisfaction	75
Figure 42.	Survey – Self employed and number of employees	76
Figure 43.	Number of withdrawals of old age benefits and death benefit payments	77
Figure 44.	Summary of estimated transaction costs in Jamsostek	78
Figure 45.	Average member contributions to Jamsostek	78
Figure 46.	Table of average salary by province	80

Glossary

ASABRI Social insurance system designed to provide pension and endowment insurance benefits to Indonesian Armed forces personnel *Asuransi Sosial Angkatan Bersenjata Republik Indonesia*

ASKES Health care schemes for government civil servants, their families and for government civil service retirees. It also provides health care service on behalf of Asabri for members of the armed forces and their families.

ASTEK A state corporation (Perum) established in 1990 and responsible for Employees Social Security. Changed to JAMSOSTEK (Persero) in 1995.

BAPEL The carrier of JAMSOSTEK health insurance programme also known as JPKM

BAPPENAS The National Development Planning agency

BPS Busan Pusat Statistik. The National Statistics Agency in Indonesia

CV Perseroan Komanditer/Comanditair Venootschap is a type of proprietorship to run a business between individual(s) who is(are) willing to manage the business and take full responsibility including private assets of the other proprietor(s) not wishing to manage the business but willing only to assume limited responsibility in accordance with their assets invested in the company.

DEPNAKERTRANS Departemen Tenaga Kerja Dan Transmigrasi. Department of Manpower and Transmigration

FIRMA Firma is an establishment in the form of a partnership to run a business in a common name with shared responsibility and profits.

FORMAL SECTOR The formal sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded Legal Status and are regarded as legal entities

IJIN DIPARDA/SIUP Ijin Diparda is a special permit for establishments dealing in tourism in the form of Surat Ijin Usaha Pariwisata (SIUP) which is a business permit issued by the tourist board in the local government. Included in this category are tourist businesses operating under local government permit other than a Diparda i.e. legal enterprise without a tourist permit.

INFORMAL SECTOR The urban informal sector comprises those individuals and employers that have not been accorded legal status and have commenced their operations often without the sanction or knowledge of the local authorities (e.g. cottage workers)

JABOTABEK Jakarta – Bogor – Tangerang – Bekasi. The title given to the conglomeration of Jakarta and the surrounding cities.

JAMSOSTEK PT Jaminan Sosial Tenaga Kerja. The state corporation (Persero) established in 1990 and responsible for Employees Social Security. Changed to JAMSOSTEK from ASTEK in 1995.

KOPERASI Cooperative is an economic organisation based on social spirit and comprised of individual and company members under a mutual ownership system.

LEGAL ENTITY An enterprise that has legal authority in the form of Perum, PD, PT/NV, CV, Firma, Koperasi, Yayasan, SIPD, Diparda, Village credit scheme, foreign company etc.

Ltd/Corporation Legal status of foreign enterprises that have licences to operate in Indonesia

PD Perusahaan Daerah is a company of which the shares are owned by local government with the assets separated from the local government assets. A Perusahaan Daerah is run for maximising profit to support local regional development.

PERJAN A Perjan is a non-profit oriented, government funded departmental agency that provides a specialized public service e.g. railways. The other government public company types are Persero and Perum

PERSERO (PT) A Persero is a profit orientated, limited liability, state company where the government's capital is based on shares, 100 per cent of which are owned by the government. The Ministry of Finance acts as a shareholder and the Ministry of State Owned Enterprises is the authorized shareholder. The company assets are separated from state owned assets. The other state company types are Perjan and Perum.

PERUM Perusahaan Umum Negara is a company not merely aimed at making profit but also for providing services to the public in the form of vital public utilities, by considering not only its efficiency, effectiveness, economical and its goods and services. The company's entire capita is owned by the state and is divorced from state owned assets. The company can accept credit in the form of government bonds and can deal with other companies as part of its business. A typical Perum is a non-profit oriented, public utility company (e.g. electricity) that is not based on shares divisions

PT/NV. Perusaan Terbatas is a company owned by shareholders, with the shareholders assuming a limited liability no more than the nominal value of shares. Each shareholder has voting rights to participate in the running of the business, depending on the number of shares held or by agreement among shareholders. PT is equivalent to Pty Ltd.

RITSBLAAD/STAATSBLAAD Is an arrangement that regulates the establishment of various village credits

GOVERNOR/BUPATI enterprises within Java & Madura.

SIPD (C class quarrying) is a local mining permit to conduct quarrying of rock, sand, clays, kaolin etc.

TASPEN Annuity pensions and endowment insurance benefits scheme for government civil servants *Pensiun dan asuransi hari tua pagawai negeri sipil*

YAYASAN A foundation that is a non-profit establishment mainly used for social service related purposes with separately identified assets.

Preface

This report is one of the studies conducted as part of the ILO Project INS/00/M04/NET, *Reform of Social Security in Indonesia*. The complete ranges of studies undertaken as part of the project are:

- employment injury and death benefits,
- extension of social security to excluded groups,
- financing and investment of Jamsostek and social budgeting in Indonesia (Actuarial report),
- health sector finance and Klaten health care trial revisited,
- Jamsostek health care program,
- maternity protection,
- pensions reform in Indonesia,
- project summary report,
- report on the feasibility of introducing social assistance in Indonesia,
- report on the feasibility of introducing unemployment insurance in Indonesia, and
- review of operations and information technology in Jamsostek.

In this study, statistics for 2000 have generally been used, as the complete range of statistics is available from most sources for that year. More recent data is available from some sources but the consistency of the same year data may allow for a better comparison and analysis.

1. Executive summary

1.1 Introduction

1.1.1 The project Restructuring of Social Security in Indonesia is a continuation of the long ILO involvement in the social security reform process in Indonesia. Recent ILO project reports have recommended the need to restructure the social security system in order to extend the social security coverage to a larger percentage of the population.

1.1.2 The International Labour Conference of 2002¹ confirmed the commitment to making decent work a reality for all workers and employers and the Governing Body of the International Labour Office invited the International Labour Conference to address the issue of the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to conditions of freedom and dignity, of economic security and equal opportunity. The ILC sought to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.

1.1.3 The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy because most are unable to find other jobs or start businesses in the formal economy.

1.1.4 The progressive extension of social security eligibility is also one of the key elements in Indonesia's national strategy for poverty reduction which aims to enhance social security for the poorest by improving core social safety nets and accelerating development in remote areas. The initial finding from the National Task Force for Social Security reform has supported this general reform strategy.

1.1.5 This study into the progressive extension of social security eligibility to the wider population examined the options for extension of eligibility to the excluded formal sector workers, and examined the needs of workers in the informal economy and overseas migrant workers. The informal economy by its nature is difficult to quantify and the lack of a standard definition and categorization of workers and their distribution has resulted in a limited availability of statistical data relating to workers in the informal economy.

1.1.6 The study also aimed to identify categories of workers in the informal economy, to define their status in Indonesia and their priority social security needs and considered the feasibility of providing them with basic social security eligibility.

1.2 Summary of recommendations

1.2.1. Extension of social security to remaining formal sector workers

1.2.1.1 To increase Jamsostek membership from the current 32.5 per cent of potential formal sector employees to at least 80 per cent, the following initiatives would be required:

- extend compulsory coverage to all formal sector enterprises by repealing the sections of Regulation 3 of 1993 that restricts coverage to enterprises with 10 or more employees or a monthly payroll of more than Rp.1,000,000;
- review the definitions in the Act No. 2 of 1992 to reinforce the provisions for employer/employee relationship as the basis for compulsory contributions;

-
- improve benefits to members by changing the status of Jamsostek from a Persero and removing its liability for tax;
 - improve the image of Jamsostek by changing its status to a trust fund managed by a tripartite board thereby limiting the degree of direct government control over investment of funds;
 - increase community awareness of social security, the features of Jamsostek Baru and the obligations of all employers by a targeted marketing strategy;
 - increase contribution compliance by transferring the authority for enforcement from Depnakertrans to Jamsostek and the establishment, training and implementation of a national compliance strategy; and
 - improve Jamsostek efficiency by implementing the recommendations about operations and IT shown in paragraph 6.10.7 and in the report *Review of Operations and Information Technology in Jamsostek*.

1.2.2 Feasibility of extending social security to workers in the informal economy

1.2.2.1 There is a demonstrated strong demand for basic social security services but an almost non-existent supply. Almost half of the people said that they would contribute to a suitable social security scheme and the level of these contributions may be able to provide for the priority social security needs of informal sector workers.

1.2.2.2 From the comparative international studies, local trials and from the survey findings, the extension of social security to the informal sector in Indonesia is feasible and the task for the social security agency is to satisfy the supply side of the equation with a viable scheme that is flexible, affordable and sustainable. This may require reviewing the social budget in Indonesia with a view to better targeting of government funds to provide the basis for a contributions subsidy to support a voluntary social security scheme for the informal sector and the poor.

1.2.3 Principles for extension of coverage to the informal economy

1.2.3.1 Based on the International and Indonesian experiences and from the results of the surveys undertaken as part of this study the following principles are recommended for the development of strategies for extension of social security to the informal sector.

- self-help groups supported by the social security agency (Jamsostek) and by private companies should be the core of the system;
- groups should have external local facilitators linked to the social security agency, selected NGO's and supported by local administrations and other local partners; and
- the self-funded insurance programs provided by government (Jamsostek) and private companies should be flexible. Subsidies from all levels of government should be provided to encourage participation by contributors.

1.2.4 Develop models for provision of social security to workers in the informal economy

1.2.4.1 To develop a viable social security scheme, it will be necessary to establish model systems that provide meaningful benefits, affordable contributions and are sustainable. Implementation of such schemes is likely to be progressive and will take into account the wide variety of occupations, organizations and geographical distribution of the workers. The following prerequisites are recommended as a first step in the process of developing social security models for Indonesian informal sector workers.

- identify the program partner agencies, preferably a combination of government and private companies;
- identify the responsible executive agency of the programme, (at least initially, consideration should be given to Jamsostek assuming this role as the workers' social security provider);
- select the fund and risk carrier(s) for the scheme and which agencies will be involved;
- develop the programmes that will be available including the benefits, services, contributions and management fees. The programmes must have flexible *mix and match* options with a range of

-
- contribution rates and benefits to satisfy the needs and capacity of different groups and include at least injury, health, death, retirement and other voluntary savings schemes;
 - develop administrative and service delivery models for the programmes concentrating on group schemes but also providing options for self-employed contributors. The models should include management information requirements to allow close monitoring and ongoing risk assessment of the schemes;
 - conduct a small-scale test of the suitability of the programs; and
 - define user requirements, analysis and design of an IT system with sufficient data that can be integrated into the Jamsostek IT system. (A temporary system to be developed in Jamsostek has been costed at about US\$ 1000 – 1500).
 - design and develop the implementation and marketing strategy.

1.2.5 Initiate the proposals for a funded pilot program

1.2.5.1 There are a number of complex issues involved in extending social security to informal sector workers and without government assistance, including some form of financial and administrative support, the success of any scheme would be doubtful. The scheme would need to attract and continue to attract sufficient numbers of voluntary contributors to be sustainable. Initial findings of this study have suggested that up to 50 per cent of informal sector workers may contribute to a suitable scheme. It is recommended that a large-scale area based pilot scheme be conducted as the precursor to full-scale implementation of the scheme across the country.

1.2.5.2 The pilot programme would need to incorporate the elements of the previous recommendation and be able to identify and develop the most suitable program and administrative models for future implementation. The outcomes of the pilot would be to develop associations of informal sector workers based on trust, meaningful social security programmes and an administration capable of collecting contributions and payment of benefits that can be replicated across the country.

1.2.5.3 A successful large-scale pilot scheme, promoted as part of the social security reforms and supported by international agencies, would improve the understanding of social security in local communities, highlight the community needs and stimulate the extension of social security coverage in Indonesia. A partially subsidised scheme would demonstrate government commitment to social security reform and greatly improve the enrolment rates, spread the risk and ensure a higher probability of long-term success and sustainability.

1.2.6 Extension of social security to overseas migrant workers

1.2.6.1 It is evident from this and other studies that there is a need and demand for improved social protection for migrant workers. In this context, the following issues should be addressed:

- improve the quality of insurance provided to workers by introducing a broker such as Jamsostek to monitor the scheme and also to be given the opportunity to provide insurance for migrant workers in competition with the private agencies;
- review the decision to exclude migrant workers from the Jamsostek scheme and to include migrant workers in that scheme or in a programme modified to reflect their needs; and
- develop a partnership model with the key agents in the process (APJATI, Depnakertrans and Jamsostek) to provide social security cover to migrant workers based on the modified needs of the migrant workers. Incorporating the employment agencies as employers on the Jamsostek IT system could also provide much of the management information that is not currently available to Depnakertrans.

2. Introduction

2.1 Project background

2.1.1 The ILO has been closely involved in the development of social security in Indonesia for many years. Recent ILO project reports have recommended the need to restructure the social security system in order to extend the social security coverage to a larger percentage of the population.

2.1.2 A National Steering Committee was established by the Department of Manpower and Transmigration (Depnakertrans) in September 1999 to work with ILO specialists. This followed the strategic vision about employees' social security administration described in the Guidelines of State policies Year 1999 – 2004. The guidelines provided the aim: To develop a system of employees social security for all workers to provide sufficient work protection, security and safety with management involving government, employers and employees. A National Workshop on Restructuring of Social Security was held in Jakarta in November 1999 and a number of recommendations were made about the future direction of social security reform in Indonesia.

2.1.3. The key findings of the workshop can be broadly grouped as identifying the need for:

- redefining the role of the state and private agencies and the development of a national social security reform strategy;
- improving the scope and type of benefit programmes and *progressive extension of eligibility to the various schemes to the wider population*, with Jamsostek as one of the core service delivery agencies;
- strengthening the management, accountability, investment performance and service delivery standards of Jamsostek; and
- improving compliance measures and public relations processes in Jamsostek.

2.1.4. The progressive extension of social security coverage is also one of the key elements in Indonesia's national strategy for poverty reduction, which aims to

- promote *opportunities* for the poor:
 - achieving rapid, sustainable growth,
 - strengthening local governance,
 - providing effective core public services like health and education, and
 - building community infrastructure.
- *empower* the poor:
 - strengthening community organization,
 - promoting sustainable rural development, and
 - revitalizing small and medium sized enterprises.
- enhance access to social security for the poorest:
 - improving core social safety nets, and
 - accelerating development in remote areas

2.1.5. The Director-General of the ILO appointed Mr. John Angelini, an international expert on Social Security Operations, to undertake the study and to support the Chief Technical Adviser, Mr Michael Smith, who was in Indonesia throughout the period of the project.

Mr. Angelini was in Indonesia for two periods - 15th September to 30th September 2002 and 13th October to 1st November 2002. In addition to meetings with officials and interested individuals and groups in Jakarta and Bandung, Mr. Angelini planned the conduct of a survey of informal sector workers in Jakarta, Bandung and Yogyakarta, which provided qualitative information about the workers in the informal sector, their priority social security needs, and the feasibility of providing them with basic social security eligibility.

2.1.6. This report addresses the options for extending social security coverage to workers in Indonesia who are excluded from existing schemes. The study focused on the three main excluded groups; persons who work for small employers and who are thus currently excluded from Jamsostek, informal sector workers and overseas migrant workers. The terms of reference for this study are at Annex 1. This report complements the other reports and feasibility studies produced in the project *Restructuring of Social Security in Indonesia*, particularly the review of operations of Jamsostek.

2.1.7. The Director-General of the ILO would like to thank Minister Jacob Nuwa Wea of the Department of Manpower and Transmigration and his staff; the President Director of PT Jamsostek and officials in the Head Office, Regional Offices and Branch Offices, Dr. Carunia Firdausy National Technical Adviser and, Dra. Sofiati Mukadi, President of the Federation of Indonesian Wood and Forestry Workers Unions. He would also like to thank Mr. Syami S. Syahrizzamzami from Jamsostek and the research assistants from the universities for their valuable assistance and sincere appreciation is also extended to all of the anonymous informal sector workers who participated in the voluntary surveys.

2.2 Summary of activities

2.2.1 The study aimed to identify categories of workers in the informal economy, to define their status in Indonesia, to identify their priority social security needs and to assess the feasibility of providing them with basic social security provision.

2.2.2 The study also reviewed the capacity of Jamsostek, as the likely agency to be responsible for extending eligibility to all formal sector workers and to informal sector workers. The study of the informal economy and the administration and operations of Jamsostek required the close co-operation and involvement of a National Economist/statistician counterpart, staff in Jamsostek and research assistants to undertake a small-scale survey. The counterparts and staff provided valuable support to the consultant in the all phases of the project, their cooperation and effort, particularly in addition to their considerable normal daily workloads was greatly appreciated.

2.2.3 The consultant made a detailed analysis of the data obtained from research of previous studies into the informal economy, local data obtained from recent statistics and the survey results and from previous studies into the operations of Jamsostek. This analysis was conducted in conjunction with counterpart staff and included personal visits, observation and discussion with selected informal sector workers. The staff and stakeholder needs and suggestions were taken into account in the analysis and the subsequent recommendations. The priority was a detailed study of the informal economy and through surveys of informal sector workers. The recommendations for the extension of social security eligibility were made in conjunction with the key stakeholder agencies.

3. The incidence of poverty in Indonesia^{1, 2}

3.1 Introduction

3.1.1 Poverty has become one of the critical problems in economic and social development in Indonesian. The reason for the recent growth in the number of the poor was due substantially to the economic crisis that occurred in mid 1997 which resulted in a contraction of the economy, so much so that in 1998 the economic growth was 14 percent lower than the previous year. As a result of the economic slowdown, large numbers of workers were laid-off, particularly in the labour-intensive construction and manufacturing sectors and the modern services sectors all of which are mostly located in urban areas. Some of these unemployed workers had to return to rural areas, while others chose to remain in the cities. Many laid-off workers were forced to find self-employment in the informal economy, both in urban and rural areas, in order to ensure their livelihood.

3.1.2 Female workers have been equally affected by the layoffs and as they represent a third of employment in the formal sector, they are likely to account for at least 30 per cent of the total displacement in the formal sector. Nevertheless, many home workers and contractors who supplied inputs to formal sector enterprises experienced reduced demand and a subsequent reduction in hours worked and income earned. Though they may not be actively looking for alternative work and thus not included in the jobseekers statistics, they form an important, though difficult to quantify, component of hidden unemployment and underemployment. The Department of Manpower and Transmigration estimates that the number of unemployed and underemployed workers in 2002 is almost one-third of the total workforce²³.

3.1.3 The Central Bureau of Statistics (BPS, 2001) calculated that in the year 2000, the poor represented about 23.4 per cent of the total population of 206 million people. Of these, about 32 million (66.7 per cent) lived in rural areas, while the remaining 16 million (32.3 per cent) lived in urban areas. Using The World Bank poverty line per capita daily income of one US dollar, the number of the poor is much larger than the estimate made by BPS. The World Bank estimated the number of the poor in the year 2000 to be about 54 per cent of the total population, more than double the official estimate. Though there are varying estimates of the impact of the economic crisis on the incidence of poverty, there is no doubt that absolute poverty has increased significantly and that economic distress was widespread among a large number of economically vulnerable people. Hence, one of the prominent achievements of the Soeharto administration, namely the sharp reduction in absolute poverty during its 32-year rule, was reversed as a result of the severe economic crisis.

3.1.4 This section aims at providing background information on the incidence of poverty in Indonesia. This information will demonstrate the requirement to support the poor through the expansion of social security programs in Indonesia. However, to understand the full extent of the incidence of poverty, it is important to provide background information on the present economic conditions and Indonesia's efforts at recovery.

3.2 Present economic conditions and Indonesia's recovery efforts

3.2.1 Although by mid-2002 macroeconomic stability had been achieved with a lower rate of inflation, and with the Rupiah strengthening to below Rp. 9,000 to the US dollar, the growth in 2002 was only about 5 per cent. The strengthening of the Rupiah did not automatically lead to an improvement in the economic fundamentals. Many economists have argued that economic recovery programs such as

¹ This section was prepared by Dr. Carunia Mulya Firdausy, Senior Economist at National Centre for Economic Research – Indonesian Institute of Sciences and edited by the author.

² This is assumed to include the 8 million formal jobseekers and about 25 million unpaid workers in family businesses.

bank restructuring, corporate debt restructuring, and the attempt to increase investment and exports have been very slow.

3.2.2 In the case of bank restructuring, for instance, it has been reported that the Indonesian Bank Restructuring Agency (IBRA) whose main task is to sell assets, has not achieved much success. The reason for this is because of the political debate about the appropriate value of assets to be sold. This debate has arisen because the actual market value of IBRA's assets has turned out to be much lower than the book value at which these assets were acquired. This has aroused political controversy, since the Parliament has decreed that the assets sales should recover at least 70 per cent of the value at which an asset was transferred to IBRA. A *fire sale* of these assets would only benefit foreign investors who would subsequently own a larger share of Indonesia's economy. Knowledgeable market analysts, however, have stated that a realistic rate would only amount to 30-40 per cent³, perhaps even less. Another estimate has indicated that instead of the Rp. 660 trillion book value of assets controlled by IBRA, the fair value of these assets was only about Rp. 168 trillion⁴, which represents only about 26 per cent of the book value.

3.2.3 The much lower actual value of these assets can be partly attributed to poor market conditions caused by negative perceptions by foreign investors of Indonesia's poor investment climate and partly because of fraud by the original owners, who were responsible for the inflated value of assets before being handed over to IBRA. Despite this, both the government and the parliament have been very reluctant to accept this lower figure because it means that the government will never be able to recoup the huge total costs of the bank bailouts provided in 1997/1998. Without a speedy resolution of this problem, IBRA will not be able to dispose of the large numbers of its remaining assets by the time its term expires in February 2004. Experience has indicated that holding on to idle assets will only lead to further erosion in the prices of the assets. Moreover, selling idle assets to foreign investors, specifically banks, would not only yield much needed revenues for the government, but also benefit from a healthy restructuring of these banks by bringing in much needed skills and modern management practices. A comprehensive restructuring of the banking system is crucial to the revival of the financial sector of the economy.

3.2.4 In terms of foreign direct investment (FDI), there has been a substantial decline of 59 per cent in approved FDI during the first five months of 2002 when compared to the same period in 2001. During the first five months of 2001, the Capital Investment Coordinating Board (BKPM) had approved 566 new FDI projects amounting to US\$ 1.674 billion⁵. Approved domestic investment during the first five months of 2002 also declined by 30 percent compared to the same period in 2001.

3.2.5 Several steps have been introduced to make Indonesia a more attractive proposition for foreign investment, including further simplifications of the investment licensing procedures, allowing foreign investors to fully own holding companies and further reductions in the number of activities closed to FDI as listed in the Negative Investment List. New fiscal incentives have been introduced for new investors planning to invest in pioneer industries in the regions outside of Java and for new investors employing at least 2000 workers at the start of commercial production of their plants. However, the results of these measures have not achieved the planned investment targets. Foreign investors claim that Indonesia's investment climate is not very conducive. In addition, foreign and domestic investors claim that there is:

- a lack of legal certainty and proper law enforcement,
- increased levels of labour disputes,
- general violence,
- increased crime and the lack of physical safety,
- problems with corrupt taxation and immigration officials, and
- uncertainty caused by the introduction of regional autonomy and disputes with local governments.

³ ICG, 2001.

⁴ Takii, 2002.

⁵ Kompas daily, 28 June 2002.

3.2.6 It has been suggested that to promote more FDI, the Indonesian government should make a more determined effort to act on the above views of investors, particularly in regard to the lack of legal certainty, the wide prevalence of labour conflicts, the lack of safety, and the pervasive corruption which adds to the cost of doing business in Indonesia.

3.2.7 Other attempts to develop small and medium scale enterprises (SME's) have also been introduced, although this is not a new policy. The recent concern about SME's can be reflected in various direct promotion policies and special programs to encourage their growth. The major direct assistance programs for SME's have included special credit programs, including subsidized credit, non-financial business development services programs, particularly industrial extension services and training, and reservation of selected sectors or sub sectors to small enterprises⁶. However, even after many years of implementation of these direct government assistance programs, including both subsidized and unsubsidised credit programs, and technical assistance programs, they have not achieved much success or cost effectiveness in developing economically viable SME's. The continued ineffectiveness of government credit programs in reaching SME's is, for instance, reflected by research conducted by the Asia Foundation in 1998 which found that of the total credit extended to SME's by portfolio only about 17 per cent of the SME's used the formal banking system to obtain credit.

3.2.8 Similarly, the various non-financial business development services programs, particularly the technical assistance programs such as the Small Industries Development (BIPIK) program have not been effective either in raising the technical capabilities of SME's because they suffered from poor design or deficient implementation⁷. Past experience with supply driven business development services delivered by government agencies has indicated that these services, often provided on a cost free basis, have not been effective in meeting the needs of the SME's.

3.2.9 In view of the lack of success with these direct assistance programs, the government introduced the indirect assistance programs, notably the *foster father* business Partner Linkage scheme. Under this scheme large private or state owned enterprises were coopted to assist the small enterprises in raising their capabilities in management, technology, marketing and in accessing finance. However, experience once again has confirmed that these schemes have not been successful as they were difficult to implement mainly because the large enterprises experienced difficulties in finding suitable SME partners. Moreover, as these schemes were not based on proper commercial considerations, there was little incentive for the large enterprises to make the scheme work⁸.

3.2.10 The present economic indicators in Indonesia suggest that economic recovery is still some way off. The annual growth rate over the past four years since the 1997 crisis is still below 5 per cent and the prediction for 2002 is less than 4 per cent. Many economists attribute this to the unsuccessful efforts to improve the Indonesian economic fundamentals. One of the key fundamentals of the economic reforms was to reduce poverty by creating employment through economic expansion. The current rates of growth are insufficient to absorb the additional 2.4 million new jobseekers that enter the market each year, which may go some way to explain the increase in poverty and in the increasing numbers seeking employment in the informal economy.

3.3 Poverty estimates

3.3.1 Poverty is typically referred to as a state of affairs in which households and individuals have insufficient resources and abilities to meet their basic needs. The standard poverty assessment exercise is to draw on data about income or consumption at the household/individual level and to compare this with some defined threshold. If people fall below this threshold or *the poverty line* then they are deemed to be poor. This classic definition of poverty through inadequate purchasing power in relation to minimal needs has a reasonably ancient pedigree and can be traced to the seminal work of Seebohm Rowntree towards the end of the 19th century.

⁶ ADB, 2000; Thee Kian Wie, 2002.

⁷ Thee Kian Wie, 2002; Firdausy, 2002.

⁸ Firdausy, 2002; ADB, 2000).

3.3.2 In Indonesia the estimate of poverty is based on the official poverty line produced by BPS which calculates the incidence of poverty based on periodic household expenditure surveys called the National Socio-Economic Survey, and known by its Indonesian acronym SUSENAS. This survey, which contains a core but short consumption schedule, is undertaken every year. Once every three years, the survey collects data from a separate expanded and detailed consumption module, and this is the data used for poverty estimation. The poverty estimates are presented as a head count measure, made separately for urban and rural areas.

Figure 1. Table of estimates of the people below poverty line⁹

Year	The number of the poor (millions)			Percentage of the poor (%)		
	Urban	Rural	Urban+Rural	Urban	Rural	Urban+Rural
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1976	10.00	44.20	54.20	38.79	40.37	40.08
1978	8.3	38.90	47.20	30.88	33.28	33.31
1980	9.50	32.80	42.30	29.04	28.42	28.56
1981	9.30	31.30	40.60	28.06	26.49	26.85
1984	9.30	25.70	35.00	23.14	21.18	21.64
1987	9.70	20.30	30.00	20.14	16.14	17.42
1990	9.40	17.80	27.20	16.75	14.33	15.08
1993	8.70	17.20	25.90	13.45	16.79	13.67
1996	7.20	15.30	22.50	9.71	12.30	11.34
1996	9.60	24.90	34.50	13.60	19.90	17.70
Dec. 1998 ¹⁾	17.60	31.90	49.50	21.90	25.70	24.20
Feb. 1999 ²⁾	15.70	32.70	48.40	19.50	26.10	23.50
	(15.6)	(32.3)	(48.0)	(19.4)	(26.0)	(23.4)
Aug. 1999 ³⁾	12.40	25.10	37.50	15.09	20.22	18.17
2000	15.60	32.30	48.00	17.02	29.40	23.40

Note : Figure in the block used consumption pattern in 1998.

1) Based on Susenas Data December 1998.

2) Based on Susenas Data February 1999.

3) Based on Mini Susenas August 1999.

3.3.3 It was estimated by BPS that the number of the poor in 2000 was about 48 million people or 23.4 per cent of the total population compared to 1996 when the estimates were 22.5 million or 11.3 per cent of the total population living below the poverty line. The bulk of poor people live in rural areas, which is not surprising since Indonesia is still a predominantly rural country. The number of the poor people in rural areas in the year 2000 was about 32.3 million while in urban areas it was about 15.6 million people. The increase in the urban poor in 2000 is mainly as a result of the continuing rural to urban shift in the population and to the massive employment layoffs in 1998 in urban areas due to the economic crisis. Detailed estimate of the incidence of poverty from 1976 to 2000 is shown in Figure 1.

3.3.4 It should be noted that the above estimation of the poor population is taken from the National Social-Economic Survey (SUSENAS) data and the estimation is based on a Rupiah value equivalent calorie intake of 2100 per capita per day; plus the Rupiah value of a bundle of non-food items considered as basic non-food requirements. Therefore, those who are not able to attain that level of expenditure for food and non-food items are counted as poor while others are regarded as non-poor. Figure 2 shows the poverty line based on the level of expenditure per capita per month that was used to estimate the incidence of poverty from 1976 to 2000.

⁹ Source : BPS, 2001.

Figure 2. Table of the official BPS poverty line (in Rupiah)¹⁰

Year	Urban poverty income level			Rural poverty income level		
	Food	Non	Total	Food	Non	Total
		Food	(Rp/month)		Food	(Rp/month)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1976	-	-	4,522	-	-	2,849
1978	-	-	4,969	-	-	2,981
1980	-	-	6,831	-	-	4,449
1981	-	-	9,777	-	-	5,877
1984	-	-	13,731	-	-	7,746
1987	-	-	17,381	-	-	10,294
1990	17,520	3,094	20,614	12,617	678	13,295
1993	23,303	4,602	27,905	15,576	2,668	18,244
1996 ¹¹	29,681	8,565	38,246	23,197	4,216	27,413
1996	30,455	11,577	42,003	23,844	7,522	31,366
Dec. 1998 ¹⁾	71,058	25,901	96,959	56,745	16,035	72,780
Feb. 1999 ²⁾	70,959	21,450	92,409	59,822	14,450	74,272
Aug. 1999 ³⁾	64,396	25,449	89,845	52,319	17,101	69,420
2000	86,345	35,876	122,221	65,525	22,510	88,035

Note: Figure in the block used consumption pattern in 1998.
 3) Based on Susenas Data December 1998.
 4) Based on Susenas Data February 1999.
 6) Based on Mini Susenas August 1999.

3.3.5 It has been argued that the official poverty estimates shown above are quite low compared to the standards in neighbouring countries (e.g. Malaysia and Philippines). Using internationally comparable poverty cut-off lines of US\$ 1.00 in urban areas and US\$ 0.80 in rural areas that are used in Malaysia and the Philippines, it is evident that the number of poor people in Indonesia is much higher than the official poverty estimates. In 1999 the ILO estimated that the number of the poor in 1996 using the above international standard was 57 per cent for the country as a whole and 66.4 per cent in the year 1999 (Figure 3 and Figure 4). These Figures should be viewed in conjunction with the footnotes which explain how the exchange rate affects the US\$ estimates. Using this international standard suggests that more than half of the Indonesian population could be considered poor even at the peak of Indonesia economic growth period in 1996, the period before the 1997 economic crisis.

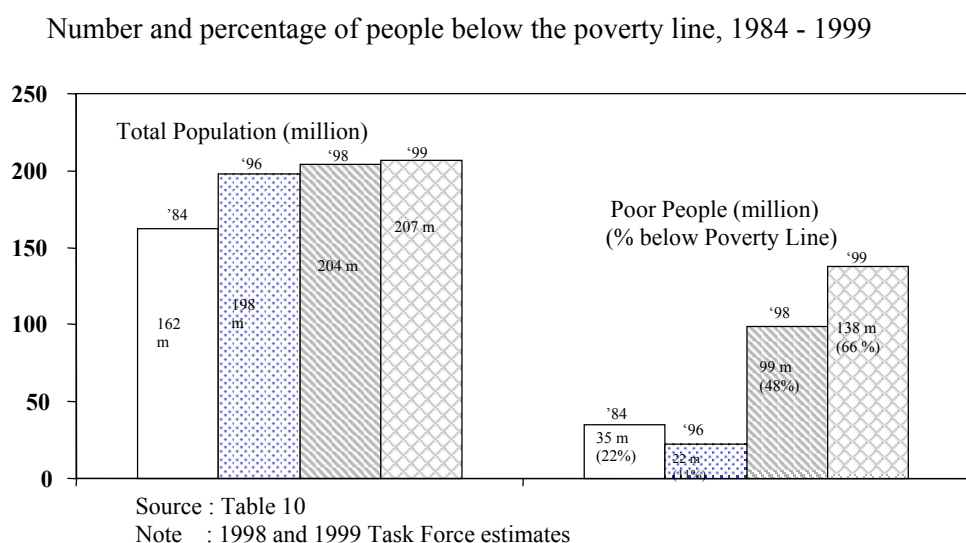
¹⁰ Source : BPS, 2001.

¹¹ Dotted line and shaded area indicates the pre and post economic crisis periods.

Figure 3. Table of estimates of the incidence of poverty, 1996-1999.¹²

	Percentage			Poor population			Total population		
	Indonesia	Urban	Rural	Indonesia	Urban	% Rural	% Indonesia	Urban	Rural
Pre Crisis (1996)									
Official (US\$ 0.45/day) ¹⁾	11.34	9.71	12.30	22.50	7.20	32	15.30	68	198.40
Based on US\$ 0.87/day ²⁾	57.35	42.91	65.90	113.80	31.80	28	82.00	72	198.40
Poverty Trends									
1984 (official)	21.64	23.14	21.18	35.00	9.30	27	25.70	73	161.70
1996 (official)	11.34	9.71	12.30	22.50	7.20	32	15.30	68	198.40
1998 (estimates) ³⁾	48.34	39.31	53.20	98.80	28.10	28	70.70	72	204.40
1999 (estimates) ⁴⁾	66.42	56.60	71.71	137.80	41.10	30	96.70	70	207.50
Notes									
1) Official 1996 urban/rural poverty line of Rp.38,246 & Rp.27,413/capita/month divided by prevailing exchange rate of Rp.2,300/US\$ gives US\$ 0.55 and US\$ 0.40, or weighed average of US\$ 0.45/capita/day.									
2) Based on urban/rural poverty line of US\$ 1 and US\$ 0.80, or weighed average of US\$ 0.87/capita/day.									
3) Poverty Line (PL) 1998: 1996 PL x 16.6% x 80% (inflation rates in 1997 and 1998).									
4) Poverty Line (PL) 1999: 1998 PL x 25% (inflation rate in 1999).									

Figure 4. Numbers below the poverty line 1984 - 1999



3.3.6 The incidence of poverty varies between provinces in Indonesia. In the year 1999, BPS estimated that in about 19 of the 32 provinces more than 20 per cent of their total population lived in poverty. Among these provinces, the province of Papua (previously named Irian Jaya) had the highest incidence of poverty (47.5 per cent) followed by East Nusatenggara, East Timor, Maluku, Lampung, West Kalimantan, Central Java, East Java, Southeast Sulawesi, Central Sulawesi and South Sumatra (Figure 4). These data suggest that the incidence of poverty is higher in the eastern part of the country than the western part.

¹² Source ILO 1999.

Figure 5. Table on the proportion of population below the BPS poverty line by province¹³

Province	Urban poverty		Rural poverty		Total poverty	
	Per cent	Rank ¹⁴	Per cent	Rank	Percent	Rank
DKI Jakarta	6.59	1	-	-	6.59	1
Bali	9.80	3	9.89	1	9.85	2
Riau	11.43	4	14.98	2	13.65	3
Aceh	13.76	6	17.38	5	16.47	4
West Sumatra	17.43	12	16.48	3	16.75	5
Central Kalimantan	7.16	2	20.41	6	16.83	6
North Sumatra	17.50	13	16.64	4	17.03	7
East Kalimantan	12.65	5	22.83	9	17.65	8
North Sulawesi	14.23	7	24.60	13	21.61	9
West Java	20.96	17	22.32	8	21.67	10
South Sulawesi	20.50	16	22.20	7	21.68	11
South Kalimantan	16.37	11	25.03	15	22.33	12
Yogyakarta	20.13	15	27.68	18	22.62	13
Bengkulu	20.02	14	24.55	12	23.23	14
West Nusatenggara	25.94	23	23.42	10	23.93	15
Jambi	23.27	21	24.63	14	24.24	16
South Sumatra	24.77	22	24.27	11	24.42	17
Central Sulawesi	21.69	20	25.87	16	24.78	18
Southeast Sulawesi	14.28	8	28.34	20	25.50	19
East Java	21.55	19	28.80	19	26.24	20
Central Java	26.06	24	27.52	17	27.01	21
West Kalimantan	14.43	10	34.25	22	29.72	22
Lampung	21.14	18	32.92	21	30.77	23
Maluku	28.52	25	41.50	23	37.88	24
East Timor	39.35	27	44.07	24	43.56	25
East Nusatenggara	30.43	26	47.15	25	44.95	26
Papua	14.31	9	59.30	26	47.53	27
INDONESIA	19.98		25.85		23.55 ¹⁵	

3.3.7 It was found that all sectors experienced a uniform increase in the incidence of poverty between 1996 and 1999. This implies that there was no single sector that was spared from the negative impact of crisis. Despite having only 0.06 per cent of the total poor, the finance, insurance and leasing sector had the highest *increase* in the incidence of poverty which more than quadrupled from 1.2 to 5.2 per cent. This probably reflects the financial nature of the origin of the crisis in which this sector was the hardest hit. Furthermore, the agriculture sector has consistently had the highest incidence of poverty as well as the highest contribution to the total number of poor people during 1996 and 1999 (Table 6). Therefore, it can be seen that agricultural sector has the largest number of poor people, even though its share of the national poverty has declined markedly from 68.5 per cent in February 1996 to 58.4 per cent in February 1999.

¹³ Source: M. Pradhan, et al., June 2000, p.14.

¹⁴ Lowest ranking is the poorest.

¹⁵ Weighted average.

Figure 6. Table on the incidence of poverty by main sector of occupation (%)¹⁶

Employment Sector	February 1996		February 1999	
	Poverty incidence in each employment sector (%)	Contribution to total poor (%)	Poverty incidence in each employment sector (%)	Contribution to total poor (%)
Agriculture	26.29	68.54	39.69	58.38
Trade, Hotel & Restaurant	7.96	8.10	17.63	11.13
Manufacturing industry	10.69	5.71	22.92	7.71
Civil, social & private services	5.73	5.72	13.13	7.36
Transport and communication	8.85	3.32	24.02	5.58
Construction	14.04	5.42	28.97	5.52
Receiving/transfer	6.58	1.86	15.57	2.65
Mining and Quarrying	15.34	1.01	29.81	1.00
Others	13.29	0.10	32.00	0.27
Finance, insurance and Leasing	1.24	0.06	5.23	0.23
Electricity, Gas, Water	6.10	0.16	14.48	0.17
TOTAL		100		100

3.3.8 The incidence of poverty has a high correlation with educational attainment. Those who can achieve a higher level of education will have greater opportunities to get better jobs, and hence improve the welfare of their families. Based on educational attainment, the proportion of the poor with completed tertiary education was only 0.41 per cent in 1996 and it increased to 1.98 per cent in 1999. Whereas the total number of the poor with only primary school education (completed and uncompleted primary school), showed a higher proportion in poverty. However in 1999 those people with higher levels of education experienced an increase in the incidence of poverty. This once again confirms that the crisis affected more of the highly skilled employment sector and people with higher educational levels than the unskilled sector and those with lower educational levels. (Fig. 7).

Figure 7. Table of poverty profile by education level of household head (%)¹⁷

Education Levels of Head of Household	February 1996		February 1999	
	Poverty incidence %	Percentage of total poor %	Poverty incidence %	Percentage of total poor %
Not Completed primary and illiterate	31.23	27.67	47.51	19.84
Not completed primary but literate	21.63	36.09	36.68	31.82
Completed primary	15.03	30.15	29.66	35.34
Completed junior secondary	7.04	4.80	16.85	7.61
Completed senior secondary	2.44	2.19	8.59	5.05
Completed tertiary	0.41	0.11	1.98	0.34

3.4.1. Concluding Remarks

3.4.1.1 Overall, and perhaps surprisingly, there has, during the last three decades, been significant economic growth in Indonesia and a steady decline in the incidence of poverty. While the estimates of the exact extent of poverty reduction have differed according to the use of specific poverty line concepts by the various agencies and scholars, all estimates have yielded the same finding, namely, that the incidence of absolute poverty in Indonesia had indeed declined from the late 1960's through to the mid 1990's. In fact, in a comparative study on the performance of a number of developing countries in alleviating

¹⁶ Source: M. Pradhan et. al., June 2000, p. 20.

¹⁷ Source: M. Pradhan, et. al., 2000, p. 21.

poverty, the World Bank concluded that during the period 1970-1987 Indonesia had been the most successful among the developing countries in reducing poverty.

3.4.1.2 However, with the severe contraction of the economy in late 1997, the related loss of jobs in the formal sector and the subsequent movement to lower income activities in the informal sector, hyperinflation and reduction in purchasing power have resulted in a significant increase in the number of people below the official poverty line, in urban and rural areas.

3.4.1.3 With substantial financial assistance from the World Bank, the Asian Development Bank, the United Nations Development Programme (UNDP) and individual donor countries, the Indonesian government took various measures to protect the poor from the worst effects of the crisis. The most notable initiative was the introduction of Social Safety Net (SSN) Programmes, including temporary labour intensive public work programs in urban and rural areas, and preserving the availability of key social services, including health and education. In addition, the government has also responded to demands to protect the poor from the adverse effects of rising prices by providing price subsidies for basic foods, petroleum products, electricity and transport. Whilst these social safety net measures had some success in the short term as emergency measures to alleviate poverty of the people, they were unsuccessful in placing the Indonesian economy on a sounder footing. Inadequate targeting and misadministration resulted in a significant amount of SSN funds intended for the poor being leaked to those in least need of support. Many of these subsidies such as those for fuel and rice remain in place to the detriment of the economy and government budget and some of these measures benefit the non-poor (petrol subsidy) and are inhibiting the development of a targeted social assistance program for the poor by diverting scarce government revenues to the non-poor.

4. Social security in Indonesia

4.1 Introduction

4.1.1 To clarify some of the terminology used in relation to social security the following generalised descriptions are provided. *Social Security* is one of the most common terms used to describe all social (not economic) programs used to reduce poverty and underdevelopment in developing countries. Its origins date to the ILO 1952 International Labour Conference where the Social Security minimum standards (No. 102) were accepted. Social Security is an umbrella term that includes *Social Insurance* (systems where workers and employers make contributions to insure against specific life events) and *Social Assistance* (more likely to be government sponsored, non-contributory and designed to meet basic needs rather than specific contingencies).

4.1.2 Social Safety Net is more recent and associated with short-term policies to counter structural and economic adjustments such as the transition from command to market economies in the former soviet states and economic crises such as the one that occurred in Asia in 1997. This definition was sponsored primarily by the World Bank and its social funds that were essentially targeted social assistance schemes provided for a limited term and were intended to build local capacity and improve governance in developing countries.

4.1.3 Social Protection is a newer broader term that includes all of Social Security; it is firmly related to poverty reduction (unlike Social Insurance but like Social Assistance) and includes ensuring access to health care whether through public, private or community based initiatives.

4.2 General

4.2.1 Social Security in Indonesia is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of social insurance schemes. These schemes provide *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.

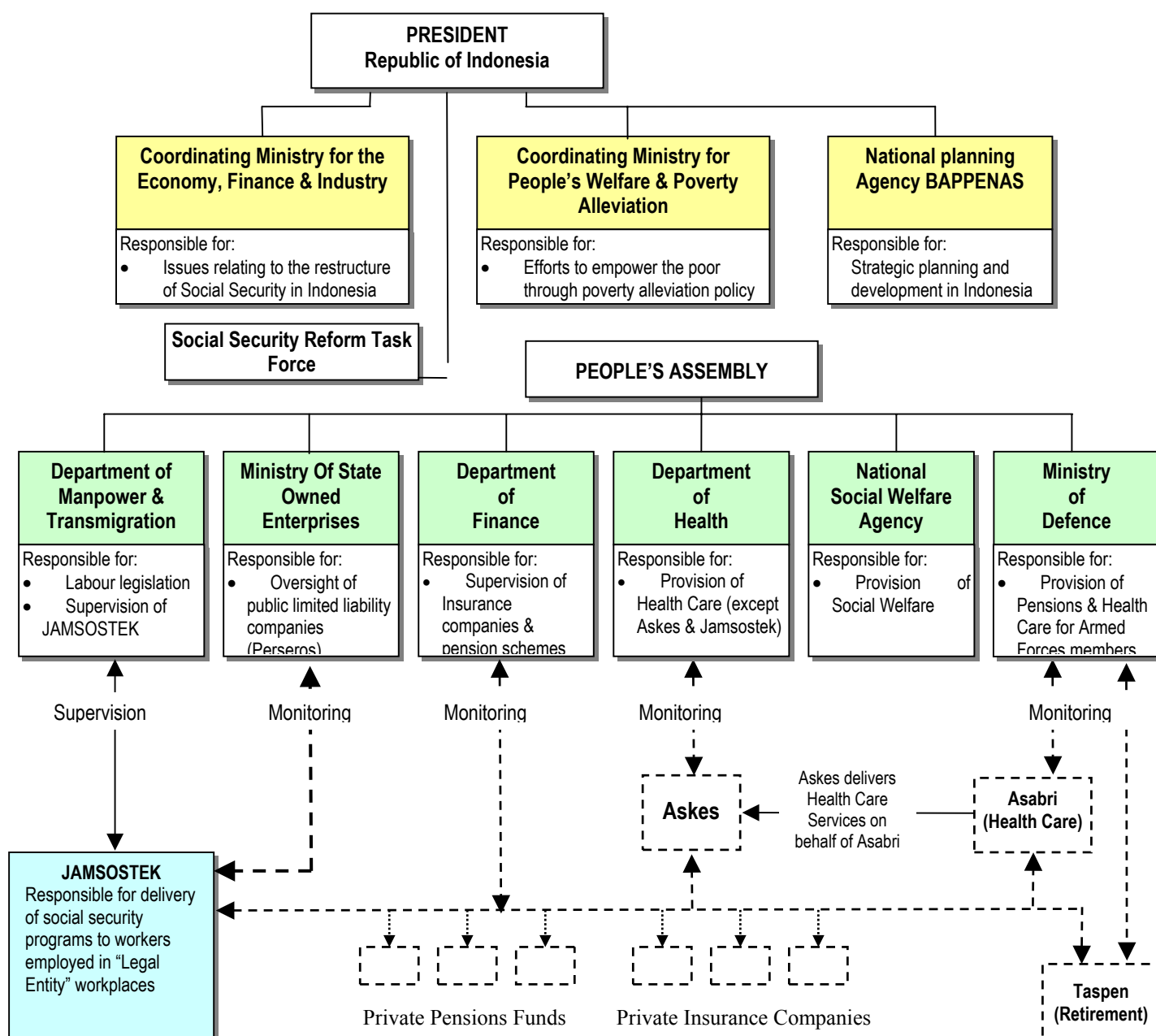
4.2.2 The present social security program has developed in a piecemeal, uncoordinated way. However, this weakness has been recognised and the responsibility for reform of social security in Indonesia rests with two national co-coordinating Ministries. The Coordinating Ministry for Economy, Finance and Industry is responsible for issues relating to the restructuring of social security. The Coordinating Ministry for People's Welfare and Poverty Alleviation is responsible for efforts to empower the poor through poverty alleviation policies and has established a Social Security Reform Task Force to co-ordinate the reform process. This task force and the coordinating Ministries report to the President of the Republic of Indonesia. The working Group on National Social Security System (Task force for social security Reform) has completed an interim report on the requirements for the future social security system in Indonesia. A key recommendation is for compulsory social security contributions for all workers in all employment sectors including the urban and rural informal sector.

4.2.3 The current social security eligibility extends to employees of the military, civil service 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. In the medium term additional programs of unemployment benefits and social assistance to selected sectors of the population may be possible. The extension of social security entitlements to the entire population will be a long-term goal.

4.3 Social security responsibilities

4.3.1 Responsibility for different elements of the social security system rests with various government departments and public agencies. The Department of Manpower and Transmigration (Depnakertrans) is responsible for Labour legislation, for Jamsostek and the implementation of its related legislation. The Ministry of State Owned Enterprises is responsible for the oversight of all public limited liability companies¹⁸ (Perseros like Jamsostek, Askes and Taspen). The Ministry of Finance¹⁹ is responsible for the supervision of insurance companies and private pensions 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 social security responsibilities are illustrated in Fig. 8.

Figure 8. Social security responsibilities



¹⁸ The limited liability company types and their titles are defined in the Glossary at the end of the document.

¹⁹ The Minister of Finance is the Single Shareholder of Jamsostek, Askes, Asabri and Taspen.

4.3.2 In 1999 the Regional autonomy legislation was approved with an effective implementation date of 1 January 2001. Regional autonomy provides for the devolution of national government Ministries and Departments to the provincial administrations and the legislation increased the number of provinces in Indonesia from 26 to 32. The decentralization program has transferred approximately one quarter of total central government revenues to local and district governments. Local governments were simultaneously given responsibility for public sector activities in health, education, and rural and urban infrastructure, along with authority over more than 2.3 million former central government staff. The process was adopted to generate local responsibility for local problems, and to encourage participation and regional relevance of public sector services and initiatives.

4.4 Regional autonomy

4.4.1 Set against a backdrop of several decades of increasing central government authority, decentralization is a radical move. Redistributing administrative power and public revenues offers the hope of moderating long-term political problems, including those that have led to intercommunity violence. Despite widespread concerns, the formal process of decentralization has proceeded relatively smoothly and few service disruptions or staff problems have been reported and local governments appear to have made considerable efforts to meet their new responsibilities. However, major deficiencies remain in operating guidelines for local service providers, particularly in introducing minimum service standards and ensuring compliance and consistency between local regulations and national policies. Some national ministries have experienced some difficulties maintaining their formal links with some provincial governments and the provision of information and policy dissemination have not always been uniform or regular. In addition, with decentralization and the added responsibilities given to district governments, local governments have made many attempts to increase their revenues by raising taxes and fees. Many of these measures threaten to discourage trade, tourism, and business activities across regions. To ensure that the promise of decentralization is fully met during implementation, the central Government is addressing this and related problems.

4.4.2 The devolution includes the functions, responsibility, staff, property and resources of the Ministries and Departments. Public companies and utilities such as Jamsostek and five national Ministries²⁰ are exempted from the devolution process. The full impact of regional autonomy on the operations of Depnakertrans and its relationship with Jamsostek has not yet been fully qualified in all Provinces.

4.5 Government and private employees social security schemes

4.5.1. There are three major social security schemes operating in Indonesia and these schemes provide social insurance cover to civil servants employed in government departments (and employees of some State-Owned Enterprises and Universities), the armed forces (and some defence civilian employees) and a limited group of private employees. Limited liability private companies manage the programs and schemes and they are oversighted by the Department of Finance as the authorised shareholder of the companies with the Minister of Finance as the single shareholder in each of the companies.

4.5.2 A summary of the existing social security systems, their legal entities, contributions, benefits and management institutions is shown in figure 10.

4.6 Labour force and social security membership

4.6.1 An overview of the labour force and some of the social security membership is shown in Figure 9. It should be noted that the main retirement schemes, work injury and death benefits schemes are shown. The health care schemes are not shown as the Jamsostek Health Insurance scheme has an opt out clause for employers who provide for equivalent private health care for their employees and current

²⁰ The Ministries exempt from Regional Autonomy are Finance, Defence, Foreign Affairs, Justice and Religion.

membership of the Jamsostek health care program is about 1.3 million workers and covers a total of 2 million including families.

Figure 9. Labour force and social security statistics

No.	Item	1999 ²¹ (millions)	2001 ²² (millions)
1	Population aged 15 years and over	141.10	144.03
2	Labour force	94.85	98.81
3	Labour force employed	88.82	90.81
4	Formal sector (employers with legal entity)	26.65	27.30 ²³
5	Informal sector (employers without legal entity)	62.17	63.51
6	Job seekers	6.03	8.00
7	Jamsostek members (total data records held)	16.42	18.60
8	Additional potential Jamsostek members	10.23	8.70
9	<i>Estimated Actual Jamsostek Individual Contributors</i> ²⁴		9.3
10	<i>Estimated Maximum Additional Jamsostek Contributors (formal sector <u>less</u> Jamsostek actual <u>less</u> Civil service i.e. line 4 – 9 – 11)</i>		13.98
11	Civil Service (Taspen Civil service Pension scheme contributors)		4.02
12	Taspen Pensioners		1.78
13	Population below poverty line aged 15 years and over	48.00	48.00
14	Taxpayers (Tax file number holders - includes 600,000 companies)		2.20

4.6.2 The formal employment sector represents about 30 per cent of the labour force and this is the current capture group for Jamsostek membership. The employer groups excluded under current legislation are those employers with *less than* 10 employees AND a monthly gross payroll of less than Rp. 1 million. The legislation does not restrict compulsory contribution to Jamsostek to the enterprises with legal entities (formal sector) and if the legislation is interpreted as its original intent, then the potential capture group for Jamsostek could be as high as 70 per cent of the workforce.

²¹ Source BPS.

²² Source B. Purwoko, July 2001 (for Jamsostek totals). Other totals are from BPS and Taspen.

²³ This figure includes the public service but does NOT include the military where manning levels remain confidential.

²⁴ The *Additional potential Jamsostek members* total shown in figure 4 is understated because it has been derived from the difference between the *Formal labour force sector* and *Jamsostek members'* statistics. The total number of Jamsostek members (18.6 million) includes the multiple records and members already paid retirement benefits. A more accurate representation of the *Jamsostek members'* is about 9.3 million which represents only about one third of the potential formal sector employees. See figure 7 for Jamsostek membership details.

Figure 10. Indonesian social security system - Overview

Overview of Indonesian social security system (existing)											
Scheme		Government employees schemes						Private employees scheme			
		Law No. 8/1974 on government personnel policy						Law No. 14/1969 on basic manpower regulations			
Legal provision		Armed Forces			Civil Servants			Jamsostek			
		Presidential Decree 8/1977			Presidential Decree 8/1977			Law No. 3/1992			
Program		Retirement	Pension	Health Care	Retirement	Pension	Health Care	Work Accident	Old Age	Health Care	Death
		Govt Reg No. 67/1991	Law No. 6/1966	MOD Decree	Govt Reg No. 25/1981	Law No. 11/1969	Govt Reg No. 69/1991				
Financial	Employee	3.25%	4.75%	2.00%	3.25%	4.75%	2.00%		2.00%		
Contribution	Govt/ Employer		State Budget			State Budget		0.24% - 1.74%	3.70%	3.0% - 6.0%	0.30%
Benefits		Lump sum payment on retirement	Annuity benefit for life	Medical expenses, hospitalisation, maternity & medical equipment	Lump sum payment on retirement	Annuity benefit for life	Defined range of health care services	Transport, doctors, medicine, hospitalisation & disability	Lump sum payment of contribution plus interest	Ambulatory care, hospitalisation, & maternity	Death benefit & funeral
Institutions		PT Asabri, Govt Regulation No. 68/1991	PT Asabri	The Armed Forces Hospital/Askes	PT TAspen, Govt Regulation No. 26/1981	PT TAspen	PT Askes, Govt Regulation No. 6/1992	PT Jamsostek, Govt Regulation No. 36/1995	PT Jamsostek	PT Jamsostek (optional)	PT Jamsostek

4.7 Jamsostek programs

4.7.1 Jamsostek is responsible for the administration of the following social insurance programs:

Old age benefit scheme	Jaminan Hari Tua (JHT)
Employment accident benefit scheme	Jaminan Kecelakaan Kerja (JKK)
Death benefits scheme	Jaminan Kematian (JKM)
Health care benefit scheme	Jaminan Pemeliharaan Kesehatan (JPK)

4.7.2. The Retirement programme is a provident fund based on individual accounts, providing for a variable rate of benefit based on the contributions and interest credited to the account over the life of the membership. The remainder of the programmes are I group insurance schemes that provide a standard fixed rate of benefits based on the legislation, regulations and decisions made by the board of management. A summary of the Jamsostek programs is shown in Figure 12.

4.8 Statistical overview of Jamsostek programs

4.8.1 There were 97,499 employers registered with Jamsostek as at July 2001. Of these, 74,966 were active and 22,533 were inactive. The estimated potential number of eligible employees i.e. from formal sector²⁵ employers with 10 or more employees or monthly gross payroll exceeding Rp.1 million is about 27.3 million formal sector employees²⁶ or active contributors. The current employee members for the Jamsostek Provident Fund, Work Injury and Death Benefits programs are shown in the table below²⁷.

Figure 11. Membership statistics

Employees	Active	Inactive	Claimants	Total
Males	6,309,902	4,074,907	2,322,971	10,649,568
Females	3,072,884	1,694,920	995,560	5,763,364
TOTAL	9,382,786	5,769,827	3,318,531	18,471,144

4.8.2.1.1 The *Active* members statistics comprise only those members currently registered and contributing to the fund. The *Inactive* members statistics 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.

4.8.3 The *Claimants* statistics represent the number of members who have claimed their retirement benefit entitlements during the period 1978 to 2000.

²⁵ Concentrating on formal sector employers is an administrative decision and not a legislative requirement.

²⁶ This reflects the fact that using the average contribution wage of 480,000 Rp per month then in reality only employers with two or less employees would be exempt from contribution. i.e. only about 5 – 10 percent of employees would work for an employer exempt from compulsory contribution. Source BPS employment statistics 2000.

²⁷ Source Jamsostek IT Bureau 13 September 2001.

Figure 12. Jamsostek programs overview

Programs and payments of benefits				
Program	Retirement Program	Life Program	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 program and for compulsory early retirement as a result of invalidity or unemployment	This program covers loss of life during and within the work area or due to illness or natural causes	This program covers work related accidents at work and includes travelling to or from work	The Health Care program 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
Benefits	Provides lump sum of combined contributions plus interest or periodical payments for the following life events of the member: <ul style="list-style-type: none"> ➤ 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: <ul style="list-style-type: none"> ➤ funeral expenses of Rp 1,000,000 ➤ death allowance of Rp 5,000,000 	The Accident benefits are: <ul style="list-style-type: none"> ➤ 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: <ul style="list-style-type: none"> ➤ 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

4.9 Social security coverage of the general population in Indonesia

4.9.1 Social Security is currently provided to a small minority of the population with only about 13.5 million workers covered by the Taspen, Asabri and Jamsostek schemes out of a total workforce of about 98 million people (including job seekers). This means that only about 14 per cent of workers are currently covered by mainstream social security schemes. This excludes health insurance which has more extensive coverage by means of government, private and micro schemes. The main items of legislation that relates to the non-government workers social security scheme and in particular to rights and obligations of contribution to the scheme are shown below.

4.10 Health care

4.10.1 The Jamsostek health care scheme covers worker members, spouse and the first 3 children only. Article 2(4) of Government Regulation No.14 of 1993 provides that employers with their own private health care provisions may opt out of the Jamsostek Health Insurance component of the system if the benefits they provide for their employees are '*superior to the basic Health Care Package*'. This has resulted in some adverse selection with better-paid workers more likely to be covered by private (or employer-funded) schemes with the lower-paid, more vulnerable workers covered by Jamsostek. The risk pool is in consequence much smaller and with a lower level of funding than it should be. The year 2002 estimate of the number of persons covered by the Jamsostek scheme was 2.7m persons (of whom 1.3 m were workers). The coverage of the public sector health care scheme (Askes) was estimated to be 13.8m (plus 0.72 m 'commercial' members). Thus only some 17.22 m people in Indonesia (with a population of 208 m) are covered by the formal health insurance schemes — leaving 91.8 per cent of the population excluded. Even adding in those covered by private health insurance, there are estimated to be 85 per cent of the population excluded.

4.11 Legislative framework

4.11.1 Act Number 3, Year 1992 on The Employees' Social Security.

Article 1 of this act defined an employee as anyone able to perform work including contract workers. The definition of Employers in Article 1 provides for individuals, associations, self-employed persons, managers of an enterprise and foreign persons, associations or representatives of foreign enterprises in Indonesia. Article 3 (1) of this act conferred the rights of social security to every employee and Article 4 (2) made contributions mandatory, subject to further government regulations. The remaining articles of this act defined the programs, contributions, benefits and operation of the employees' social security scheme. The definition of employer was 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.

4.11.2 Act 2, 1992 does not restrict the definition of an employer to the formal employment sector i.e. to enterprises that are legal entities. The exact terminology is "*Any person, association, or legal entity managing....*" This implies that any employer-employee relationship would in effect come under the jurisdiction of this act and not just 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. When Jamsostek states a compliance figure of 40 per cent it represents the percentage of the formal sector and not the population of eligible contributors. The actual contribution compliance with the act is probably only about 15 per cent²⁸.

²⁸ Authors estimate based on about 60million workers in employee-employer relationships.

Figure 13. Enterprises by employment sector

Enterprises	Number of Enterprises by Employee group size ²⁹						
	1	2-4	5-9	10-14	15-19	20+	Total
Enterprises with Legal Entity	14,027	65,130	62,034	27,138	14,324	56,755	239,408
Enterprises without Legal Entity	10,017,217	6,209,313	481,650	67,123	27,060	8,615	16,810,978
Total Enterprises	10,031,245	6,274,441	543,680	94,257	41,380	65,370	17,050,386

4.11.3 The number of eligible employers (97,499) quoted by Jamsostek is the approximate number of employers having a legal entity (formal sector) with 10 or more employees (see figure 13 above). This ignores the total payroll of Rp. 1 million which, if included would probably introduce all of the employers with 5-7 employees and most of the group with 2-4 employees. Annex 2 contains a table showing the average salary for contributions by age group. Under the current administrative arrangements at least 190,000 employers should be making compulsory contribution to the Jamsostek schemes. However the real potential under the existing legislation (i.e. all employers regardless of legal status) is at least 500,000 employers³⁰.

4.11.4 Regulation Number 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. The elucidation section of the Laws and Regulation manual indicates that the intent was to provide social security coverage to all employees but implementation was to be progressive and the first compulsory stage was the 10 employees or Rp. 1 million rule. However it did not remove the provision for voluntary membership to the scheme for all employees. The regulation also introduced the opt-out clause on health insurance for those employers who provided equivalent private insurance for their employees.

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

4.11.6 Act No. 7 of 1981 Obligatory Report of Enterprises

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

4.12 Piece rate and contract workers.

4.12.1 One of the major areas of non-compliance with regard to Act No. 3 of 1992 is due to employers declaring that workers employed in their enterprises are piece-rate (day to day basis) or are contractors and as such are not insurable under the social security scheme. Although this is common practice, it is not

²⁹ Source data – *Economic census 1996, Profile of establishments with legal entity*. Whilst the absolute numbers may be dated and subjected to the economic crisis of 1997, it is expected that the current relativities between enterprises would be similar.

³⁰ Authors estimate from Figure 13 and including the formal sector estimate of 190,000 and the informal sector employers with greater than 5-9 employees.

consistent with the legislation: the definition of Employee in the act is “*Employee means any person able to perform work whether under contract of employment or not to produce services or goods to meet the needs of society*”. Furthermore, although there are numerous references in the Act and in the Regulation about piece-rate and contract workers that make it clear that the intention of the legislation is for them to be included in the Jamsostek scheme. Relevant examples are:

- article 8 of the act deals with Employment Accident Insurance and in the elucidation it states “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 of Regulation No. 14, 1993 in paragraph 3 defines how the income for daily workers, contractual, piece rate and seasonal workers are to be calculated.

4.12.2 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.

4.13 Other legislative considerations

4.13.1 There are other legislative provisions that relate to liability for social security contributions that should be examined. An example is social security contributions for employees of Diplomatic Missions that are contained in the *Vienna Convention on Diplomatic Relations, 1961. Article 33*. This convention provides for local staff that are employed by diplomatic missions including agencies such as the United Nations missions and projects are subject to the local laws on social security contribution. This convention would also apply to all of the international missions in Indonesia. While most Diplomatic Missions provide some social security protection for their regular, national employees during the term of their contracts, employees on short term contracts may benefit from only minimal, short term cover or no cover at all - leaving such workers vulnerable when their contracts end or even while they are actually still employed. A more in-depth study of compliance with conventions such as this one should be included as part of any extension of social security coverage.

5. The employment sectors in Indonesia

In the context of social protection, it is perhaps useful in Indonesia to divide employment into three categories – those who work in registered formal sector enterprises with a legal entity, those who work in the informal and unregulated economy and those who work in agriculture. . In this study, the focus is primarily on those who work in the urban informal sector.

BPS Statistics for the year 2000 shows the following distribution of workers by sector and industry.

Figure 14. Workers by sector and industry 2000

Main industry	Formal sector enterprises with legal entity			Informal sector Enterprises without legal entity			Total population > 15 who worked
	Workers	% of Main Industry type	% of Work Force	Workers	% of Main Industry type	% of Work Force	
Agriculture, Forestry, Hunting and Fishery ³¹	8,001,712	19.67 ³²	8.91	32,675,001	80.33	36.37	40,676,713
						Non Agricultural Sector ³³	
Mining & Quarrying; Electricity Gas & Water Supply; Construction	3,418,314	85.04	3.8	601,478	14.96	0.67	4,019,792
Manufacturing Industry	5,350,315	45.96	5.96	6,291,441	54.04	7.00	11,641,756
Wholesale & Retail Trade; Restaurants and Accommodation Services	2,753,363	14.89	3.06	15,735,642	85.11	17.52	18,489,005
Transport, Storage & Communication	2,272,374	49.9	2.53	2,281,481	50.1	2.54	4,553,855
Financial Institutions; Real Estate, Rental Services & Other Services	7,701,961	73.66	8.57	2,754,648	26.34	3.07	10,456,609
Total Non Agricultural Sector	21,496,327	43.73	23.93	27,664,690	56.27	30.79	49,161,017
TOTAL (all sectors)	29,498,039		32.83	60,339,691		67.17	89,837,730

5.1 The formal employment sector

5.1.1 The formal sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded legal status and are regarded as legal entities.

5.1.2 This legal status is accorded through registration by professional associations, Ministry of Manpower and the Ministry of Trade and Industry et al. As legal entities the enterprises are subject to

³¹ These Agricultural sector figure for formal workers has been derived from BPS Catalogue 3404, Labourers/Employees situation in Indonesia August 2000 Table 13.5 which shows the total number of employees and the tables shown in the other footnotes in this table. The informal workers figure is the remainder of the agricultural sector.

³² This derived figure is slightly higher than other estimates which place the % of formal agricultural workers at about 15 -16%. Agricultural workers statistics are at best, estimates due to difficulty in census.

³³ The total employment figures are from the BPS website tables dated 18 September 2002 for *Population 15 yrs and over who worked by main industry 1997, 2001* and the table represents the entire workforce less unemployed. The informal sector tables are from BPS website *SME Statistics Table 3 Number of Employees of establishments without legal entity by industry*. The formal sector figures are derived from the informal sector total.

labour laws administered by Ministry of Manpower and to the ILO conventions that have been accepted by Indonesia. The formal sector comprises about 2 million employers (including self-employed) and 29.5 million employees or 32.83 per cent of the total workforce.

5.1.3 The employment sectors in Indonesia are measured by the *Busan Pusat Statistik* (BPS), the National Statistics Bureau in a National Economic Census conducted every 10 years and modified annually by statistical returns from employers and targeted surveys of selected sectors of the economy. The basis for the classification of enterprises is the *Legal Entity*, described as:- *Legal status of a company/unit of economic activity based on the legal document issued by a solicitor when the company was established. Legal status could take the form of PN/Perum/PT/Persero/Perusahaan Daerah (PD), PT/NV, CV, Firma, Koperasi and Yayasan (Foundation)*³⁴. The 1996 Economic Census also considers companies having other types of the following legal documents as having legal status: SIPD (for quarrying of C class), Diparda, Governor/Bupati/Mayor permit (for restaurant/food stall, accommodation services/hotel, recreation services, entertainment and cultural services, Ritsblaad/Staatblad and Governor/Bupati Decision (for financial services). Definitions and descriptions of these various legal entities are contained in the glossary.

5.2 The informal economy

5.2.1 In Indonesia the informal economy could be more correctly titled the *urban informal economy* as (BPS) usually separates it from the other traditional element in the informal economy, the agricultural sector. The urban informal sector comprises those individuals and employers who have not been accorded legal status but who have commenced their operations often without the sanction or knowledge of the local authorities (e.g. cottage workers). Many enterprises in the informal economy may be registered with local authorities and finance regulators such as the Ministry of Finance or the taxation office but have not been accorded legal status under the definition of legal entity by BPS.

5.2.2 It was believed that growth in Indonesia's industrial sector would *trickle down* to the traditional sectors of the economy. Instead, urban industrialisation has tended to widen structural inequalities between the handful of leading sectors and the rest of the economy. With the ILO concluding in the 1970's that the informal economy was both efficient and profitable, there emerged the view that it should be promoted as a strategy to tackle structural inequalities and to meet the basic needs of the poor. Continuing rural-urban migration and the economic recession in the early 1980's and again in the late 1990's reaffirmed the importance of the informal economy in terms of work and income generation.

5.2.3 While the formal economy has a tendency to produce *jobless growth*, the informal economy continues to absorb the bulk of the estimated 2.4 million job seekers who annually enter the labour market. These jobs are created with little capital and without any subsidy from the State. These informal enterprises often rely on indigenous resources, including re-cycled materials, and produce predominantly for local markets. The entrepreneurs mobilise their own financial resources via family networks, savings clubs and rotating credit systems. Accommodation for newcomers is provided and training given on the job. Many workers in the informal economy also maintain strong ties with their places of origin and often foster plans to return. Urban to rural remittances, particularly on Java, occur on a very large scale and for many village households this capital flow has even become the major source of household income.

5.2.4 There is a tendency to associate such informal sector activities with poverty. While it is true that many workers in this sector are poor, it cannot be assumed that earnings are necessarily lower than formal sector wages. Anecdotal studies suggest that incomes are not always lower than in the formal economy and the case study of Ojek drivers conducted as part of this study confirmed that they can earn from 2 to 3 times the average national wage. The findings from the small-scale survey conducted as part of this study showed that 58 per cent of those surveyed earned less than the average of Rp. 400,000 per month and that 17 per cent earned over Rp. 800,000 which is twice the national monthly average.

³⁴ Definition from - *BPS 1996 Economic Census, Profile of Establishments With Legal Entity*.

5.2.5 Apart from generating work and income for a large proportion of the urban population –60 per cent, of total employment, the informal economy is also a major supplier and distributor of basic services and needs such as water, food, clothes and shelter. In urban areas the self-built housing sector meets a substantial amount of housing needs. Without the informal sector the majority of the urban population would have difficulty surviving in the city.

Figure 15. Table of comparison between formal and informal economy

Formal economy	Informal economy
Description	Description
Employee of large firms and in many cases multinational firms	Self-employed
Covered by labour laws and regulations	Small scale/family enterprise
Generally capital intensive enterprises with relatively few workers, mechanised, often use expensive raw materials	Little capital involved
A guaranteed standard in the final product	Labour intensive with use of very few tools.
Employment conditions mostly regular hours & low wages	Using cheap or recycled waste materials
Fixed prices	Often a low standard in quality of goods
Employment mostly in factories	Irregular hours and uncertain wages
Government and multinationals help to establish and maintain operations	Prices rarely fixed and so negotiable (bartering)
Legal entities registered with appropriate government and local agencies	Jobs often done in the home (cottage industry) or on the streets
Employs predominantly males	Little or no government assistance
	Often outside the law (illegal)
	Employ mostly females and children
Type of employment	Type of employment
Typically manufacturing sector employment, both local and in multinational industries, mining, oil	Distributive-street peddlers and small stalls
Government employment such as the police, military and civil service	Local transport
Service sector in offices, hotels, sales and administration	Small scale manufacturing such as wood, metals, textiles, carving etc
Self-employed professionals in medicine, law, accounting	Services, selling food, clothes and fruit
	Small scale industries such as food processing, tailoring and furniture repairs etc
Advantages	Advantages
Generally have access to unions and staff associations	Employs many unskilled workers
Less susceptible to corruption and standover tactics	Jobs may provide some training and skills which might lead to better jobs in the future
Uses some skilled and many unskilled workers	Any profit will be used within the city or remitted to the rural areas
Access to compulsory social security	Uses local and waste materials—the products will be for local use by informal sector, the lower paid people
Provides permanent jobs and regular wages	
Produces goods (like cars and food) for the emerging middle classes so that profits may remain within the country	Disadvantages
Waste materials provide raw materials for the informal economy	Often not protected by local labour laws and regulations
	Little access to loans or grants
	Generally no access to unions or associations
	Subject to corruption and coercion by unscrupulous authorities and individuals

5.2.6 The key definition of informal employment in Indonesia is the same as in about 21 other countries, that of unregistered enterprises or *enterprises without legal status*. The composition of the informal sector in Indonesia has been categorised into the following industry groupings by the National Statistics Bureau (BPS) in its statistical tables titled *Small Scale and Micro Establishments*, which it believes equates roughly to the urban informal employment sector:

Figure 16. Industry groupings in the informal economy

Urban informal sector	Agricultural sector
Mining & Quarrying, Electricity, Gas, Water Supply & Construction	Animal Husbandry
Manufacturing Industry	Food Crops
Wholesale & Retail Trade, Restaurants & Accommodation Services	Horticulture
Transport, Storage & Communication	Fishing
Financial Institution, Real Estate, Rental & Other Services	Forestry

Figure 17. Composition of employment in Indonesia in 2000³⁵

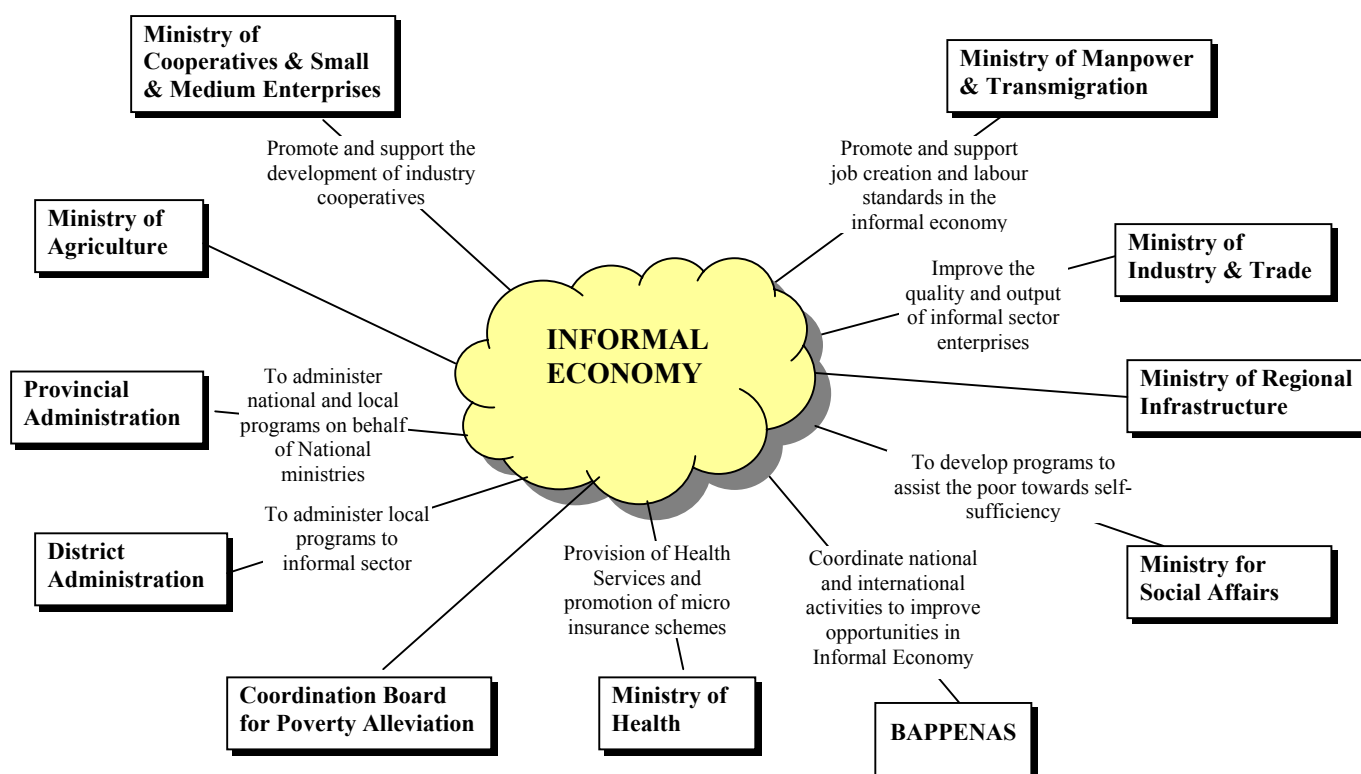
Employment category	Males (millions)	Females (millions)	Total (millions)
Formal sector			
Employers	1.608	0.424	2.032
Employees	19.788	9.710	29.498
Sub total formal	21.396	10.134	31.531
Informal sector			
Own account workers	13.222	6.279	19.501
Self employed with assistance	16.128	4.592	20.720
Unpaid workers	4.692	13.393	18.085
Sub total informal	34.042	24.264	58.306
Total employment	55.439	34.398	89.836

5.3 Government stakeholders in the informal economy

5.3.1 The government has long recognised the significance of the informal sector and its importance to the economy, employment and the self-sufficiency of a considerable proportion of the population. There are a number of government agencies that have programmes directed at the informal economy and these programmes range from policy development to field contact with workers and groups of workers. The following schematic displays the complexity and number of agencies that relate to the informal economy. It should be noted that this represents the view of the national ministries and most of these have provincial and local elements that are involved with the provincial government programmes that complement the national programmes. Some of the agencies that were contacted during this study were responsible for developing the informal economy and a summary of some of their activities is set out below.

³⁵ Source. Labour Force Situation in Indonesia August 2000. Tables 13.3, 13.4 and 13.5.

Figure 18. Government stakeholders in the informal economy



5.4 Ministry of cooperatives and small and medium enterprises

5.4.1 The study discussed the role of the Ministry (C&SME) at provincial and local level in Bandung and Yogyakarta and their role was to support and promote the development of work cooperatives in the region. In West Java there are about 7 million single entity production centres and some of these have been encouraged to develop into about 16,000 cooperatives, 60 per cent of which are from the informal economy. In the past, the role of C&SME was to sponsor cooperatives and to provide capital, support and training to the cooperatives. The promotion of cooperatives is based on the following principles:

- individuals with similar activity;
- same needs such as sales, marketing and customers;
- similar products; and
- easiest cooperatives to form are those based on geography and needs.

5.4.2 The role of the ministry at regional level (Dinas Koperasi) has now changed from involvement in internal cooperative development into a support and monitoring role and the close relationship with cooperatives is confined to the local (district) level. The role of the District offices is to promote SME's and to assist in the development of cooperatives, provide training and education for SME's and to arrange for revolving funds and financial assistance for cooperatives and SME's. In many provinces the Dinas Industry and Trade has been integrated with Dinas Koperasi.

5.4.3 The identification and cataloguing of cooperatives by C&SME has the potential to be of assistance in any informal sector social security scheme. The identification and location of cooperatives is an essential first step in the process of marketing and ultimately coordinating the collection of contributions and assistance in the administration of any scheme.

5.5 Ministry of industry and trade

5.5.1 The role of this ministry at the national level is to improve the quality and output of informal economy enterprises, but it appears that this is not translated into local programmes. Like many other ministries, the local control and priorities are exercised by the regional administrations and vary widely across the country. The Dinas regional offices visited indicated that they currently have no active programs to assist the informal economy enterprises. However, they will support enterprises that request assistance in the areas of management training, extension of services, formation of groups, and building relations with other market stakeholders. At this point in time there is very little interaction between the ministry and informal sector enterprises, but this may not be representative of all of the provinces in Indonesia.

5.6 Ministry of manpower and transmigration

5.6.1 The Dinas Tenaga Kerja offices (Ministry of Manpower regional level) that were visited as part of the study did not have any specific programs targeted at the informal sector although they were aware of the importance of the informal economy in the employment of people and alleviation of poverty. Their main social security focus is on the maintenance and extension of formal sector participation in the Jamsostek scheme, of which they receive numerous complaints about the service delivery and in particular the local health services. The Dinas has assisted informal sector workers in the past through special funded programmes such as health assistance for food vendors and accommodation for migrant workers. There are no special programmes currently operating due to lack of funding. The Dinas suggested that future social security programs for informal sector workers should include stakeholders from the Informal Professional Group (Paguyuban) and the provincial Market Office (Dinas Pasar).

5.7 Private sector involvement in informal economy

5.7.1 This study identified a number of institutions and NGO's that have been closely associated with the informal sector and some of the agencies included:

- Islamic micro foundation;
- Bumiputra and Bumiasa (insurance companies);
- trade Unions;
- Bina Swadaya (Self Reliance Development Foundation);
- many hundreds of other NGO's like Binadaya Nusaindah and Assuransi Jiwa; and
- international donor organizations.

5.7.2 An overview of the organization and operations of Bina Swadaya has been included in the box on page 62 as an example of the roles and capacity of NGO's that work extensively with workers in the informal economy.

5.8 Relevant trials and pilot studies in Indonesia

5.8.1. Social protection of home workers in Indonesia

5.8.1.1 This was an ILO-Danida sponsored project supported by Bina Swadaya NGO to introduce the concept of social protection to women home workers. The trials were initially conducted in villages in East Java over the period 1988 – 1996. Until this time most NGO's concentrated almost exclusively on employment and income promotion schemes for informal sector workers. The project objectives were to:

- raise the NGO's awareness of social protection for home workers as a development goal together with employment promotion;
- assist women home workers to identify their needs and to enable them to obtain better working conditions; and

-
- enable women to advocate for social protection.

5.8.1.2 The project, through Bina Swadaya, developed a new social protection oriented training programme based on the successful action project undertaken by a local NGO (Yayasan Pengembangan Pedesaan or YPP) in the villages of Gondang and Sidoarjo in East Java. The completed training program and manual contained modules on social protection concepts, design of programs, implementation based on the development, maintenance and management of self-help groups. This training programme was then administered to 162 NGO staff from 137 organizations in 15 provinces in Indonesia.

5.8.1.3 The project reported on four major programmes it conducted for home workers in Jelambar Baru in East Jakarta, Batik workers of Bayat in Yogyakarta, Sunter Agung in North Jakarta and Godang in East Java. The immediate objectives of these projects were to:

- create self-help groups;
- raise awareness of household income management, health and the law,
- improve work skills;
- develop group ability to manage their own social security; and
- develop networks between the group and local health facilities.

5.8.1.4 Constraints and barriers identified by the projects that had to be overcome included the unwillingness to repay loans, individualism, live-for-the-day attitude, irregularity of incomes, lack of organization and work skills, lack of creativity and financial constraints.

5.8.1.5 The project found that the labour issues and social protection were closely linked and successful income generation improved the affordability of contributions. However most of the social protection developed as part of these trials was through local cooperative schemes mostly within the group. They lacked the cover for risk and there was limited capacity to create pooling of funds. The projects achieved varying degrees of success and in all cases the increased awareness enabled worker and their groups to negotiate improved working conditions, better salaries and to be able to utilize existing facilities, laws and local resources. Access to loans, health care and cover for injury and death were improved but limited to the capacity within the group. A larger risk pool is required if benefits are to be improved and contributions to be affordable. Sustainability was improved by maintenance of the groups and regular visits by facilitators. The sustainability could have been further improved by subsidization of some of the social insurance contributions.

5.8.2 Trade union support for informal sector workers

5.8.2.1 This project was essentially an education program targeted at senior trade union officials, workers' educators and informal sector workers. The project was conducted over a three-year period from 1998 to 2001. The immediate objectives of the project were to:

- strengthen the capacity of trade unions to incorporate informal sector workers;
- enable informal economy workers to establish links with formal sector institutions; and
- enable informal economy workers to be able to exert more influence on national policy to provide access to services such as workers training, education and trade union medical and legal services.

5.8.2.2 The project conducted a number of activities over the period including case studies, workshops, seminars for trainers, developed training materials, conducted study circles and distributed campaign materials.

5.8.2.3 The project was successful in raising the awareness of the issues and an initial increase in trade union recruitment although this surge of new membership does not appear to have been sustained. Some success has been obtained in obtaining private insurance cover for informal sector members through trade union negotiated policies with private insurance companies. Establishing permanent links with social

security schemes, training institutions and health insurance schemes has been more difficult. Most unions suffer similar constraints to government organizations when servicing the informal sector in that they do not have resources to reach out to individuals and experience difficulty in marketing the role of unions, collection of union dues and maintaining contact with members.

5.8.2.4 Discussions with some union federations has confirmed that most do not have well developed informal sector networks and would be unable to assist in the collection of contributions for any social security scheme. However unions are keen to support any initiatives and are potential partners in the strengthening of local self-help groups.

5.8.3. Klaten trial for health insurance³⁶

5.8.3.1 A summary of the experiences of the field trial of the integrated healthcare strategy conducted in Klaten, Central Java during the period 1994-98 has been included to demonstrate the lessons that may be applicable to this study on extending social security coverage to the informal sector. It should be noted that health insurance for the informal sector was only a small component of the Klaten trial that also covered delivery of health services and only the findings relevant to this study will be presented here.

5.8.3.2 One of the few innovations attempted in the Klaten project was to establish a *members' cooperative* similar to that of small business health insurance purchasing cooperatives in other countries. Primary level cooperatives (farmers, craftsman, vendors, etc.) would join a dedicated secondary level cooperative for the purpose of purchasing health insurance. By providing a large, pre-enrolled group and a single point of premium collection, the cooperative could negotiate lower premium rates and stimulate competition for their members. There is a strong cooperative movement in Indonesia estimated at over 86 million people (including family members).

5.8.3.3 The Health Insurance Members Cooperative created as part of the trial continues to function more than 4 years after external assistance ended. Much of the initial membership was reportedly lost subsequent to the end of the project apparently due to the economic conditions. Recent reports indicate that they are slowly re-expanding their membership and have established a new branch office in central Java.

5.8.3.4 Market research in Klaten was conducted in 1996 as part of the social marketing effort and consumers were surveyed concerning their views and some of their comments were:

- in general, the majority of respondents preferred private healthcare services to public despite the increased costs. Long queues and poor service were the most numerous complaints about the public system;
- the majority of both Askes and Jamsostek member were not familiar with the details of the benefits of their schemes or even what percentage of their wages was deducted;
- contributions were regarded as *just another tax*;
- few of the dropouts from JPKM left due to dissatisfaction but rather to misinformation and administrative failures; and
- almost all respondents expressed a willingness to rejoin though some with the proviso that the scheme needed to be more professionally managed.

5.8.3.5 Worldwide experience indicates that enrolment of the informal sector in compulsory healthcare financing schemes is very difficult. Based on the compliance problems of Jamsostek with large formal sector employers, the prospect of exacting compliance of compulsory contributions from the informal

³⁶ The trial was part of a seven year assistance program on health care reform sponsored by USAID and supported by the govt of Indonesia through Ministry of Health, World Bank and ADB. Full details of the trial are available in a study titled *Health Sector Finance and Klaten Health Care Trial Revisited*; produced as part of this project, the ILO Project INS/00/M04/NET, *Reform of Social Security in Indonesia*.

sector is very small. *In Klaten, enrolment of the informal sector on an **individual or family basis** resulted in the failure of the government sponsored health insurance program DS-JPKM.*

5.8.3.6 Organization of the informal sector through the formation of health benefits *cooperatives or other organizations* can provide the economies of scale necessary to provide affordable coverage.

5.8.3.7 Insufficient and inconsistent enforcement is a systemic problem in Indonesia and by no means limited to the health sector. Without effective enforcement of regulations, healthy competition and growth cannot be realized.

5.8.4 Ministry of social affairs

5.8.4.1 The Ministry of Social Affairs is promoting social insurance for informal sector workers who are not covered by Jamsostek schemes. This program had its origins in a trial that was conducted in 7 provinces during the period 1996 –1999 by the then Ministry of Social Welfare, which was disbanded in 1999 under the reforms of the previous administration. The new Ministry of Social Affairs was established under the current administration in 2001. Unfortunately the details of the trial and outcomes are not available and a final report was not completed before the original Ministry was disbanded.

5.8.4.2 The trial was commissioned to provide revolving micro finance to self-help groups of informal sector workers that were created in the selected provinces. Insurance against loss of income as a result of injury and accidental death was also provided as part of the trial. The NGO *Yayasan Budi* was appointed in conjunction with local organizations to establish, train and manage the groups and to collect contributions and repayment of the loans. The service was targeted at rural workers and fishermen who were not eligible for Jamsostek membership.

5.8.4.3 The Ministry plans to commence a new scheme ASKESOS (Assuransi Kesejahteraan Sosial), a voluntary savings scheme that will operate in 15 Provinces over a 3 year savings and insurance period. The process will involve collection of contributions from the groups by the NGO field officers and these will be deposited in a Bank BRI account. Members will be able to receive payments in the event of injury (maximum once per year) and in the event of death of the member. The expected claim rate is about 10 percent of total membership each year. The national government is expected to provide guarantees to the insurance companies for the performance of the fund.

5.8.4.4 A separate trial is also to be conducted in the Karawang Regency in East Jakarta to provide social insurance through private insurance companies (Binadayan Nusindah and Assuransi Jiwa). The process will feature a photograph identity card for each member that will be used to make claims against the policy. This trial is expected to commence sometime in 2003.

5.8.4.5 The local offices of Social Affairs (Dinas) that were visited were unable to assist in any social security program for informal sector at this stage. With the re-establishment of the Dinas only one year ago, the support to the informal sector is restricted to training and education on request.

5.9 International experience in extending social security to the informal sector

5.9.1 There have been a number of international trials and projects aimed at extending the existing formal social security systems into the informal economy and in this study some of the outcomes of those trials were examined for relevance to the situation in Indonesia. A summary of the schemes that were considered is shown in the table in Annex 3.

5.9.2 In most developing countries about 10 – 20 per cent of the workforce is covered by formal social security programs, another 30 – 40 per cent live below the poverty line and the remaining 40 – 60 per cent above the poverty line but not contributing (or entitled) to social security schemes. In Indonesia about 13.2 per cent of workers are contributors and 37.5 per cent live below the poverty line.

5.9.3 The selected studies in Annex 3 show that the schemes are targeted at either the poor (Social Assistance) and the informal economy workers (Social Insurance) and that great emphasis is placed on developing self-help groups as the basis for the organisational models for these schemes. It can also be seen that in most schemes the government has a supporting role in terms of promotion, guarantor of some funds and contributor of subsidies in other cases. In almost all of these schemes international input has been provided for policy design, governance and in some cases to provide direct subsidies to promote and maintain the schemes. The other major stakeholders are various NGO's, cooperatives, trade unions and private insurers.

5.9.4 Additional research on the selected studies and other programs in India, China, Benin and Tanzania shows that typical characteristics of social protection programs for workers in the informal economy are as follows:

- all of the programs are voluntary and it is very difficult to administer compulsory membership to the schemes;
- benefits and contributions are tailored to the needs of the individual groups who decide on their priorities;
- programmes are flexible and offer a range of benefits options with contributions that reflect the affordability range of the target groups;
- aggregation of groups is essential to achieve a critical mass to minimise risk, maximise efficiency in collection of contributions and payment of benefits;
- in most cases some form of re-insurance or pooling of funds is essential if the schemes are to be covered for unforeseen risks and be sustainable in the long term;
- in some instances governments have accepted their responsibility for social security by providing contribution subsidies for some elements of insurance and in guaranteeing the funds against high risk (e.g. natural disasters etc);
- most schemes relied on some form of partnership with private insurers or banks to provide the range of services; and
- service delivery was usually provided by special agencies focused on the particular scheme or by NGO's supervised by a government agency.

6. Findings and options

6.1 Introduction

6.1.1 This study into progressive extension of social security eligibility to the wider population examined the options for extension of eligibility to the excluded formal sector workers, the needs of workers in the informal economy and the needs of overseas migrant workers. The informal economy by its nature is difficult to quantify and categorize and there is a limited availability of statistical data about workers. The study aimed at categorizing workers in the informal economy according to their status and their social protection needs and examining the feasibility of providing them with relevant social security benefits. The three main categories for extension of social security eligibility considered in this study were:

- formal sector workers within the scope of existing laws and regulations but in practice excluded by non-compliance
- the urban informal sector, and
- overseas Migrant Workers.

6.1.2 Given the limited time for the study and the varied nature and geographical distribution of the agricultural sector of the economy it was decided to focus primarily on the urban informal sector. It should be noted, however, that there is scope to consider elements of the agricultural sector in future programmes especially for those workers included in cooperatives and group schemes that show potential for consolidated group contributions and claims for benefits.

6.2 Extending coverage of formal sector

6.2.1 The original purpose of Regulation 14 of 1993 seems to have been to limit the pool of eligible employers to allow the Jamsostek organisation to develop its capacity to administer and enforce a manageable base of contributors. This process of progressive expansion of coverage to smaller and smaller enterprises is used elsewhere in the world. However in Indonesia, over time and with inflation and salary increases the total payroll limitation of Rp. 1,000,000 has lost its effectiveness, so much so that it is now technically and legally compulsory for about 90 – 95 per cent of employers to make contributions. Now that Jamsostek is well established and has had almost 10 years of operation as a Persero, exclusion for only about 5 – 10 per cent of the employers no longer has any significance. It is therefore appropriate to repeal the regulation, since it is only a source of confusion amongst employers and employees. Furthermore, it also encourages the understatement by employers of the total payroll to evade contribution liability, to the disadvantage of many members of the workforce.

6.2.2 The State Guidelines for 1999 – 2003 and the National Development Programme both envisage the extension of compulsory social security contributions to Jamsostek to all enterprises in Indonesia. The only legislative change necessary to achieve this extension would be the repeal of those provisions in Regulation 14 of 1993 that restrict compulsory contributions to enterprises by staff size and total payroll.

Figure 19. Distribution of formal sector enterprises

Element	Formal sector enterprises and number of employees ³⁷						Total
	1	2-4	5-9	10-14	15-19	20+	
Number of enterprises	14,027	65,130	62,034	27,138	14,324	56,755	239,408
% of total	5.86%	27.20%	25.91%	11.34%	5.98%	23.71%	100.00%

³⁷ Source data – *Economic census 1996, Profile of establishments with legal entity*. Whilst the absolute numbers may be dated and subjected to the economic crisis of 1997, it is expected that the current relativities between enterprises would be similar.

6.2.3 Compulsory membership of the social security scheme for all *formal sector* employees would simplify administration, compliance and marketing of the scheme and an acceptable contribution compliance rate of better than 80 per cent could potentially increase the coverage of employees from about 13.5 per cent to about 30 per cent of the total workforce.

6.2.4 The findings from the surveys and from general observations show that in addition to a continuing image problem for Jamsostek, there is a widespread lack of understanding amongst employers and employees about social security in general and the contribution requirements to Jamsostek in particular.

6.3 Extending coverage within the existing legislation

6.3.1 As discussed in Section 4 of this report, the existing legislation and regulations requires all employers inside the 10 employees and Rp. 1,000,000 rule to contribute to Jamsostek. There is no distinction between formal or informal employment sectors. Many of these enterprises may be cooperatives or associations that employ staff and these are clearly covered under the definition of an *employer* and are liable to contribute to the scheme.

6.3.2 The potential coverage of Jamsostek is considerable and it can be seen from the table in Figure 19 that enforcing the existing legislation could cause about 75 per cent of the workforce to be covered.

6.4 Non compliance with existing legislation

6.4.1 The degree of non-compliance with the existing legislation and administrative arrangements is significant, with only about 32.5 per cent of eligible *formal sector* employees contributing to the scheme. There is virtually no voluntary compliance among enterprises excluded under the law and employees of such enterprises represent about almost 70 per cent of the workforce. The major barriers to contribution are general ignorance of social security provisions and requirements, an adverse perspective of Jamsostek and a lack of commitment to compliance by Depnakertrans and Jamsostek, compounded by limited capacity.

6.5 Jamsostek performance and service standards

6.5.1 The observations made in relation to Jamsostek's overall performance were obtained from discussions with employers, employees, unions and staff about the reasons why people did not wish to contribute to Jamsostek schemes. These views have been supported by the survey of workers undertaken as part of this study. Some of these perceptions about Jamsostek are:

- some people considered that Jamsostek benefits are too low given the amount of contributions they paid;
- cost of the programmes are too high and represent a significant reduction in wages (about 80 per cent of employers choose to opt out of the health insurance programme),
- payments are not indexed and lose their relative value over time;
- the share of profits (dividend) paid to the government was seen to diminish the amount of benefit that should be paid to the contributors;³⁸
- low public confidence in the administration;
- perception that government influences investment decisions and that in the past unwise decision on investment have been made, further reducing returns to contributors;³⁹
- the level of knowledge about Jamsostek and its services among employers and employees is low and some employers believe that contribution is voluntary;

³⁸ The dividend payment to the government (as the sole shareholder in Jamsostek) is only made in respect to the Work Injury, Death and Health Insurance programs. The Retirement provident fund (by far the largest program) is exempt from tax or dividends.

³⁹ Actual investments returns are reasonable given the requirement to invest only in Indonesia, but the returns are generally not much better than the inflation rate.

- Jamsostek is not seen as always providing very good customer service with limited access across the country, particularly in remote areas and slow responses to enquiries and payment of claims; and
- restrictions on the investment portfolios and strategies available to Jamsostek that are confined to Indonesia and are dependent on the financial state and lower investment returns in the local economy.

6.5.2 Many of these perceptions and complaints are being addressed by the current administration as reflected in the extensive re-organization of Jamsostek that has been implemented over the past year. Other issues are being addressed by the proposal to amend the legislation to convert the existing provident fund to a trust fund managed by a tripartite board of trustees. This proposal will change the management status of Jamsostek from a *Persero* to a non-profit orientated public company such as a *Badan* and the removal of the dividend (taxation) liability should increase the return to members by higher compounding of interest. This proposal was presented to the Parliament in early 2002 and is still under consideration.

6.6 Compliance process

6.6.1 The Ministry of Manpower and Transmigration (*Depnakertrans*) is currently responsible for the operational supervision of Jamsostek which is required to report to the Minister in relation to policy compliance and general performance. Jamsostek is also responsible for the registration of members and collection of contributions from employers as the executive agency authorised by Article 22 of Act 3, 1992 to collect contributions. Whilst these functions are performed in Jamsostek at branch level, the Regional Office is responsible for the performance of all of the branches in its administration. Jamsostek is legally obliged to reject membership applications from employers where they demonstrate that they are ineligible to participate in the schemes because of the number of employees or the total incomes paid to employees. However Jamsostek does not have the authority to investigate employers suspected of providing incorrect information about the numbers of employees or total payroll. Depnakertrans retains this authority.

6.6.2 All disputes between employers and Jamsostek over contributions, membership and claims for benefits are referred to Depnakertrans in accordance with the regular liaison processes agreed between the organizations. The dispute process has been described as slow and cumbersome with unreliable reporting of the outcomes to the initiator in Jamsostek. The local Disputes Committee handles disputes in Depnakertrans and the only avenues of appeal by an employer or employee are to a higher authority within Depnakertrans.

6.6.3.1.1 Compliance and appeals

6.6.3.1 The current process comprises the identification of non-compliance in Jamsostek and referral to Depnakertrans, for investigation, decision and appeal. The compliance process, especially for membership of the retirement and work injury programs is not satisfactory and is reflected in the low contribution take up rate of about 32.5% of potential membership under the current application of the legislation.

6.6.3.2 The compliance function is performed outside the organization delegated to collect contributions and to assess benefit claims. In addition, to the multiple handling of compliance cases and complaints, this process can facilitate exploitation of the division between agencies and introduce unnecessary delay. Whilst there should be a division of responsibility it is perhaps more appropriate that the division should occur between the compliance decision and the appeal. This would allow the authorised agency to complete the full range of its responsibilities with regards to collection and compliance and its decisions could be subject to appeal to a body that is impartial and independent of the original decision makers.

6.6.3.3 Compliance was seen as the key to better overall performance of the fund as higher contribution rates would result in higher returns to members and serve to spread the risk across a wider group of members. The current compliance performance is very low and the key inhibitors are in the

compliance and enforcement process that is not coordinated between two organizations, Depnakertrans and Jamsostek.

6.6.3.4 The major forms of non-compliance include:

- failure to register as a contributory employer;
- under reporting the number of employees;
- under declaring or depressing the value of wage levels and the total payroll; and
- non-payment of contributions (arrears).

6.6.3.5 A summary of the stakeholder comments about compliance were:

- penalty for non compliance is not seen to be evenly applied across the community;
- long delays in identification of avoidance and consideration of cases;
- collection agency (Jamsostek) has no delegation to investigate or enforce non compliance;
- disputes are investigated and actioned by another agency with limited local knowledge of the individual employers; and
- compliance process is not coordinated at any level.

6.6.3.6 Discussion with Labour Inspectors in Provincial Administrations (Dinas Tenaga Kerja) indicated that social security compliance was only a small part of the role of Labour Inspectors. The tools available for inspectors to identify cases of non-compliance were limited and association with other collection agencies (e.g. taxation collectors) was almost non-existent. Dinas is also responsible for the registration of medium and large businesses and companies and maintains a record of registered companies in the province. The provincial administration through local authorities is also responsible for issuing permits for traders to conduct business in the local area. The labour inspection function for social security appears to be conducted on a reactive rather than proactive basis. The major inspection trigger is based on employers declaring less than the average minimum wage as part of the monthly contribution process.

6.6.3.7 Compliance and enforcement outcomes reported to Depnaker at national level are contained in the Compliance tables taken from the Department of Manpower and Transmigration Annual Report 2001 provided in Annex 4. The report is only partly representative as it contains data from 11 of the 32 provinces in Indonesia that produced annual returns. The findings however are indicative and show the reasons for non-compliance and the types of enforcement action taken together with the results for those provinces. It is interesting to note that 46 per cent of employers indicated that they had no knowledge of their obligations with regard to social security contributions to Jamsostek.

6.6.3.8 There are a number of instances where contributions are not collected or enforced and a typical example is for people contracted to an employer as a day worker or for a particular task. Many employers use this type of employment contract to evade contributions to Jamsostek. The existing legislation (Act 3, 1992, *The Laws and Regulations of The Republic of Indonesia on The Employees Social Security*) covers such workers contracts and provides the method to be used for the calculation of contributions. Close examination of the existing legislation indicates that most employees in the formal sector are covered by the legislation and the membership and contributions to the scheme should be considerably higher than at present.

6.6.3.9 The Jamsostek organization is more broadly distributed throughout the country than that of Depnakertrans, with 8 Regional Offices and 114 Branch offices whereas there are 15 Area Offices in the Depnakertrans service delivery network and these concentrate exclusively on control of the overseas migrant workers program. In accordance with devolution under the Regional Autonomy program, all of the functions of the Depnakertrans local network have been devolved to provincial government authorities. From January 2001 the Regional Governors of the thirty-two (32) provinces have been responsible for the administration of most of Depnakertrans (and other national government) policies in their regions and provinces. Government ministries and departments are subjected to Regional autonomy

whereas government owned limited companies and enterprises such as Jamsostek are exempted from local devolution of facilities and resources and Jamsostek still maintains a nationally directed and controlled organization.

6.6.3.10 The Jamsostek Branch offices are located in the main centres of employment and are continually subject to review and expansion in accordance with the Branch office distribution formula. The justification for increased responsibility for compliance being placed with Jamsostek are:

- branch offices hold current data about employers and employees;
- Jamsostek case managers in each Branch are responsible for a fixed number of employers;
- closer access to the employers and workers;
- local knowledge about employment and contributions activity in the area;
- responsibility for memberships to the funds;
- more efficient to handle compliance issues directly;
- more incentive to collect contributions through staff bonus schemes; and
- ability to control the progress of the enforcement process (e.g. so that current compliance cases can be followed without prejudice to possible proceedings).

6.6.3.11 Should it become responsible for social security compliance then Jamsostek would need to implement new compliance processes, enhance its IT systems, recruit and train social security inspectors and establish a compliance case management process to track and report on cases started, pending and completed.

6.6.4 Compliance principles

6.6.4.1 Compliance and fraud minimization are key elements in the equality principle of targeting social security payments to those most in need. It is also central to compliance and payment only to those with a legal entitlement to social security benefits and services. Compliance is a national, programme wide responsibility and the current focus in Jamsostek is compliance to ensure compulsory membership, collection of contributions to the funds and internal fraud. This focus could change in the future, especially if means tested or compliance based payment programs are introduced. The key principles for compliance and fraud minimisation are:

- prevention - to have systems and procedures in place that minimize the risk of understated salaries, incorrect contributions and payments;
- detection - to detect incorrect contributions and payments at the earliest possible stage if they do occur; and
- deterrence - to deal decisively with cases that are detected, thus creating a public recognition of the risks and penalties involved in attempting to defraud Jamsostek and also to promote voluntary compliance.

6.6.4.2 A revised compliance process should have:

- a strong local focus;
- a prevention strategy that includes an information strategy, process controls and inter-agency liaison;
- the delegation to actively promote compliance,
- the ability to react quickly;
- a compliance plan coordinated at all levels, national, regional and local,
- provide local review of decisions; and
- division of responsibility between decision and appeal.

6.6.4.3 Extension of social security to the formal sector employees is dependent on three key elements:

- marketing and awareness of the legislative requirements and the benefits of social security programs to employers and employees;
- repeal of elements of regulation 14 of 1993 so that the estimated 5 - 10% of employers under the monthly payroll base of Rp. 1,000,000 and currently exempted from social security contribution would bring the mandatory provisions to 100% of the formal sector workforce; and
- effective compliance for social security contributions, this could be improved by transfer of the responsibility for compliance to the collections agency, Jamsostek.

Recommendation

Extension of social Security to remaining formal sector workers

To improve the Jamsostek membership from the current 32.5 per cent of the potential formal sector employees to at least 80 per cent, the following initiatives would be required:

- extend the compulsory contributions requirement to all formal sector enterprises by repealing the sections of Regulation 3 of 1993 that restricts compulsory contribution to enterprises with 10 or more employees and monthly payroll of more than 1,000,000 Rp;
- review the definitions in the Act No. 2 of 1992 to reinforce the provisions for employer/employee relationship as the basis for compulsory contributions;
- improve returns to contributors by changing the status of Jamsostek from a Persero and the removal of taxation liability on funds;
- improve the image of Jamsostek by changing the status to a trust fund managed by a tripartite board thereby limiting the degree of direct government control over investment of funds;
- increase community awareness of social security, the features of Jamsostek Baru and the obligations of all employers by a targeted marketing strategy;
- increase contribution compliance by transferring the authority for enforcement from Depnakertrans to Jamsostek and the establishment, training and implementation of a national compliance strategy; and
- improve Jamsostek efficiency by implementing the recommendations about operations and IT shown in paragraph 6.10.7 and the report *Review of Operations and Information Technology in Jamsostek*.

6.7 Informal sector findings

6.7.1 Introduction

6.7.1.1 This part of the study relating to the informal economy was based on the assumptions that any extension of social security would have to be piloted and implemented in phases by areas or provinces. This study was focussed on areas and employment sectors that offered the potential to be easily identified, manageable, close to administrative centres, occupations that earn more regular incomes and demonstrated a need for social security.

6.7.2 Methodology of the informal sector study

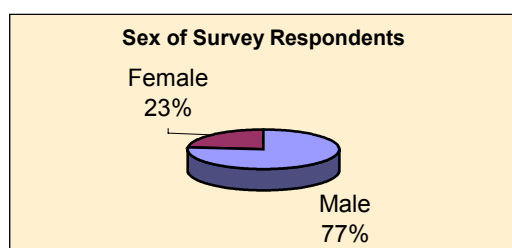
6.7.2.1 This study into the informal employment sector is one of many studies aimed at improving the understanding of what is a highly complex series of interrelationships where individual entrepreneurs override the normal legal constraints and the protective mechanisms of formal employment. This study attempted to confine the scope to the social security issues by supplementing the quantitative measures available from statistics and other studies with a small-scale geographical survey to improve the qualitative understanding of the social security needs of selected elements of this vast employment sector. The surveys also aimed to supplement the available background data described in sections 3 and 4 of this report.

6.7.3 The survey

6.7.3.1 The surveys were conducted to obtain primary indicators of social security needs but also to provide information that may support the establishment of a future pilot study that could assist in the design and testing of a social security program to meet the needs of informal sector workers. The surveys concentrated on the two major components of the urban informal employment sector as described by BPS and the sectors chosen were the *manufacturing industry* and the *wholesale and retail trade, restaurants & accommodation services* industries. The surveys were conducted in three geographical areas that had heavy concentrations of urban informal sector workers from the two major categories that were considered to have potential for future participation in a social security scheme. A total of 2000 people were surveyed in East Jakarta (700), Bandung (500) and Yogyakarta (800). The scope of the surveys was to obtain information from selected informal sector workers about personal details, education, employment, social security needs, priorities and their capacity and desire to contribute to a social security scheme. The surveys also provided information about social security as it may apply in Indonesia i.e. social insurance for selected life events, as it was anticipated that many people would have little understanding of the concept. The choice of employment category and location was based on proximity to major cities, earnings capacity, high lifestyle risk and potential to create groups of workers with similar work and life interests. The potential to administer and monitor a future pilot scheme and a subsequent social security program was also a key consideration.

6.7.4 Survey results

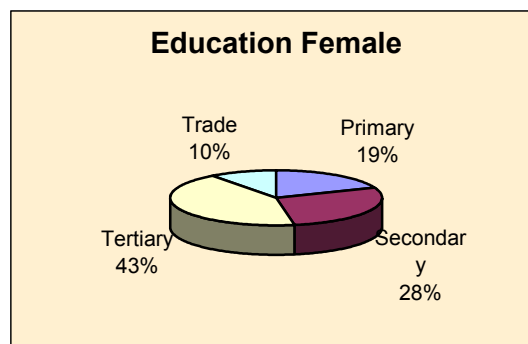
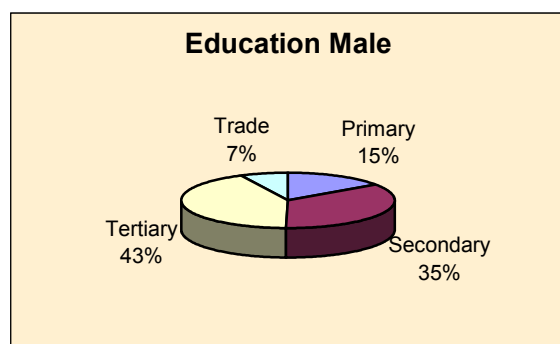
6.7.4.1 The survey data collection form was constructed in 5 parts; personal details, education, employment, income details, social security needs, priorities and desire to contribute. A summary of the key findings are presented below and a more complete selection of tables of findings from the surveys are contained in Annex 5.



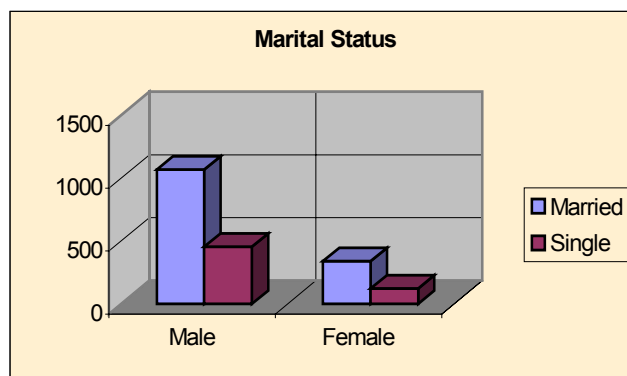
(i) Personal details

6.7.4.2 The balance between sexes in the survey was biased towards males because of the type of industries chosen. Many of the retail, manufacturing, transport, repairers etc were males. The predominant work areas for females in batik craft and home workers were less accessible to the surveyors.

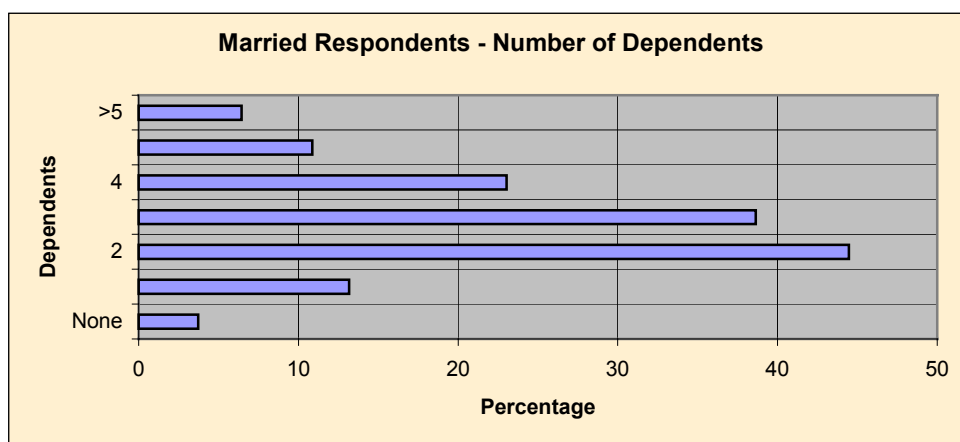
6.7.4.3 The number of Tertiary educated workers was significant and appears to reflect the limited availability of skilled jobs and the entrepreneurial nature of the informal sector around the cities in the sample.



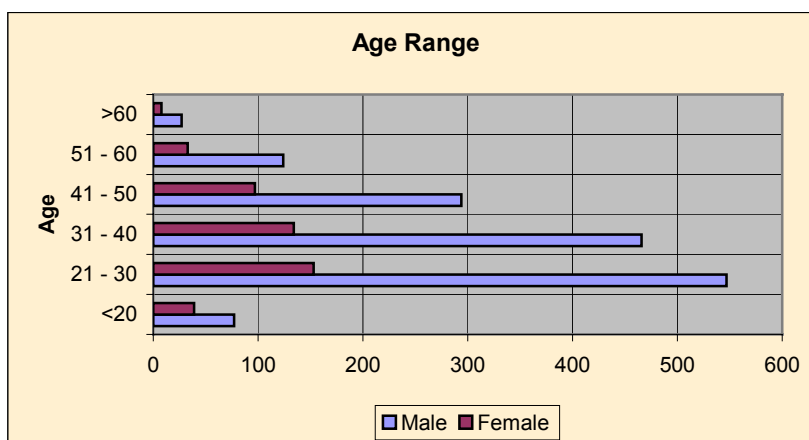
6.7.4.4 The marital status of the survey sample showed that about 70 per cent of the respondents were married and given the age profile the finding is probably not surprising.



6.7.4.5 The average number of dependents for married people was significant at 4.2, and to arrive at that average, the number of dependents in each family ranged from 1 or 2 to up to 12 dependents in some families.

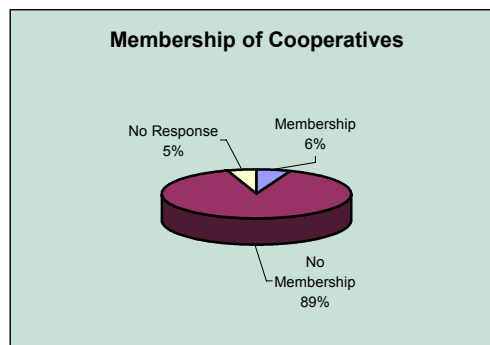
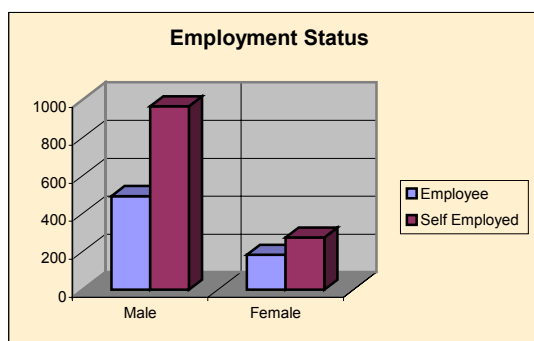


6.7.4.6 The age ranges shown in this chart indicate that 65 per cent of the respondents were between the ages of 20 and 40. The numbers of youths employed in these sectors was relatively small and whilst the reason for this are not clear it may be related to costs of establishment for self employed and skills training for the employees.

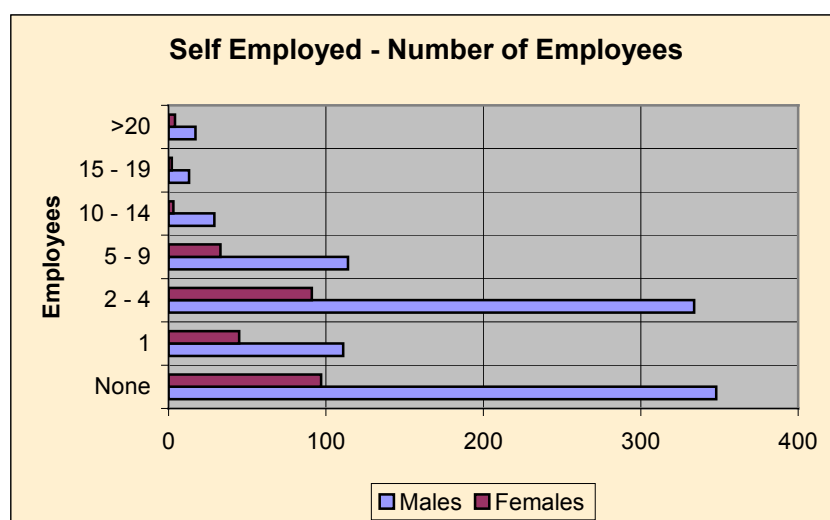


(ii) Employment details

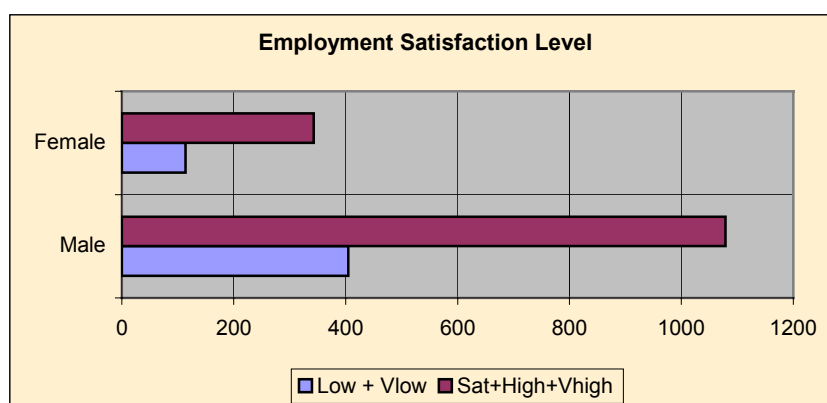
6.7.4.7 The findings on employment status showed about two thirds self employed and about one third as employees. The chart on membership of cooperatives also confirms that in the two employment sectors chosen for the study membership in cooperatives or other associations was very small at 6 per cent.



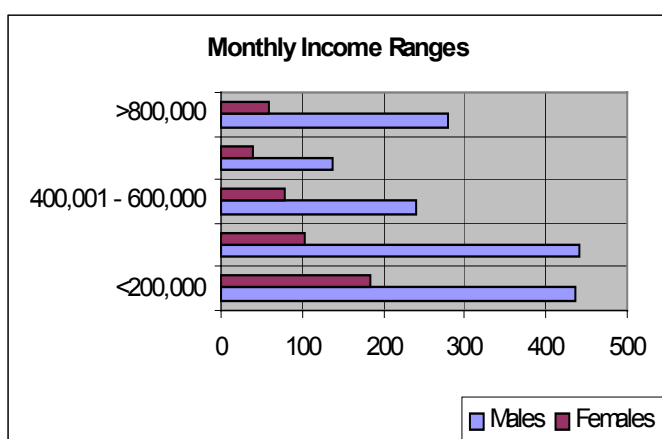
6.7.4.8 During the survey self-employed people were then asked how many employees worked for them in their enterprise. This chart shows that the response *none (36 per cent)* probably represents the individual self-employed and the remaining 64 per cent had more than one employee. Based on these results about 800 of the self-employed respondents had employees and employed almost 4000 employees, a ratio of almost 5:1.



6.7.4.9 The employment satisfaction level was almost the same for males and for females at 70 per cent and 74 per cent respectively. When the self-employed factor of 65 per cent is taken into account there are still a significant number of employees who are satisfied with the work they are currently doing.

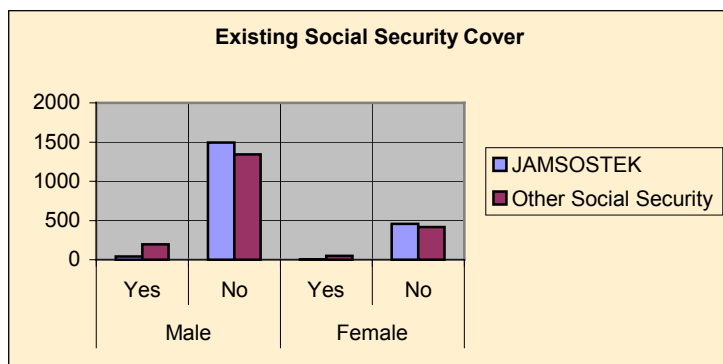


(iii) Income details



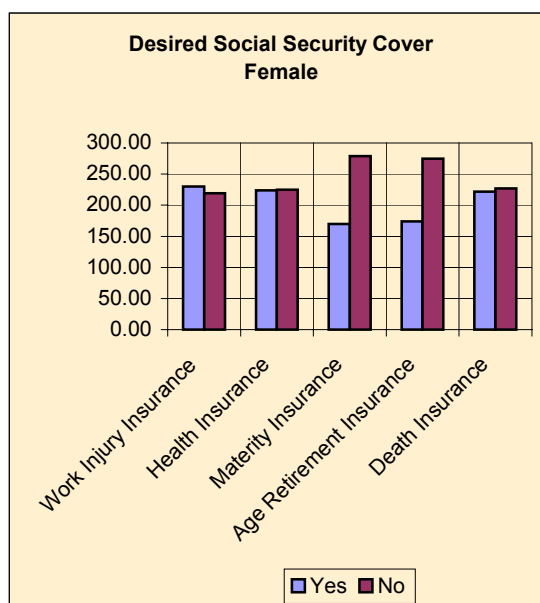
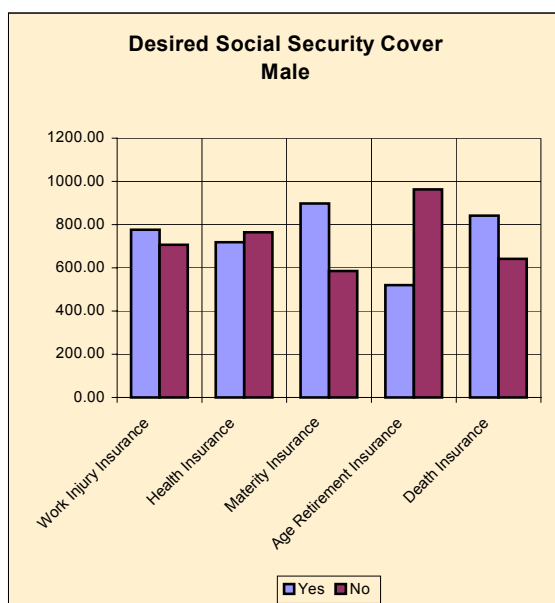
6.7.4.10 The income distribution of the sample confirmed that informal sector workers are not necessarily the poorest with over 20 per cent earning more that double the national average. However, almost half of those surveyed earned less than the national average and over 20 per cent earning less than one half of the national average. This group and their families would clearly be below the official poverty line.

(iv) Social security details

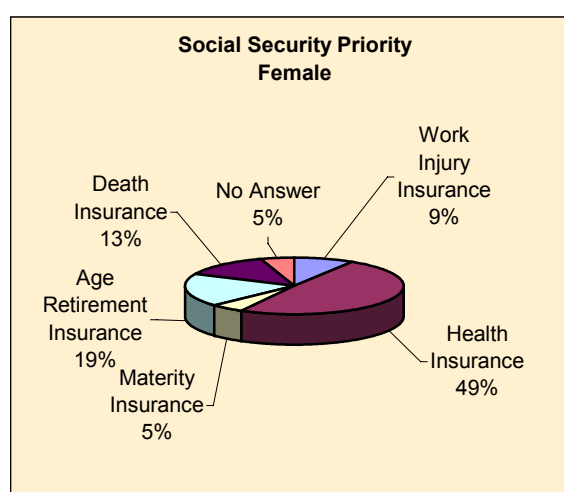
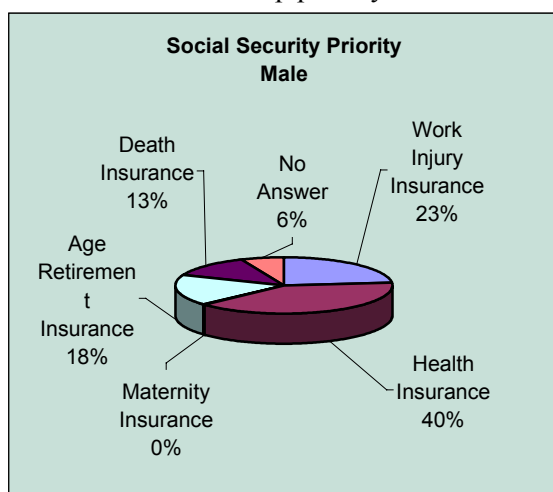


6.7.4.11 The vast majority of those surveyed had no social security cover. Only 2.3 per cent had Jamsostek cover and about 12 per cent had other social security cover, mostly for health insurance.

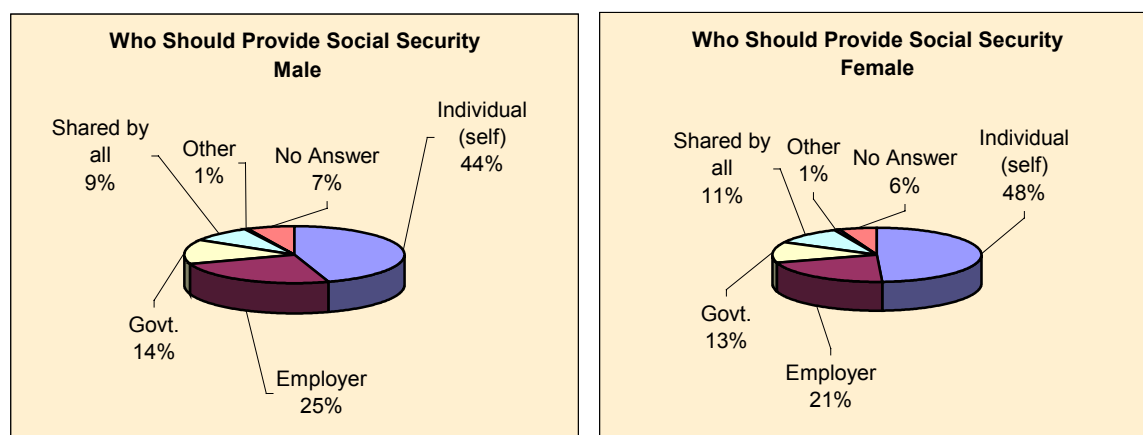
It is also evident that females as a group had the least cover.



6.7.4.12 The life events that most respondents desired to be covered for were Health, Work Injury, and Death. Women rated Health, Work Injury and Death benefits almost equally. The surprising difference for men was that Maternity payments rated the highest. It should be noted that respondents were also asked to choose their top priority cover and this is shown in the charts below.



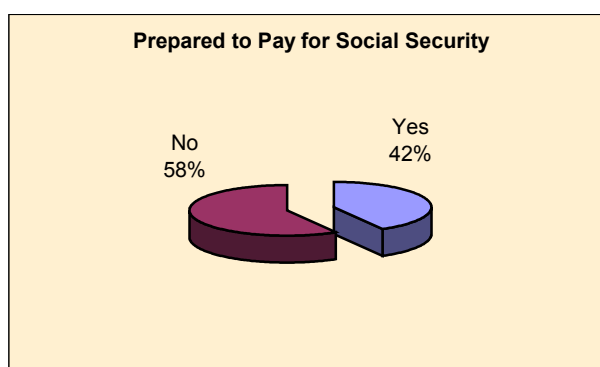
6.7.4.13 The top priority life event that most respondents selected to be covered for was Health. Males also rated Work Injury, Age and Death. Women rated Health, Age and to a lesser extent Death benefits as more important than work injury insurance. Whilst males rated maternity payments highly as desired cover, this did not translate as a priority for them.



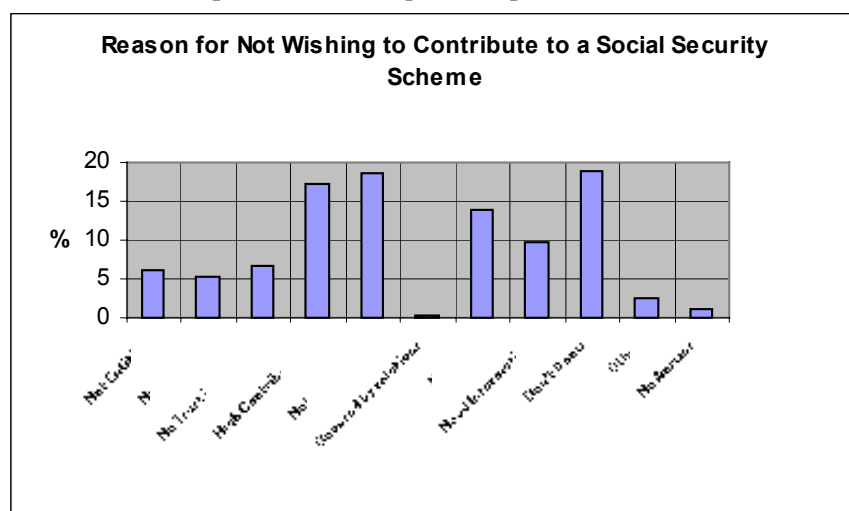
6.7.4.14 The issue of who should pay for social security contributions was very surprising in that almost half respondents indicated that individuals should pay and about 25 per cent believed that the employer should pay contributions. It is unclear whether this reflects reality or a lack of understanding of what happens in most other countries.

6.7.4.15 When asked whether they would be prepared to contribute for their own social security schemes the response was very similar to the previous question about who should provide for social security.

6.7.4.16 The response that 42 per cent were prepared to contribute to a social security scheme offers some promise for a future voluntary contributions scheme.



6.7.4.17 The responses to this question provide

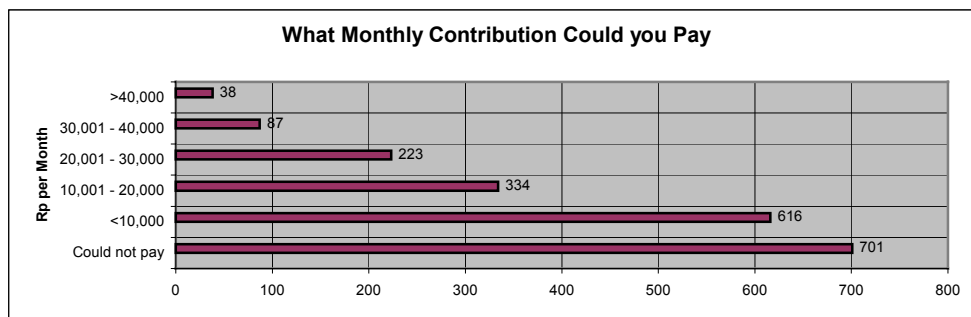


some direction into the design of a future scheme and indeed to any proposed pilot. It is evident that high contributions and benefits that are not attractive, together with insufficient information and don't know represented well over 60 per cent of responses. The only other significant responses were no need for social security and Need information.

6.7.4.18 Respondents were asked how much per month would they be able to pay for social security contributions and 1999 responses were received. About 35 per cent were adamant that they could not

contribute and this correlates with the income levels where 31 per cent earned less than Rp. 200,000 per month or half the average minimum salary and a further 27 per cent earned Rp. 200,000 – Rp. 400,000 per month which is somewhere between half and the average minimum salary.

It is interesting to note that the average contribution to Jamsostek (Employer + Employee) is about Rp. 45,000 per month and from this survey about 17.5 per cent of respondents believed they could pay about that amount. If we looked at a contribution of half the average Jamsostek contribution (about Rp. 20,000 per month), then about 34 per cent of the respondents would be able to comply. The results of this survey suggest that a carefully planned and administered scheme, over time, could attract a significant number of voluntary contributors. This of course could be made more substantial with a contribution subsidy.



Recommendation

Feasibility of extending social security to informal sector workers

There is a demonstrated strong demand for basic social security services but an almost non-existent supply. Almost half of the people surveyed would contribute to a suitable social security scheme and the level of these contributions may be able to provide for the priority basic social security needs of informal sector workers.

From the comparative international studies, local trials and from the survey findings, the extension of social security to the informal sector in Indonesia is feasible and the task for the social security agency is to satisfy the supply side of the equation with a viable scheme that is flexible, affordable, sustainable and well marketed and understood. This may require reviewing the social budget in Indonesia with a view to better targeting of government funds towards a contributions subsidy to support a voluntary social security scheme for the informal sector and the poor.

Case study – Ojek drivers

Ojek (Ojeg) is the term used to describe an unofficial privately operated public transport system based on *motorcycle taxis*. The Ojek employment is typical of the informal economy in that it essentially an occupation without legal status that is satisfying a large public demand. There are about 1.2 million Ojek drivers in Indonesia. A study of the Ojek industry around the city of Bandung in West Java produced the following description of the industry which is typical to that in most other urban areas in Indonesia.

The Ministry of Transport (MOT) has apparently not included Ojek as a legitimate form of public transport and does not recognize or licence the drivers. Legitimate public transport services, when registered, are issued with a yellow vehicle registration licence plate whereas in many instances Ojek motorcycles are unlicensed vehicles even by the local police. It is understood that there are concerns about the training, driving skills, public safety and motorcycle maintenance standards that make it difficult to regulate the industry. There are also allegations about the ownership of the motorcycles including that Ojeks contribute to the laundering of stolen motorcycles.

The industry is defacto regulated however and the local district police office establishes a number of geographical operating zones for Ojek drivers. Permits are issued for each zone depending upon the size of the zone and the demand and the police office legitimises these permits with the office stamp. Permits are issued to the driver and contain fingerprint and photographic identity. The permit cards have titles similar to "safety competency certificate" but rarely make reference to Ojek permit. Over time the cost of an Ojek permit in the Bandung area has increased from Rp. 250,000 to the current level of Rp. 5,000,000 (about US \$550) and this registration fee is payable to the local police office. Transfer between zones is unofficial and permits are often resold to other drivers but the permits are not reissued and drivers use the permits with different personal particulars to the new owner.

The drivers in each zone appoint a supervisor or manager sometimes referred to as the protector and the role of the supervisor is to represent the interests of the Ojek drivers in the zone against police checks, illegal moonlight drivers and generally manage their interests. The drivers pay a daily maintenance fee to the supervisor which is typically about Rp. 2,000 per day. This fee comprises payments of Rp. 500 to the police office, Rp. 500 to the local military office, a management fee for the supervisor and the remainder is held in trust by the supervisor to support drivers suffering illness and the effects of traffic accidents. In the zone investigated by this study it was found that the average Ojek driver worked about 25 to 30 days in a month and earned about Rp. 1,000,000 – 1,500,000 which is equivalent to 2 to 3 times the average monthly wage for the area. The income is derived from negotiating distanced based fares with customers that range from about Rp. 1,000 to Rp. 7,500 per fare.

Ojek driving is a particularly demanding occupation considering that the drivers work up to 12 hours per day and are exposed to the physical and environmental dangers of congested urban motor vehicle traffic. Their risk of injury and death is relatively high with an annual rate of about 12 per cent – 15 per cent of the drivers suffering some degree of work related accidents and injury. There is no social security coverage for the drivers and some voluntary associations that support Ojek drivers have negotiated premiums with private insurance companies for death and injury cover. These policies provide very low cover for a small annual premium of about Rp 10,000 and the cover provided is significantly lower than that offered to formal sector workers by Jamsostek. The premiums are usually collected at the time of purchase of a motorcycle where the premium is included in the repayment schedule for the motorcycle loan, usually over 3 years. However, only a very small percentage of the drivers participate in the schemes.

Despite the attempts at legitimising the industry Ojek drivers face the uncertainty of regulation, inspection, the trade in permits, limited security of tenure and are at relatively high risk of injury. They represent a priority category for social security coverage that has been identified by their desire for better protection. However despite their relatively high incomes their preparedness to contribute to the scheme is minimal and this is supported by the limited surveys into the informal sector as part of this study where slightly less than 50 per cent of respondents were prepared to make voluntary contributions to a social security scheme.

6.8 Summary of informal sector findings

6.8.1 It is evident from the survey and from discussion with urban informal sector workers that they have a high need for some form of social protection. The results confirm that health insurance is the highest priority followed by about equal priority between accident insurance and death cover. Whilst there is a demonstrated need for retirement benefits it seems that the premiums would be unaffordable to most informal sector workers unless there was some form of subsidy.

6.8.2 The barriers to development of a suitable program are discussed in the following section of the report.

6.8.2.1 Identification of needs

6.8.2.2 Unless an employee/employer relationship can be established and the employer encouraged to make social security contributions on behalf of the employee(s) it is unlikely that the full range of

Jamsostek programs (13.2 per cent of average salary) could be afforded by most workers in the informal sector. Whilst it is desirable to provide the full range of Jamsostek services (which barely meets the ILO protocol 102) it may be better to provide some elements of social protection than none at all. In addition to the type of social security cover, the value of the benefits that are commensurate with the contribution must also be determined. It may be necessary to offer some form of graduated contribution and benefits to accommodate the variability in the income ranges of informal sector employees and their capacity to pay contributions.

6.8.3 Program development

6.8.3.1 The first issue in program development is identifying the fund that will cover the informal sector workers. The current Jamsostek program has its contributions and benefits prescribed in legislation and regulations and these cannot provide the flexibility needed for informal sector workers. For example, the eligibility criteria for the Jamsostek work injury program are for injuries that occur at work and the disability provisions cover a prescribed list of injuries that are substantiated by employers and medical reports. It is unlikely that a work injury benefit program would be suitable for many informal sector workplaces as the administrative requirements to determine that injury occurred at work would be prohibitive. For most informal sector workers the critical issue is that there has been a loss of capacity to work and hence loss of income and a full 24-hour cover for injury would be more attractive and cost effective to administer.

6.8.3.2. Given the current legislation and fund structure in Jamsostek it would be difficult to include a variable program for informal sector workers into the existing funds. It may be more effective to create a new fund and contribution model for informal sector workers and this could be achieved through regulations and Ministerial decrees. Alternatively a private life insurance company such as Bumiputra could provide the cover for injury and Health, Injury and Death independently or in competition with Jamsostek schemes. A comparison of the Jamsostek and Bumiputra programs is difficult to make given that the schemes have been developed using different risk assessments and memberships. However a broad comparison of Life Insurance is possible and Jamsostek members pay a monthly premium of 0.3% of salary which on current average earnings is about Rp. 12,000 per year. The benefits include a funeral payment of Rp. 1,000,000 and death benefit of Rp. 6,000,000. The Bumiputra policy produced for Ojek drivers required an annual premium of Rp. 10,000 and provided for a death benefit of Rp. 1,000,000 that was doubled for accidental death. Competitive rates for life insurance and injury insurance could be achieved for a scheme that covered informal sector workers given an adequate pool of contributors and appropriate re-insurance and risk guarantees.

6.8.3.3 Health insurance and retirement programs are more difficult for informal sector workers to afford with the Jamsostek health program requiring contributions of 3 per cent of salary for individuals and 6 per cent for families. The retirement program contributions are 5.7 per cent of salary and 0.3 per cent for death cover, a total of 12 per cent. Work injury insurance contributions require an additional 0.24 per cent to 1.74 per cent depending upon industry. For most informal sector workers who generally receive irregular income, the establishment of a gross or net monthly salary is difficult and unreliable. In its consideration of this issue Jamsostek has proposed to use the National Average Salary as the basis on which to calculate contribution premiums for informal sector and self-employed workers. The survey results suggest that there will be very limited capacity for informal sector workers to afford about Rp. 25,000 per month for health insurance in addition to premiums for other programs. Whereas formal sector workers contribute only 2 per cent of the maximum 12 per cent+ and employers contribute the remainder, informal sector workers without an employee/employer relationship would be expected to contribute the full amount which in most cases is unreasonable and unlikely without some form of subsidy.

6.8.3.4 Recently the government has raised the degree of urgency in development of a new universal health insurance program and a series of discussion forums to support this strategy have been undertaken. It is likely that a major project tasked with designing the new program and supported by international agencies will commence in 2003. Some of the initial proposals have suggested independent provincial based schemes for each province with a central pooling of a proportion of the contributions for a national

contingency pool to support provinces in the event of unexpected demands on their funds due to major illnesses, natural disasters etc.

6.8.3.5 Should this program be substantially delayed then interim micro health insurance schemes based on group contributions would need to be considered for informal sector workers. A disadvantage of micro insurance schemes is that they have proven in practice to have a limited life span of less than 5 years before they become insolvent, usually as a result of imprecise calculation of risk, under investment and inadequate delivery of services.

6.8.4 Subsidies

6.8.4.1 The national government budget is currently in deficit and the recent economic downturns will only exacerbate the situation. Some provincial governments are also experiencing economic difficulties particularly in the poorer provinces where the income from taxation is low. The initial indications are that the national budget would be unable to sustain subsidies for a comprehensive social security program. However, a small partial subsidy for a single social security program such as life insurance could be a catalyst that attracts informal sector workers into one program and possibly to other insurance programs. Assuming that there are about 60,000,000 informal sector workers then a 50 per cent subsidy for an annual life insurance premium of Rp. 10,000 would be a maximum of Rp. 300 billion (US \$ 33 million) per year, assuming all workers were insured. This is unlikely and in the short term and over a two or three year pilot scheme of 500,000 members (a probably unachievable target) a similar subsidy for such a pilot scheme would cost about Rp. 2.5 billion or US\$ 275,000 per year.

6.8.5 Administration

6.8.5.1 In the case of Jamsostek, the administration costs and efficiencies are based on group collection from employers and the average number of employees per employer is about 124 which results in a monthly cost per contribution of about Rp. 66 per month or Rp. 751 per year (see section 6.10.2 and Annex 6). The administrative costs would rise substantially if individual employees were to make contributions direct to Jamsostek as would be required for most of the self-employed informal sector workers. A group contributions model would need to be developed to maximise efficiency and for there to be a meaningful amount of contribution residue able to be invested to contribute directly to the provision of benefits.

6.8.5.2 There have been many attempts at group development in Indonesia and a number of government and private agencies are devoted to the creation and maintenance of cooperatives, self-help and economic groups. In particular the Ministry of Cooperatives and Small and Medium Enterprises promotes the establishment of cooperatives and Bina Swadaya, a private foundation is an example of many NGO's that specialises in the establishment and maintenance of self-help groups. Other similar NGO's include Binadaya Nusaindah and Assuransi Jiwa, although full details about their operations were not obtained as part of this study. A recent ILO report has noted that in general, government support to strengthen cooperatives has often proven not to be very effective and not sustainable, particularly in the area of business cluster development. However it does also conclude that cooperatives and associations tend to operate better in a less formal ad hoc environment. Self-help groups supported by trained facilitators are seen as the key to successful implementation of a social insurance program for informal sector workers and their families. The benefits of self-help groups are:

- able to be developed in geographical, economic or occupational groups in accordance with the best practices. (experience from local trials suggest geographic groupings may offer the best potential for sustainability);
- facilitators and group leaders can assist in the marketing and explanation of social security provisions to members of the group;
- local access to information and assistance about contributions and claims thereby minimising a major complaint about access to services;
- mutual support by the facilitator and other group members to maintain continuity in the scheme during times of duress and personal difficulty experienced by individual members, and

-
- essential to the efficient collection of contributions by field officers visiting the groups on at least monthly basis thus maintaining low administrative cost of group contributions to the agency,

6.8.6 Compulsory vs voluntary membership

6.8.6.1 The rights to universal social security coverage by all members of society have been endorsed by the government and people of Indonesia and this is supported by the commitments made in the National Development Program, State Guidelines 1999 – 2003, Indonesian Poverty Reduction Strategy and the Employees' Social Security legislation etc.

6.8.6.2 Voluntary membership can only be seen as a transitional strategy to alleviate temporary government budgetary constraints but in the long term the government must accept its responsibility to provide for a minimum social security system for all citizens. Inequities between the personal contributions from formal sector employees and informal sector workers are huge which creates a sustainability problem for voluntary schemes, the very schemes that are designed to protect the most vulnerable informal sector and poorest workers. Voluntary membership carries with it some serious risks of adverse selection, limitations in the pooling principle, drift of formal sector workers away from their current schemes into a cheaper informal scheme and ease of withdrawing from a voluntary scheme.

6.8.6.3 The dynamics of this proposal is for priority to be placed on compulsory schemes (formal sector, self employed etc.), capacity building in the institutions and encouragement of an informal economy scheme through self-help and voluntary schemes supported by the government

Case study

Facilitation of self-help groups

Bina Swadaya is the largest NGO in Indonesia and one of the oldest, being formed from an agricultural workers foundation in the 1950's and its role is to enhance the self-reliance of people from lower socio economic sectors of society based on the principles of solidarity and social justice. The mission of Bina Swadaya is to:

- help community in developing human resources, institutions, capital and enterprises,
- support development policies which benefit the poor to achieve a more equitable distribution of welfare, and
- bridge the gap between the poorer members of society to achieve a fairer society.

To achieve its goals Bina Swadaya focuses on:

- self-help group development which involves the creation of self-help groups across the country aimed at promoting improvement through education, stimulating ability and social leadership,
- training of self-help group development facilitators and management of self-help group coordinators,
- micro enterprises development by promoting institutional facilitation to support the creation of micro enterprises so that they can become self sufficient and autonomous, and
- micro finance development by facilitating group micro credit loans with regional development banks and supporting the groups in the repayment of loans.

Bina Swadaya has 21 regional offices throughout Indonesia that contain about 7 – 10 staff in each office that currently facilitate and support over 3000 self help groups, and each group consists of between 25 – 50 members. Assuming an average family size of 5 then the number of people under the influence of the groups is from 400,000 to 750,000. The Bina Swadaya field officers form and train the self-help groups from individuals based on similar economic purpose, similar occupations and local geographical areas.

Micro loans are arranged with development banks usually for around Rp. 1,000,000 per member and the group becomes the social and financial collateral for the loan. A *memorandum of understanding* between all members of the group, the facilitator and the lending institution supports the group loan. Repayment of the loan is arranged through the group facilitator by at least monthly collections from the group and is usually achieved by a group meeting in the local village hall or other suitable venue. In the case of micro loans a management fee of 0.5 to 1.0 per cent is usually sufficient to cover costs and most groups pay a development charge of up to 5 per cent of repayments to Bina Swadaya. In addition to these fees some groups also contribute to a central pool (sometimes up to 20 per cent of contributions) to provide a kind of group security cover to group members who were unable to make repayments due to unforeseen circumstances.

A typical training program comprises a *train the trainer* concept to train the facilitators and this is conducted over a 3-day period in Jakarta. The trainers then go to the field and train the group leaders and conduct group training in the field with ongoing support and training provided by the group facilitator. Initial feedback suggests that Bina Swadaya could assist in the promotion and support of a social security program for the informal sector employees in the existing groups and then by the development of future group schemes. Field officers have assessed that there is an urgent need for formal credit risk insurance, education savings programs, retirement incomes as well as the immediate needs of health, injury and life insurance amongst the existing self-help groups.

Recommendation

Principles for extension of coverage to the informal economy

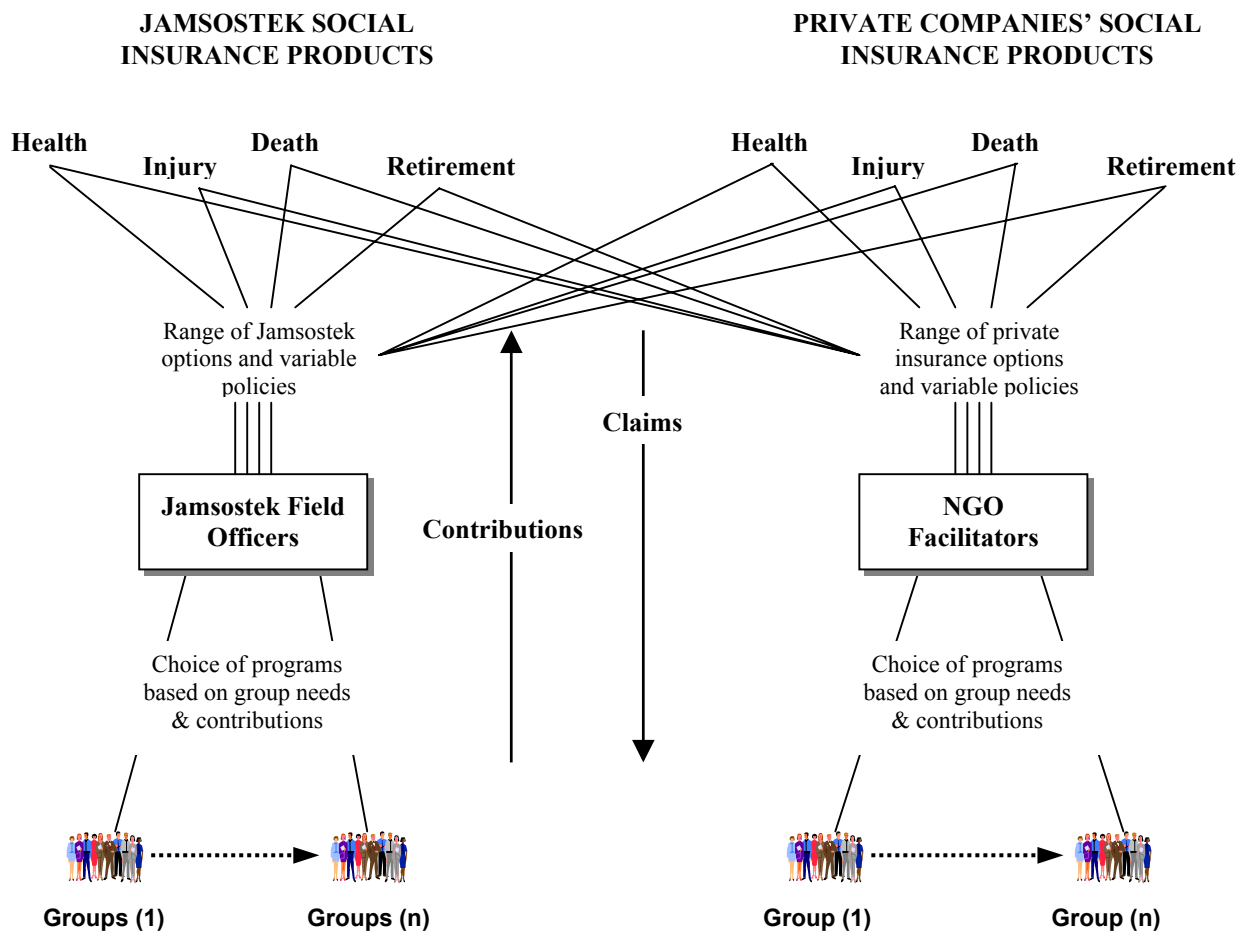
Based on the International and Indonesian experiences and from the results of the surveys undertaken as part of this study the following principles are recommended for the development of strategies for extension of social security to the informal sector.

- self-help groups should be the core of the social security and insurance models,
- groups should have external local facilitators from the social security agency and selected NGO's and be supported by local administrations and other local partners,
- flexible self-funded insurance programs provided by government and private companies should be the core of the system,
- subsidies from all levels of government should be a matter of priority to encourage contributors and to offset the high contribution to personal income ratios that are a feature of informal sector schemes.

6.9 A potential social insurance model

6.9.1 An overview of a potential interim social insurance model that could be tested and extended across the informal economy in Indonesia shown in figure 20 below. This model is based on the self-help group principle that has been successfully used for micro financing.

Figure 20. A social insurance model based on self-help groups



6.9.2. In the formal sector, the traditional methods of extending social security programs has been to use tripartite cooperation between government, employers and trade unions. Clearly this process could not be effective in the informal economy in Indonesia until there is substantial trade union involvement in the informal economy. To date most attempts in extending union membership to the informal economy have been unsuccessful. It is evident that some experimentation is required to identify suitable programmes, administrative models, appropriate partnerships and the effectiveness of various models. In the past *top down* government administered models have achieved little penetration into the informal economy and experienced low sustainability. This suggests that more emphasis should be placed on the development of *bottom up models* that will drive the design of programmes and services to the workers in the informal economy. These models could make use of some of the existing cooperatives and 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.

Recommendation

Develop models for provision of social security to informal sector workers

In order that a viable social security scheme could be developed for informal sector workers it will be necessary to develop models that provide meaningful benefits, affordable contributions and are sustainable. Implementation of such schemes is likely to be progressive and take into account the wide variety of occupations, organizations and geographical distribution of the workers. The following prerequisites are recommended as a first step in the process of developing social security models for Indonesian informal sector workers.

- identify the executive agencies, preferably a combination of government and private companies.
- select the fund and risk carrier(s) for the scheme and which agencies will be involved,
- develop the programs that will be available including the benefits, services, contributions and management fees (including risk assessments). The programs must have flexible *mix and match* options with a range of contribution rates and benefits to satisfy the needs and capacity of different groups and include at least injury, health, death, retirement and other voluntary savings schemes,
- develop administrative and service delivery models for the programs concentrating on group schemes but also providing options for individual and self-employed contributors. The models should include management information requirements to allow close monitoring and ongoing risk assessment of the schemes,
- conduct a small-scale test of the suitability of the programs.
- define user requirements, analysis and design of an IT system with sufficient data that can be integrated into the Jamsostek IT system in the future. (A temporary system to be developed in Jamsostek has been costed at about US\$ 1000 – 1500).
- design and develop the implementation and marketing strategy.
- develop a training strategy and training programme and delivery methods.

6.10 A future project

6.10.1 In conjunction with the other reforms of social security in Indonesia it would be highly desirable to conduct a large-scale pilot project to extend social security opportunities to the informal economy. Worldwide experience has shown that informal sector workers will participate in voluntary schemes if there are real benefits to them and the contributions are affordable. The most successful schemes are group insurance schemes that 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.

6.10.2 Local government resources and facilities could support these area group schemes and concentration of effort could be directed at the selected area. Extension of successful schemes to other areas would then be easier than for piecemeal-distributed models.

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

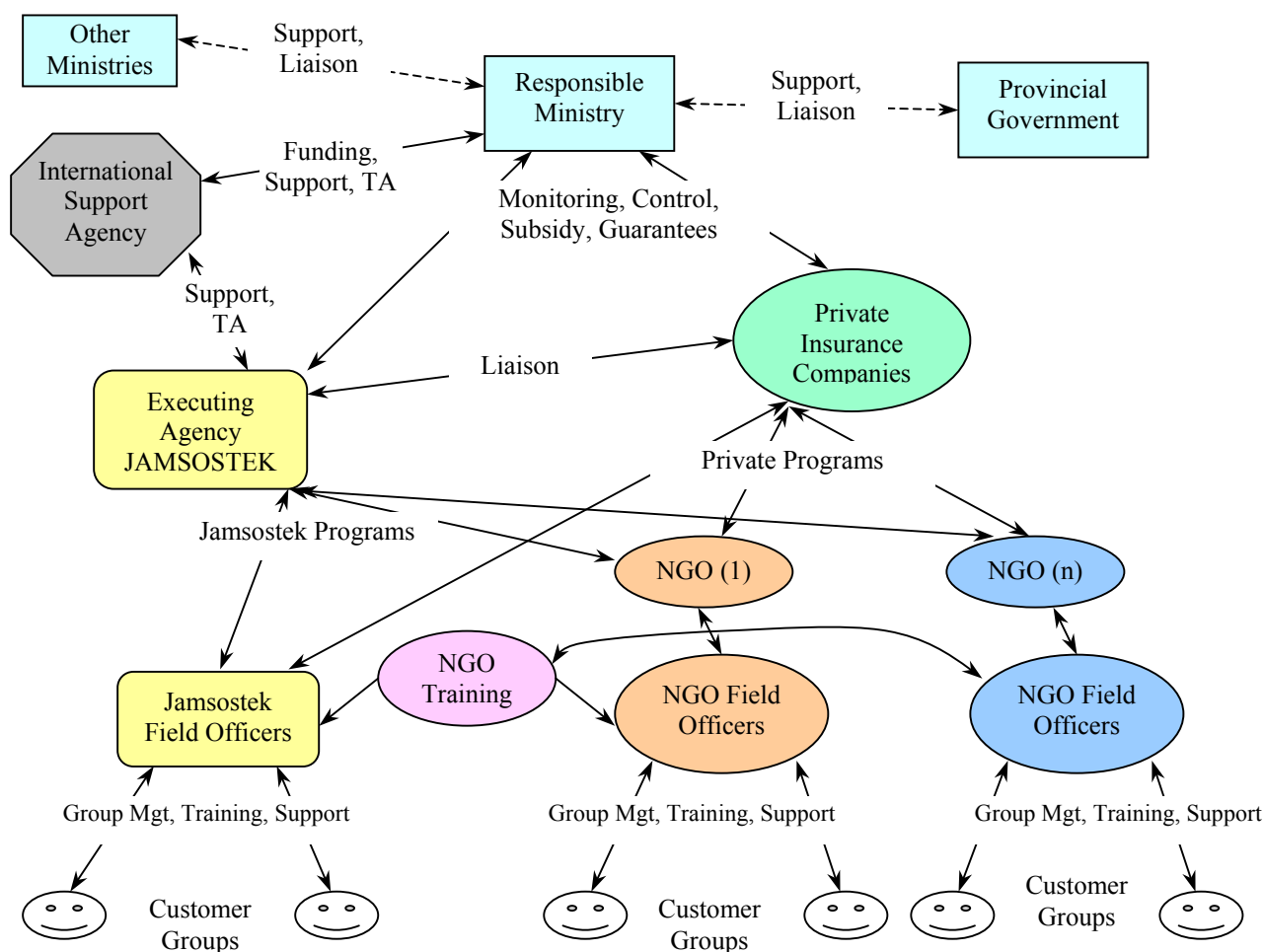
- identify the priority social security needs of informal economy workers in particular target areas;
- develop a flexible programme for the informal sector that could allow a mix of options for cover to accommodate individual needs and capacity to pay premiums,
- develop the administrative arrangements for establishment of the fund, collection of contributions and settlement of claims;
- determine the role of the key stakeholders in national and provincial governments, NGO's 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 extreme 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.

6.10.4 The pilot scheme could assess the suitability and effectiveness of:

- the programmes and schemes for segments of the informal sector 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, Jamsostek, NGO's and private companies;
- impact of fully self-funded and subsidised schemes; and
- most appropriate models for extension to other areas.

An overview diagram of how a pilot scheme may be organized is shown in Figure 21.

Figure 21. A possible organization for a social security pilot



Recommendation

Initiate the proposals for a funded pilot program

There are a number of complex issues involved in extending social security to the informal sector employees and without government assistance by means of a contribution subsidy the success of any scheme will depend very much on being able to attract sufficient numbers of voluntary contributors. Initial findings of this study have suggested that up to 50 per cent of informal sector worker may contribute to a suitable scheme. It is recommended that a large-scale area based pilot scheme be conducted as the pre-cursor to full-scale implementation of the scheme across the country.

The pilot programme would need to incorporate the elements of the previous recommendation and be able to identify the most suitable program and administrative models for future implementation. The outcomes of the pilot would be to develop associations of informal sector workers based on trust, meaningful social security programmes and an administration capable of collecting contributions and payment of benefits that can be replicated across the country.

A successful large-scale pilot scheme promoted as part of the social security reforms and supported by international agencies would improve the understanding of social security in local communities, highlight the community needs and stimulate the extension of social security coverage in Indonesia. A partially subsidised scheme would demonstrate government commitment to social security reform and greatly improve the enrolment rates, spread the risk and ensure a higher probability of long-term success and sustainability.

6.11 Overseas migrant workers⁴⁰

6.11.1 The migrant worker programme is supported by most sections of Indonesian society as it promises to reduce unemployment, improve inflow of foreign currency and provide increased wealth for individual migrant workers. Large-scale migration of workers from Indonesia began in the late 1980's and has grown significantly to an unofficial estimate of about 1.4 million migrants currently working overseas on both legal and illegal contracts.

6.11.1.1. Summary of problems in the migrant workers program

6.11.1.2. The problems associated with the Overseas Migrant Workers have been well documented by a number of researchers and the problems more recently identified during the ILO review in August 2001⁴¹ are:

- violation of basic human rights of workers;
- physical and sexual abuse of female workers;
- recruitment fraud and malpractices;
- no social security membership whilst working overseas;
- clandestine migration and forced return of workers without official documentation;
- low wages and poor working conditions;
- imprisonment of some workers for serious crimes in foreign countries,
- graft and corruption in the public service;
- victimization by hustlers immediately upon return; and
- consequences of family disruption caused by migration.

6.11.2 Most of these problems are not unique to Indonesia and are common to most countries that promote high rates of migration of low and semi-skilled workers

6.11.3 Statistical overview of migrant workers programs

6.11.3.1 The statistics shown in this report relate to the placement of official or legal migrant workers sponsored through Depnakertrans by the registered recruitment agencies for overseas employment,

⁴⁰ Material about Migrant workers program sourced from ILO (Jakarta office) report *A Review of migrant Workers management and options for Further Development assistance to The Program*. November 2001 by the same author of this report.

⁴¹ Summary of problems identified by M.Abel, ILO August 2001.

(JPTKI - *Perusahaan Jasa Tenaga Kerja*). The extent and distribution of unofficial, illegal or independently recruited migrant workers is not known but estimates of a total of 1.4 million Indonesian migrant workers is often used.

Figure 22. Table - Destination of migrant workers by region

Destination	1997			1998			1999		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
Asia-Pacific	216,538	158,799	375,317	53,560	129,014	182,574	104,164	163,639	267,803
America	736	0	736	2,446	2	2,448	3,505	14	3,519
Europe	576	1	577	1,201	13	1,214	1,604	57	1,661
Middle East & Africa	8,775	117,572	126,347	14,686	179,251	193,937	16,683	149,606	166,289
TOTAL	226,625	276,352	558,862	71,893	308,280	380,173	125,956	313,316	439,272

6.11.3.2 The above table confirms that the majority of migrant workers are female and that the most popular destination countries are Malaysia and Saudi Arabia. Trends suggest that the proportion of female workers is increasing to all destination countries.

6.11.4 Social security for migrant workers

6.11.4.1 In the past Jamsostek was involved in the Migrant Workers program by insuring members along the same lines as formal sector employees in Indonesia. Jamsostek ceased to provide cover to migrant workers following concerns that it was in a monopoly situation and that workers would be better served in a competitive insurance market. There are now 22 authorised insurers for migrant workers providing for work injury and contract employment insurance. This has proved to be a more expensive programme that provides no guarantees for workers and there are numerous allegations that workers are unable to obtain legitimate claims from these insurers. It has been suggested that the typical process generally requires litigation against the company to obtain payment. This would clearly be beyond the financial capacity of most migrant workers particularly in cases of early breach of contract or non-payment of wages.

6.11.4.2 There is a clear need to determine the situation for insurance for migrant workers, the degree of coverage and the commitment to payment of claims. Improvement could be facilitated by making compulsory the requirement that Jamsostek provide insurance cover for migrant workers or be *the broker* for obtaining insurance for migrant workers. Ministerial Decree could facilitate this. In this way PTJKI agencies could be established as nominal employers on the Jamsostek IT system and all contracted workers (by the PTJKI) will be shown as employees. Apart from providing guaranteed insurance cover for workers the data records and appropriate statistics can be made available at national and local level through Jamsostek. The workers would have a choice of insuring with any of the existing 22 approved insurance companies or with Jamsostek, however Jamsostek, as the broker, could ensure that all insurance policies comply with the minimum standards and monitor the satisfaction of claims by migrant workers.

6.11.4.3 In the absence of any government promotion of social security programs for migrant workers the private agencies (APJATI) are becoming increasingly involved in offering services to migrant workers. It is understood that in conjunction with local banks APJATI intends to arrange loans to migrant workers to purchase land or housing so that money earned overseas is put to some use. A major concern is that many migrant workers dispose of their earnings unwisely and this is the reason for requests for further overseas work. The housing proposal is an effort to maximise the benefits to individuals of their overseas employment.

6.11.4.4 The social insurance situation for migrant workers and the potential role for Jamsostek should be re-examined in the light of significant improvements in the performance and management of Jamsostek. The options for retirement insurance, voluntary saving etc are not currently provided to

migrant workers. By contrast in the Philippines the Overseas Migrant Workers Fund provides social insurance to overseas workers from a trust fund managed by a tripartite board. This fund, in addition to social insurance, provides an overseas banking facility, credit facilities and small business loans. The funds and investment earnings remain in trust solely for the purpose of supporting migrant workers. A feature of this fund is that it maintains its own fiscal inspectors to ensure compliance of contributions and services.

6.11.4.5 In addition to social insurance, some of the other benefits that Jamsostek may be able to offer the migrant workers program are:

- the opportunity for access to a nationally directed, distributed service delivery network (Jamsostek has high capacity communications within Jabotabek and to West and East Java where the bulk of the migrant workers originate from⁴²);
- capacity to provide social security to migrant workers by incorporating them into the Jamsostek programs;
- the insurance broker for migrant workers insurance;
- if insurance broker status is provided then basic statistics about PJTKI and workers contracted by them would be available through Jamsostek, a service that at the moment is unreliable and in some instances non-existent for the responsible Ministry, Depnakertrans;
- access for migrant workers to the 114 Jamsostek branch offices and 8 Regional Office outlets throughout Indonesia;
- potential Information distribution/access points for the Migrant workers program, in addition to the 419 offices of PJTKI, 15 offices of Depnakertrans offices at ports of departure (BP2TKI) and 32 Provincial Labour offices (Kandis); and
- all Jamsostek sites have Internet access and the possibility exists for the creation of an internet terminal for some use (full, restricted or scheduled) as a resource point or kiosk for local administrations to support migrant workers (with information, email, printing leaflets etc).

6.11.4.6 This list is indicative only and serves to promote the need to explore the symbiotic relationship with Jamsostek now that the Depnakertrans network has mostly been devolved to provincial administrations. This would not absolve Depnakertrans of the need to incorporate the provincial administrations into the program but would serve to strengthen the relationship by providing additional access of IT services to local administrations. The management of Jamsostek would need to be closely consulted about the feasibility and its capacity to accept any part of the migrant workers program.

6.11.4.7 The migrant workers program appears to be substantially driven by the private agencies which are heavily involved in all phases of the migrant worker process including recruitment, training, employment overseas and resettlement. Provision of social security eligibility for migrant workers is more complex than for domestic workers as it is often difficult to negotiate with international employers and governments. The private recruitment agencies would be key elements in any process that required collections of social security contributions for migrant workers and would need to be incorporated into the work contracts. In many cases work injury cover is provided as part of the employment contract or is included in the insurance packages currently provided by the registered insurers.

⁴² Seapat Working Paper 7, Hugo and Bohning July 2000.

Recommendation

Extension of social security to overseas migrant workers

It is evident from this and other studies that there is a need and demand for social security for migrant workers and that the current insurance programs are not providing adequate protection. To improve the welfare of migrant workers the following issues should be addressed:

- improve the quality of insurance provided to workers by introducing a broker such as Jamsostek to monitor the scheme and also to be given the opportunity to provide insurance for migrant workers in competition with the private agencies.
- review the decision to exclude migrant workers from the Jamsostek scheme with a view to include migrant workers in the existing scheme or a program modified to reflect the needs of migrant workers,
- develop a partnership model with the key agents in the process (APJATI, Depnakertrans and Jamsostek) to provide social security cover to migrant workers based on the modified needs of the migrant workers. Including the employment agencies as employers on Jamsostek IT system could also provide much of the management information not currently available to Depnakertrans.

6.12 Social security institutions for extension of social security coverage

6.12.1 The main national institutions capable of delivering an expanded social security programs are Jamsostek (workers scheme), Taspen (public sector workers), Asabri (military scheme) and private insurance companies. Of these institutions Jamsostek has the legislative authority for private sector workers, has a national network in all major provinces and is the largest institution. The private insurance companies would also be in a position to administer private insurance schemes using their existing group schemes that have been developed on a group risk basis. Whilst extension of social security coverage is welcome it is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control. 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.

6.12.2 An ideal social security system should maximise the performance of existing institutions within the bounds of current legislation by treating all employer/employee relationships as formal sector workers and subject to compulsory social security contributions. This could allow the creation of special cases for the remainder of truly informal sector workers. The existing public sector and military schemes should remain independent until it is possible to provide for a standardised social security scheme that provides a basic benefit for all workers and for portability between schemes. In the short term it is most likely that Jamsostek could coordinate a social security scheme for informal sector workers jointly with private insurance companies by delivering flexible policies to group schemes through local facilitators.

6.12.3 Capacity for Jamsostek to extend membership

6.12.3.1 The Branch Offices are the main service delivery outlets for Jamsostek customers. The primary customer focus is on the employers who are responsible for registration of their employees in the schemes, payment of monthly contributions and representing their employees' social insurance affairs. The service delivery concept is based on group collections of contributions and this has shaped the organisational structure. Previous reports in this project have recommended that the focus should be changed more towards the individual member in terms of access to services, information, marketing and privacy. The ability to have direct contact with members, without using the employer as a broker is considered essential in the longer term. A cost estimate has not been made to undertake this change in focus but it is expected at a minimum that IT systems will have to be upgraded as well as changes to staffing and property models. The upgrade of IT systems, data collection and data entry of the additional data has been broadly estimated to cost between US\$ 1.5 - \$2.0 million.

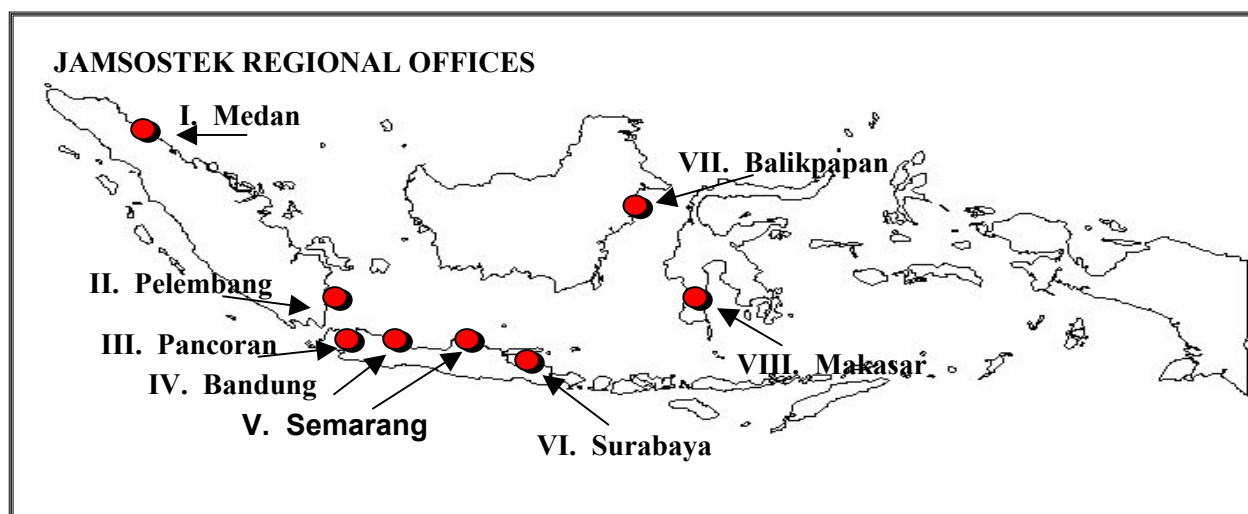
6.12.3.2 It is not proposed that the employer group collection methods be changed as they have proven to be efficient; however additional collection methods need to be devised if smaller enterprises and self-

employed workers are included in the membership of Jamsostek. This may include the user of field officers employed by Jamsostek, as paid agents or NGO's paid a commission for servicing informal sector groups.

6.12.4 Service delivery network

6.12.4.1 The national service delivery network is based on 108 Branch offices located around the country. There are provisional plans to increase this number to 114 branches by the end of 2002. These Branch offices are responsible for customer service, collection of contributions and processing and payment of benefits. The Branch offices are administered by eight (8) Regional Offices and their locations are shown in Figure 23.

Figure 23. Regional office locations



6.12.4.2 The Regions are numbered one (I) to eight (VIII) from west to east and they are located around the major employment centres with 4 of the Regional offices and 61 Branch offices on the most populous island, Java.

6.12.4.3 New Branch Offices are created from other Branch Offices within the Region based on the total number of current employees actively contributing to the schemes. The Branch Offices are graded in size according to the employee membership numbers and the grades are:

- Grade I – more than 150,000 active members;
- Grade II – 100, 000 active members; and
- Grade III – maximum of 50,000 active members.

The number of branch offices per Regional office varies in accordance with population density and the location of employment.

6.13 Jamsostek operating costs

6.13.1 The purpose of this section is to obtain a broad indicator of the administration costs of Jamsostek and the impact that the integration of additional small contributors may make on the efficiency of the organisation. It is also to determine whether it will be cost effective to collect potentially small contributions from informal economy workers and whether the balance of the contribution will be sufficient to provide useful social security cover for the contributor. This section is not an exhaustive detailed analysis but an indicative overview. There is no data available about the individual costs of processing transactions or the range and work value of the key transactions in Jamsostek, although the

administration costs for the whole organisation are available for the year ended March 2001 (year 2000) and are provided as Annex 7 to this report.

6.13.2 Dividing the estimated number of active Jamsostek members (9,382,786) into the estimated total administrative and operating costs of Jamsostek (Rp. 232,843 million) produces an estimated average administrative cost of Rp. 24,816 per year per active member. This of course covers 3 and sometimes 4 programs per member.

6.13.3 Isolating the cost of any of the individual programs is more difficult as Jamsostek does not keep its accounts in a form that separately identifies costs. However, in 1997 Jamsostek conducted an exercise in an attempt to build a cost allocation model, which produced the following tentative estimates.

Figure 24. Jamsostek program cost estimate 1997

Program	Scheme	% of Costs
JHT	Old age benefit	86.24%
JKK	Employment accident	2.98%
JPk	Health	1.64%
JKM	Death benefit	1.28%

6.13.4 Cost of collecting contributions

6.13.4.1 A gross figure for the cost of administration per contribution can be produced using the gross administration costs (Annex 7) and gross contribution receipts (Annex 9)⁴³ and provides the following gross estimate of Administration costs as a percentage of Contributions collected:

$$\begin{array}{rcl}
 & \text{(Jamsostek Annual Administrative Costs)} & \\
 \hline
 & \text{(Total Actual Annual employer} & + \text{ (Total Actual Annual Aged} \\
 & \text{contributions less Aged program)} & \text{program employer contributions)} \\
 & \hline
 & (232,843,021,994) & \\
 & \hline
 & (553,100,592,106) + (1,929,718,764,933) & = \quad 9.45 \text{ per cent of Total}
 \end{array}$$

6.13.4.2 It should be noted that in publication of accounts, Jamsostek does not include Aged program contributions as receipts because they are exempt from the dividend to the government (tax) and are held in trust (albeit invested) and belong to the individuals that have made the contributions. The contributions for the other insurance programs (Work Injury, Death and Health) are included in the company financial statements and form part of the income for purposes of the dividend. This exclusion of the Age Retirement program presents the image of a very inefficient operation and the published figure for operating costs against contributions for year 2000 was 40.63 per cent. For this version of the measure to be meaningful, the resources dedicated to the largest program, the operation of the Age Retirement program, should be taken into account. The tentative estimate that the Age Retirement program represents 86.24 per cent of the Jamsostek workload suggests that the published figure could be reduced by 86.24 per cent, which would reflect the cost of the other insurance programs. i.e. administration costs against contributions for:

- JKK, JKM and JPK = 5.79% of contributions; and
- all programs (JHT, JKK, JKM and JPK) = 9.45% of contributions.

⁴³ The contributions for the Old Age program are obtained separately to the item in this Annex.

6.13.5 Administration costs as a ratio of the investment portfolio

6.13.5.1 Another typical indicator of costs and used to compare the efficiency of retirement funds and often to set their management fees is *administration cost as a percentage of total funds invested*. The estimation for Jamsostek in year 2000 was:

$$\frac{\text{(Jamsostek Annual Administrative Costs)}}{\text{(Total Funds Invested as per the investment portfolio)}} = 1.89 \% \text{ of Investment Portfolio}$$
$$\frac{(232,843,021,994)}{(12,289,731,000,000)} = 1.89 \% \text{ of Investment Portfolio}$$

6.13.5.2 Based on these broad estimates it would be cost effective to collect smaller contributions from informal sector workers if the group size was maintained close to the existing average (124 employers per employer group⁴⁴). This could be achieved by deputising a key individual or agency as the group leader and to be paid on commission or fee for service on a part-time basis to collect and deposit monthly contributions on behalf of individual contributors.

6.13.6 Administration cost of key transactions

6.13.6.1 Annex 6 attempts to show what the Minimum costs per customer or transaction would be if the collection of contributions was 100 per cent of the active members of Jamsostek. In reality this is probably not achievable and a more realistic international standard is 85 per cent of contributions collected each month. The potential administrative cost per transaction of collecting contributions and processing Age Retirement claims as calculated in Annex 6 are summarized in Figure 25.⁴⁵

Figure 25. Summary of estimated transaction costs in Jamsostek

Estimated key transaction costs	Monthly (Rp)	Yearly (Rp)
Employer contributions (12 contributions per year)	7,768	93,219
Payment of retirement claims (each claim)		66,505
Individual employee contribution cost (based on average of 124 employees per employer)	63	751

6.13.7. Cost estimates and the expansion of Jamsostek

6.13.7.1 These cost estimates may provide some indication on how Jamsostek will be able to manage an expanded customer base and the feasibility of extending contribution options to the remainder of the formal sector and ultimately to the informal sector. The cost estimates do not take into account:

- economies of scale that may be achieved by increasing the ratio of the larger class I branch offices to the smaller class II and III offices;
- efficiency improvements by introducing cost based resource monitoring and management information;
- improvements in productivity based on an organization wide *best practice* environment;
- cost reductions in management by promoting devolution of support tasks to Branch offices; and
- additional automation of processes by enhancements to IT systems.

6.13.7.2 The improvements need to be offset against additional resources that will be required to:

⁴⁴ See Annex 5 for calculations.

⁴⁵ It should be noted that the work value of the Health Insurance scheme and Work Injury Insurance schemes are not treated separately for the purposes of this exercise. The health insurance fund is relatively small compared to the retirement fund and much of the processing is outsourced to intermediaries. Refinement of these estimates into a more accurate model that includes costing for other programs would assist in the planning of future expansion in Jamsostek.

- implement a new compliance program to enforce existing and new regulations on contributions; this will involve additional staffing, training, accommodation, IT programs and transport;
- service a potentially lower employer/employee contribution ratio to accommodate smaller workplaces, self employed workers and informal sector workers;
- provide additional resources to shift focus from employers to individual members, especially for marketing, promotion and claims;
- expand property requirements, and
- upgrade IT systems to accommodate a more individual service including the dispatch of individual annual statements, compliance, new registration system and possible additional categories of membership for self employed and informal sector workers.

6.13.8 Improvements to Jamsostek

6.13.8.1 A number of recommendations about improvements to Jamsostek were made in the ILO report titled *Restructuring Social Security in Indonesia – Review of operations and Information Technology in Jamsostek, November 2001*. These improvements are considered critical to the future of Jamsostek as one of the key social agencies and without these improvements expansion of the membership base will be difficult to achieve and remain less efficient. A summary of these improvements is as follows:

6.13.8.2 Process and administrative improvements

- the membership process needs to be enhanced to involve individual members in their social security investment;
- compliance process should be the responsibility of Jamsostek with amendments to legislation required to allow social security inspectors to be managed by Jamsostek in order to improve compliance from the current 32.5% to a more acceptable international target of more than 80%;
- provident fund performance to improve the returns on investment and lower the relative administration cost to make the fund more attractive to members by increasing the long term benefits to members;
- improvement of the benefits provided to members and to introduce new social security benefits in the medium term such as unemployment insurance, maternity benefits, regular pensions in lieu of lump sum payments, accident insurance and possible social assistance in the long term;
- improved access to services by distributing access to remote areas by the use of part-time services, authorised agents, telephone services and further devolution of branch offices;
- reviewing the business needs to improve targeting of services and needs to customer groups in the currently excluded employment sectors; and
- developing a more effective marketing program to better inform the potential members about Jamsostek social security services, eligibility, benefits and procedures.

6.13.8.3 Technology improvements

- development and implementation of a unique numbering system for social security customers to minimise the risks of duplicate claims, redundant data and provide more accurate advice to members;
- integration of the duplicate records that have been created by the multiple records that are produced when members change employers or branch offices;
- development and implementation of a national index to enhance the record search process, transfers between branches, support the minimisation of duplicate records and obtain a national view of customer records; and
- develop a new integrated registration process that uses additional data about individuals, includes a stringent proof of identity process and provides customers with their rights and obligations of membership.

6.13.8.4 Jamsostek has a developed organization that is centrally managed, distributed throughout the country and has a flexible expansion model that could be gradually extended to include additional contributors. In order to do this the suggested improvements would need to be substantially completed before any expansion occurred.

7 Annexes

7.1 Annex 1 – Terms of reference

International consultant for study on extension of coverage

(i) Period 16 September – 31 October 2002

Within the framework of the ILO Project “Restructuring of the Social Security System” INS/00/M04/NET, the International Consultant will work in collaboration with the Chief Technical Adviser and the National Consultant to undertake a study on the extension of social security coverage to groups presently excluded from the Jamsostek scheme. The study will include a survey of the economically active population.

(ii) Proposed study

The study should identify the groups not currently covered by social security, in particular non-coverage by Jamsostek and other social insurance schemes. The objective of the study is to inform and propose a strategy for extending coverage to these groups.

The study should distinguish the situation of four distinct groups, and identify the appropriate approaches for incorporating these groups into social security coverage, notably:

- workers in formal sector employment who are legally required to be members of Jamsostek, but are not currently in membership;
- workers in the formal sector who are not currently required by law to be members of Jamsostek or other formal social insurance schemes — but could be brought in by lowering the membership requirements of Govt. Regulation No. 14 of 1993 (i.e. from 10 employees);
- workers in the formal sector who could be covered by Jamsostek via a broader definition of employment or ‘contract of service’; and
- workers in the informal sector (including migrant workers).

The study shall comprise four distinct phases:

- **Phase I** will use existing statistical sources, including Jamsostek membership records, Depnaker/Dinas compliance enforcement reports, the Social and Economic Surveys, and the Rand Corporation Indonesian Family Life Studies to identify the size and composition of each of these groups, and in particular their apparent financial capacity to contribute to social insurance type schemes.
- **Phase II** will identify the extent and reasons for non-coverage of workers in the formal sector by Jamsostek, and identify feasible options for extending coverage of Jamsostek by increasing compliance of those legally required to be Jamsostek members, and those in the formal sector who might be brought into coverage by extensions to the present law.
- **Phase III** will involve surveys of people employed in the formal and informal sectors of the economy to identify the numbers and character of each group.
- **Phase IV** will involve a report covering:
 - summary of basic social security provisions available to Indonesian citizens;
 - identification of the degree and reasons for non-compliance with existing schemes;

-
- identification of the groups currently excluded from the existing schemes and a quantitative analysis of their numbers and distribution across Indonesia;
 - identification of the key social security needs of these excluded groups in priority order;
 - among the excluded groups, particular attention will be paid to migrant workers;
 - analysis and assessment of the capacity and desire of excluded groups to be included in a social security scheme;
 - identification of any existing local or micro schemes and their degree of success;
 - comparison of solutions used in other countries;
 - capacity of Jamsostek and other local institutions to administer full compliance of existing programs, possible extensions of coverage and new micro schemes;
 - recommendations about:
 - further research,
 - program design and development options, including phased implementation by geographical area or group and the merits of phased reduction of the Regulation 14 limit against immediate coverage of employers of all sizes, and
 - institutional strengthening/development requirements.

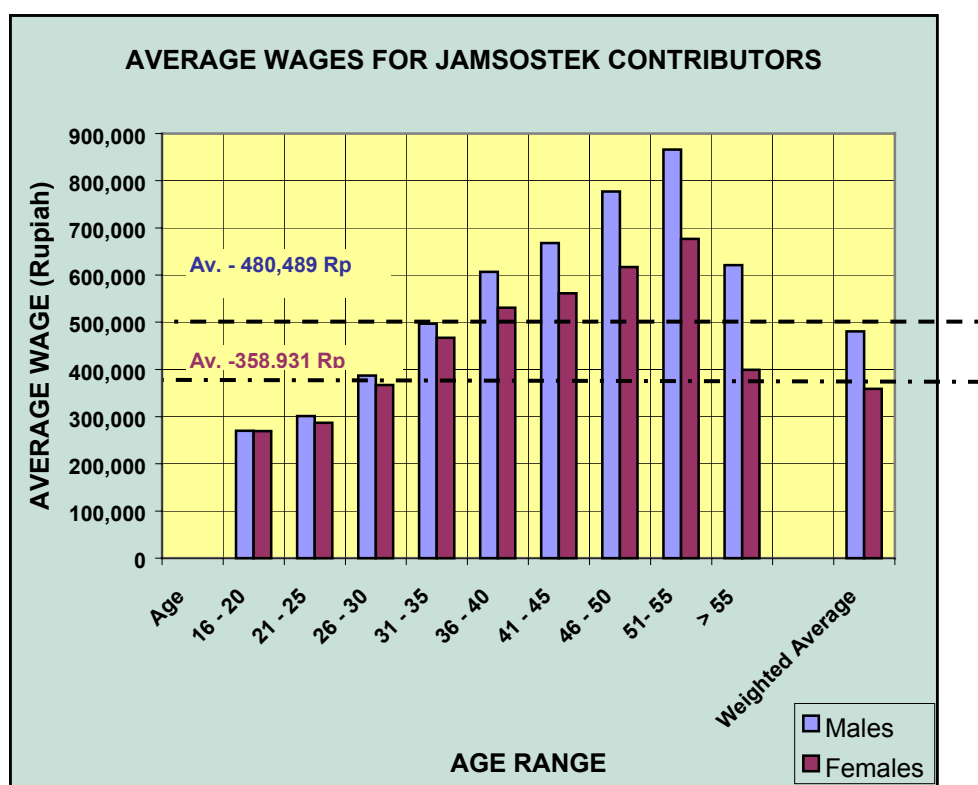
In addition to responsibility for the supervision of the study and report, the International Consultant will also participate in the presentation and discussion of the project reports at consultation meetings between 14th and 31st October 2002.

Note: It is anticipated that the Consultant will be absent from Indonesia on mission during the period 1st to 13th October.

7.2 Annex 2 – Average wages for contributors to Jamsostek August 2001

Figure 26. Average wages for Jamsostek contributors 2001

Age	Males	Females
	Average wage	Average wage
16 - 20	270,456	269,724
21 - 25	301,279	287,202
26 - 30	386,672	367,414
31 - 35	496,695	466,642
36 - 40	606,558	530,888
41 - 45	667,534	561,639
46 - 50	777,245	616,889
51 - 55	865,796	676,802
> 55	620,884	399,010
Weighted average	480,489	358,931



Source:- Jamsostek IT Bureau October 2001.
Data From Year 2000.

7.3 Annex 3 – Selected international experience in extension of social security

Country	Target groups	Organisations and roles	Services & programs	Methods of financing	Status
India	Informal economy – rural and urban self-employed and home workers - for women workers only	Self-employed women's Association is a registered trade union that in addition to its labour force activities has an integrated social security program.	<ul style="list-style-type: none"> • Health Insurance • Health Care • Loans Insurance • Life/disability Ins. • Labour market collective • Child Care via co-ops 	<ul style="list-style-type: none"> • Premiums (1/3) • State Subsidies and Insurance companies (1/3) • Other subsidies from GTZ (1/3) 	Variable payment premiums to suit different income groups. Aims to achieve administrative and financial sustainability. Attempts to emulate social security in the formal economy by using extensive government and NGO participation in the delivery of services.
	Informal economy – rural tribal workers in Tamil Nadu	Action for Community Organisation, Rehabilitation and Development	<ul style="list-style-type: none"> • Credit Fund • Savings scheme • Health insurance • Composite social security, death, disability and property damage (in conjunction with an insurance company) 	<ul style="list-style-type: none"> • Premiums • Fees 	Main emphasis on the scheme was on participative and collective action. Despite the successful introduction of health care and social security schemes the insurance renewals proved to be a problem when the group is inactive. A proposed solution is to link insurance to a credit loan scheme.
Columbia	Informal economy – urban poor	The Andes Mutual Association is one of the entities authorised to operate within the Colombian social security system	<ul style="list-style-type: none"> • Provides primary, • Secondary and tertiary health care services 	<ul style="list-style-type: none"> • Premiums • Other subsidies and grants from co-financing with municipal authorities & from solidarity funds from employer/employee contributions 	Operating since 1999 and all of the beneficiaries are defined as living below the poverty line. Subscription not as high as other 175 funds in the national system. Management by an elected assembly with two year appointments
Philippines	Informal economy – workers on more formal contracts	Cooperative Life Mutual Benefit Services Association Inc Role is to develop cooperative banking and insurance services to coops.	<ul style="list-style-type: none"> • Health Insurance • Loans protection Ins. • Life/disability Ins. • Pensions • Coop officers protection 	<ul style="list-style-type: none"> • Premiums • Life savings plan that can be withdrawn on death or retirement • Premiums for loans protection are aged based 	Mutual agreement on earnings allows investment of funds in the national cooperatives federation to lend money and provide guarantees to cooperatives. Regional centres can retain 40% of premiums collected and the remainder pooled at national level. This promotes local as well as national development of cooperatives.
	Informal economy – rural and urban	Social Health Insurance/Networking and Empowerment aims to build up the national health insurance scheme to support local self-help initiatives	<ul style="list-style-type: none"> • Health Insurance • Health Care 	<ul style="list-style-type: none"> • State and municipal subsidies to fund health cover for the poor 	The program intends to integrate all existing health insurance schemes for informal economy workers into one national scheme. Family is the basis for cover and not individual. Support from GTZ to develop services, administration and technology.

Country	Target groups	Organisations and roles	Services & programs	Methods of financing	Status
	Informal economy – workers on more formal contracts	Angono Credit and Development cooperative scheme targets small businesses for loan protection, mutual support and medical services.	<ul style="list-style-type: none"> • Capital loans to small business • Loan re-insurance • Life/disability. • Basic medical services • Pensions 	<ul style="list-style-type: none"> • Premiums • Fees 	Although the scheme is small and targeted at small business it is a viable micro-system that supports members with loans for business, housing repair, medical and education purposes.
Bangladesh	Informal economy – rural workers on casual piece-rate labour	Grameen Kalyan is a non-profit company that aims to promote health and preventative illness. It acts as a health care insurer & basic provider.	<ul style="list-style-type: none"> • Health Insurance • Loans Insurance • Life/disability Insurance 	<ul style="list-style-type: none"> • Fees • Subsidies provided through the Grameen Trust and profits from the full rate of service fees for non-poor 	The schemes are variable and have a range of prices for each scheme. Cost recovery is about 65% but increasing with membership encouraged through the associated Grameen Bank and its members.
Bolivia	Informal economy – urban poor and in some rural areas	Tomas Katari Polytechnic Institute has focus on education, production, organization and social activities.	<ul style="list-style-type: none"> • Basic Health Care 	<ul style="list-style-type: none"> • Premiums • Subsidies from non-state development agencies, donors and others. 	Due to its international subsidies it is not yet a sustainable micro-insurance scheme and current role is to expand access to health care services. Aims to gradually achieve sustainability.
South Africa	Informal economy – rural and urban	South African Old-age pensions is a non-contributory means tested benefit paid from general government revenue	<ul style="list-style-type: none"> • Periodical pension payment 	<ul style="list-style-type: none"> • State Funded from general taxation revenues (non funded mandate to local provinces) until 1999 guaranteed by the national government 	All South African social assistance now administered through one agency, Dept of Welfare. Pension is an Important payment to poor households, although leakage and fraud is about 10% of payments. Payments in rural areas is outsourced using security firm with mobile ATM's
Tanzania	Informal economy – urban	Mutual Society for Health Care in the Informal Sector is an insurance scheme sponsored by ILO. It is self-funding, provides choice between govt, private providers & infrastructure.	<ul style="list-style-type: none"> • Primary health care, • Secondary and tertiary care at government centres 	<ul style="list-style-type: none"> • Contribution by members at single rate or family rate 	Care options for the various groups in the scheme were capitation, case payment and enterprise clinic. Control methods were emphasised and clearance for medical treatment that had to be obtained from the group leader. To be replaced by photographed ID cards. The scheme has been successful & sustainable, is internally managed & funded. The risk has been minimised by combining groups into larger groups each of about 400 members.

7.4 Annex 4 - Annual report, Ministry of Manpower and Transmigration 2001

The Enforcement of the provisions of the Jamsostek schemes in eleven (11) Provinces of Indonesia

This Report contains the results of monitoring and enforcement activities of DEPNEKAR officers in eleven (11) provinces namely, West Java, Central Java, Lampung, Jambi, Bali, NTB, NTT, Sulawesi Utara, Sulawesi Tenggara, Maluku and Papua (Iran Jaya).⁴⁶

Monitoring and Enforcement

Total Number of employers and employees in accordance with Act no. 7 of 1981;

- | | | |
|--------------|-----------|--|
| • Employers: | 61,079 | Three of the eleven provinces; NTT, Maluku and Papua did not report reliable figures on the work force |
| • Employees: | 4,560,789 | |

Number of employers liable for Registration under Jamsostek: 33,947

Number of employers Registered under Jamsostek: 29,914

Total Liable employers not registered: 4,033

Number of Inactive employers: 7,128

Number of employees covered: 4,240,583

Number of employees not registered: 32,750

Number of employers given direction for compliance: 15,723

Data from 7 provinces on employees not registered was not provided

Employers who did not comply

Employers who failed to register: 4,033

Employers understated wages: 1,762

Employer registered for not all programs: 3,496

Employer understated number of employees: 1,388

Total Number of Employers who did not comply 10,679

A total of 56 employers were prosecuted and 47 of them were from the West Java (Jawa Barat) or Jabar province. The District Courts handed down decisions on 11 cases, 8 of which were in the Jabar province

Notices issued for non-compliance: 4,317

Summary of the Enforcement Activity.

Monitoring and enforcement is being carried out in only eleven (11) of the thirty (32) provinces in Indonesia or only thirty four percent (34%) of the provinces.

In the eleven (11) provinces where the enforcement is carried out, of the employers that were obliged to register, twelve percent (12%) had not registered.

Only forty six percent (46%) of employers have been informed of the requirements of Jamsostek

The total number of non-compliance cases was 10,679 and the break down is as follows:

- | | | |
|---|-------|-------|
| • Liable employers who had not registered | 4,033 | (38%) |
| • Under declared wages: | 1,762 | (17%) |
| • Did not insure for all the programs: | 3,396 | (32%) |
| • Did not cover all the employees: | 1,388 | (13%) |

⁴⁶ This explains why the number of employers and employees quoted in the annual report are significantly lower than the BPS and Jamsostek numbers.

Notices were sent to forty percent (40%) of employers who had not complied with the Law. The number of such notices was 4,317.

Only 56 or 1.3 per cent of employers, who were given notices of non-compliance, were prosecuted in the Courts.

7.5 Annex 5 – Informal sector survey – Tables of results

Figure 27. Survey - Table of occupations

Occupation	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL M+F
	M	F	M	F	M	F	M	F	
Fashion production	9	9	0	0	38	34	47	43	90
Vehicle workshops	106	1	72	3	7	-	185	4	189
Home based food industry	7	6	0	0	2	1	9	7	16
Manufacturer	5	1	1	0	51	16	57	17	74
Furniture workshop	39	0	9	0	131	13	179	13	192
Services	5	0	147	1	12	13	164	14	178
Driver	0	0	27	0	1	-	28	0	28
Salon	0	0	114	24	-	-	114	24	138
Restaurant	181	48	0	49	-	2	181	99	280
Trader	16	25	4	0	42	57	62	82	144
Stationery vendor	21	5	2	1	11	3	34	9	43
Building materials vendor	27	9		1	-	-	27	10	37
Garden plants vendor	29	3	37	0	5	10	71	13	84
Small goods vendor	58	22	0	12	1	4	59	38	97
Furniture trader	63	2	0	0	29	6	92	8	100
Craft, artist	0	0	0	0	210	79	210	79	289
Other	0	0	0	0	16	4	16	4	20
Sub-Total	566	131	413	91	556	242	1535	464	
Total		697		504		798		1999	1999

Figure 28. Survey - Table of monthly incomes

Monthly income (self) (Rp.)	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL M+F	TOTAL%
	M	F	M	F	M	F	M	F		
< 200,000	31	9	104	19	302	157	437	185	622	31.12%
200,001 – 400,000	123	37	175	28	142	38	440	103	543	27.16%
400,001 – 600,000	120	37	79	21	41	21	240	79	319	15.96%
600,001 – 800,000	87	22	32	10	19	6	138	38	176	8.80%
> 800,000	205	26	23	13	52	20	280	59	339	16.96%
Sub-Total	566	131	413	91	556	242	1535	464		
Total		697		504		798		1999	1999	100%

Figure 29. Survey - Table of possible social security contributions

If Compulsory, how much Social Security contributions could you pay (Rp.)	Jakarta	Bandung	YogYakarta	TOTAL	TOTAL %
< 10,000	291	113	483	887	44.37%
10,001 – 20,000	215	93	212	520	26.01%
20,001 – 30,000	106	67	26	199	9.95%
30,001 – 40,000	54	19	50	123	6.15%
> 40,000	25	0	14	39	1.95%
Could not pay	6	212	13	231	11.56%
Total	697	504	798	1999	100%

Figure 30. Survey – Preparedness to pay voluntary contributions

Prepared to pay voluntary social security contributions	Yes	%	No	%
Jakarta	346	41.79%	351	29.97%
Bandung	207	25.00%	297	25.36%
YogYakarta	275	33.21%	523	44.66%
Total	828	100.00%	1171	100%
Total %		41.42%		58.58%

Reasons for not wishing to contribute	No.	%
Not entitled	70	6.06%
Not obliged	60	5.19%
No trust in scheme	76	6.58%
High contributions	200	17.32%
Not attractive	214	18.53%
Covered by relatives	3	0.26%
No need	162	14.03%
Need information	111	9.61%
Don't know	217	18.79%
Other	42	3.64%
Total	1155	100%

Figure 31. Survey – Desired social security cover and priority

Desired Social Security Coverage	Male	%	Female	%	Highest Priority	%
Work injury insurance	777	20.69%	230	22.55%	398	21.18%
Health insurance	719	19.15%	224	21.96%	841	44.76%
Maternity insurance	898	23.91%	170	16.67%	27	1.44%
Age retirement insurance	520	13.85%	174	17.06%	359	19.11%
Death insurance	841	22.40%	222	21.76%	254	13.52%
Total	3755 ⁴⁷	100%	1020	100%	1879	100%

⁴⁷ It should be noted that this value is the sum of all of the responses, not all respondents included every category as their need. The total number surveyed is shown in the priority column where respondents only chose one category as their priority.

Figure 32. Survey – Table of preferred social security provider

Who should provide social security coverage	Male	%	Female	%	Total	%
Individual (self)	692	45.08%	228	49.14%	920	46.02%
Employer	379	24.69%	98	21.12%	477	23.86%
Government	212	13.81%	58	12.50%	270	13.51%
Shared by all	136	8.86%	49	10.56%	185	9.25%
Other	116	7.56%	31	6.68%	147	7.35%
Total	1535	100%	464	100%	1999	100%

Figure 33. Survey – Likely social security provider

Who will now provide for social security needs	Male	%	Female	%	Total	%
Insurance	6	0.39%	1	0.22%	7	0.35%
Employer	184	11.99%	48	10.37%	232	11.62%
Government	24	1.56%	22	4.75%	46	2.30%
Family	837	54.56%	291	62.85%	1128	56.48%
Self	256	16.69%	58	12.53%	314	15.72%
No one	119	7.76%	20	4.32%	139	6.96%
No Answer	108	7.04%	23	4.97%	131	6.56%
Total	1534	100%	463	100%	1997	100%

Figure 34. Survey – Education profile

Education Profile	Male	%	Female	%	Total	%
None	35	2.28%	20	4.31%	55	2.75%
Primary	231	15.05%	84	18.10%	315	15.76%
Secondary	525	34.20%	126	27.16%	651	32.57%
Tertiary	637	41.50%	188	40.52%	825	41.27%
Trade	107	6.97%	46	9.91%	153	7.65%
Total	1535	100%	464	100%	1999	100%

Figure 35. Survey – Employment status

Employment Status	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL M+F	TOTAL%
	M	F	M	F	M	F	M	F		
Employee	12	22	114	18	367	144	493	184	677	33.87%
Self Employed	553	108	227	73			966	275	1241	62.08%
No Answer	1	1	72	0	3	4	76	5	81	4.05%
Sub-Total	566	131	413	91	556	242	1535	464		
Total		697		504		798		1999	1999	100%

Figure 36. Survey – Table of membership of cooperatives or other organizations

Member of cooperative or other organization	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL M+F	TOTAL %
	M	F	M	F	M	F	M	F		
No membership	538	119	342	75	503	202	1383	396	1779	88.99%
Member	16	7	19	5	43	28	78	40	118	5.90%
No answer	12	5	52	11	10	12	74	28	102	5.10%
Sub-total	566	131	413	91	556	242	1535	464		
Total		697		504		798		1999	1999	100%

Figure 37. Survey – Table of existing social security cover

Social Security Coverage	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL
	M	F	M	F	M	F	M	F	M+F
Jamsostek	21	0	7	2	13	3	41	5	46
Other social security	142	21	18	9	34	18	194	48	242
None	403	110	398	70	509	221	1310	401	1711
Sub-total	566	131	423	81	556	242	1545	454	
Total		697		504		798		1999	1999

Figure 38. Survey – Table showing marital status

Marital Status	Jakarta		Bandung		YogYakarta		TOTAL		TOTAL
	M	F	M	F	M	F	M	F	M+F
Married	435	98	279	69	355	173	1069	340	1409
Single	119	30	134	22	201	69	454	121	575
No response	12	3	-	-	-	-	12	3	15
Sub-total	566	131	413	91	556	242	1535	464	
Total		697		504		798		1999	1999

Figure 39. Survey – Table of age ranges

Age	Jakarta		Bandung		Yogjakarta		Total				Total M + F	
	M	F	M	F	M	F	M	%	F	%	M+F	%
<20	11	7	27	8	39	24	77	5.02	39	8.41	116	5.80
21 - 30	113	31	174	23	260	99	547	35.64	153	32.97	700	35.02
31 - 40	218	40	117	29	131	65	466	30.36	134	28.88	600	30.02
41 - 50	155	43	72	22	67	32	294	19.15	97	20.91	391	19.56
51 - 60	58	8	20	9	46	16	124	8.08	33	7.11	157	7.85
>60	11	2	3	-	13	6	27	1.76	8	1.72	35	1.75
Sub-total	566	131	413	91	556	242	1535	100	464	100	1999	100
Total		697		504		798				1999		

Figure 40. Survey - Table of married respondents and dependents

Number of Dependents	Jakarta		Bandung		Yogjakarta		Total				Total M + F	
	M	F	M	F	M	F	M	%	F	%	M+F	%
None	9	10	6	-	7	5	22	2.94	15	6.12	37	3.72
1	42	12	27	10	23	17	92	12.28	39	15.92	131	13.18
2	154	31	104	24	83	46	341	45.53	101	41.22	442	44.47
3	105	24	71	15	118	51	294	39.25	90	36.73	384	38.63
4	69	14	40	6	69	31	178	23.77	51	20.82	229	23.04
5	33	4	21	8	35	15	89	11.88	19	7.76	108	10.87
>5	23	3	10	6	20	8	53	7.08	11	4.49	64	6.44
Sub-total	435	98	279	69	355	173	749	100	245	100	994	100
Total		533		348		528				994		

Figure 41. Survey – Employment satisfaction

Satisfaction Level	Jakarta		Bandung		Yogjakarta		Total				Total M + F	
	M	F	M	F	M	F	M	%	F	%	M+F	%
No answer	15	2	24	5	12	-	51	3.32	7	1.51	58	5.80
Low + vlow	117	33	215	27	73	54	405	26.38	114	24.57	519	35.02
Sat+high+vhgh	434	96	174	59	471	188	1079	70.29	343	73.92	1422	30.02
Sub-total	566	131	413	91	556	242	1535	100	464	100	1999	100
Total		697		504		798				1999		

Figure 42. Survey – Self employed and number of employees

Number of employees	Jakarta		Bandung		Yogyakarta				Total		Total M + F	
	M	F	M	F	M	F	M	%	F	%	M+F	%
None	153	35	142	46	53	16	348	36.02	97	35.27	445	35.86
1	53	22	29	7	29	16	111	11.49	45	16.36	156	12.57
2 - 4	231	41	42	11	61	39	334	34.58	91	33.09	425	34.25
5 - 9	81	10	14	8	19	15	114	11.80	33	12.00	147	11.85
10 - 14	21	0	0	1	8	2	29	3.00	3	1.09	32	2.58
15 - 19	7	0	0	0	6	2	13	1.35	2	0.73	15	1.21
>20	7	0	0	0	10	4	17	1.76	4	1.45	21	1.69
Sub-total	553	108	227	73	186	94	966	100	275	100	1241	100
Total		661		300		280				1241		

7.6 Annex 6 - Transaction costs based on maximum contributions

This annex attempts to show what the Minimum costs per customer or transaction would be if the collection of contributions was 100 per cent of the active members of Jamsostek. In reality this is probably not achievable and a more realistic international standard is 85 per cent of contributions collected each month. The number of Active employers in 2001 was 74,966 and figure 43 shows the number of claims processed over the past four years. The average number of claims processed per year is about 641,799.

In the absence of a suitable transaction costs it is proposed to calculate a broad estimate based on the two core client functions of contribution collections and payment of claims. It is assumed that the all other functions and transactions in Jamsostek support these core functions.

The transaction cost formula is based on the following elements:

- the total administrative costs of Jamsostek,
- the number of employers (annualised contribution transactions by the active employers), and
- the average number of separations from the aged benefits fund or claims per year.

Figure 43. Number of withdrawals of old age benefits and death benefit payments

Claims processed (withdrawals)	1998	1999	2000	2001 (first half)
Attaining age of 55	33,657	33,650	34,085	19,139
Leaving the country	2,889	2,178	689	577
Decease of natural causes	12,081	10,742	9,382	6,982
Decease from work injury	1,563	1,376	1,283	635
Total and permanent disability	351	58	38	22
Laid off after 5 years and 6 months contribution	493,131	610,791	632,055	316,242
Totals	543,672	658,796	677,532	343,598
				Full year = 687,196

Assuming that a monthly employer contribution and a claim for benefit are of about equal work value then a rough cost per key transaction could be obtained by the following formula:

$$\begin{array}{l}
 \frac{\text{(Jamsostek Administrative Costs)}}{\text{(Annual employer contribution activity)} + \text{(Average annual Claims)}} \\
 \\
 \frac{(246,200,000,000)}{(74,966 \times 12) + (641,799)} = (159,725) \text{ Rp per transaction}
 \end{array}$$

The annual transaction cost of 159,725 per year can be apportioned at Rp. 93,219 per year for an employer contribution and Rp. 66,505 for each claim processed. This cost estimate for contributions is based on an average employer contribution group size of about:

$$\frac{(9,300,000) \text{ active members}}{(74,966) \text{ active employers}} = (124) \text{ employees per active employer}$$

Figure 44. Summary of estimated transaction costs in Jamsostek

Estimated key transaction costs	Monthly (Rp)	Yearly (Rp)
Employer contributions (12 contributions per year)	7,768	93,219
Payment of retirement claims (each claim)		66,505
Individual employee contribution cost (based on average of 124 employees per employee)	63	751

The average monthly salary for Jamsostek contributions is Rp. 480,000 for males and Rp. 360,000 for females. The majority of formal sector workers declare < Rp. 400,000 per month⁴⁸.

Jamsostek Average Monthly contributions for males are:

Age Insurance (incl death benefit) Rp. 28,800 (employer pays $\frac{2}{3}$)

Health Insurance Rp. 14,400 single, Rp. 28,800 married (employer pays all).

Work Injury Rp. 1200 – Rp. 8400 depending upon industry. (Employer pays all).

The average JAMSOSTEK contributor pays 2 per cent of average salary for these services and the employer pays the remainder.

Figure 45. Average member contributions to Jamsostek

Contributor	Male		Female
	Married	Single	Single
Average employee contribution	9,600	9,600	7,200
Average employer contribution (incl health Ins and depending upon industry for work injury Ins.)	49,200 – 56,400	34,800 – 42,000	36,400 – 43,600
Total	58,800 – 66,000	44,400 – 51,600	43,600 – 50,800
Total excluding health insurance	30,000 – 37,200	30,000 – 37,200	29,200 – 36,400

The potential administrative cost per employee of collecting contributions (with health insurance) and based on the above findings is about 1.13 per cent to 1.72 per cent of contributions. This result assumes that all contributions are collected from the 74,699 employers on behalf of about 9.3 million members.

⁴⁸ Source Jamsostek IT Department August 2001, See Annex 2.

7.7 Annex 7. Operating and administration costs of Jamsostek

Operating expenses	Rp
Management expenses	5,968,791,509
Operational expenses	46,765,550,810
Personnel expenses	
Wages, salaries and allowances	71,432,316,712
Social insurance for employees	9,991,934,148
Training	6,503,959,496
Recruitment	2,628,669,613
Other	671,354,763
Sub total	91,228,234,732
Administration and general expenses	
Office supplies	13,386,495,061
Rent	5,883,496,925
Lighting, water, gas, telephone	10,896,957,535
Maintenance of buildings	8,700,970,233
Tax and Insurance	1,864,916,960
Household	5,451,803,130
Cost of data processing	1,712,288,980
Research and development	2,205,857,226
Stamp duty	3,437,835,548
Others	6,218,194,016
Sub total	59,758,815,615
Expenses before depreciation	203,721,392,666
Depreciation	19,243,697,634
Allowance for bad debts	9,878,031,694
Total expenses as per accounts	232,843,021,994
Plus staff and management bonuses	23,300,000,000
Total expenses	246,200,000,000

Notes

1. Jamsostek current balance sheet year ending March 31 2001.
2. The staff and management bonuses are allocated from tax-paid profits of Jamsostek.

7.8 Annex 8. – Minimum wages by province/region 2002

Figure 46. Table of average salary by province

No.	Local province/region	Minimum cost of living (Rp)	Minimum wage (Rp)	
1	Daerah Istimewa Aceh	385,000	330,000	
2	Sumatera Utara	453,000	464,000	
3	Sumatera Barat	385,000	385,000	
4	Riau Di Luar Batam - Tk. I. Riau	491,915	394,000	
5	Jambi		304,000	
6	Sumatera Selatan	344,536	331,500	
7	Bangka Bel		345,000	
8	Bengkulu	501,000	295,000	
9	Lampung	325,000	310,000	
10	Jawa Barat	373,488	280,779	
11	Jawa Tengah	345,604	314,500	
12	Jawa Timur	277,783	245,000	Lowest
13	DKI Jakarta	519,931	591,266	Highest
14	Banten		360,000	
15	Yogyakarta	321,766	321,750	
16	Bali	433,640	341,000	
17	Kalimantan Barat	418,000	380,000	
18	Kalimantan Tengah	412,991	362,000	
19	Kalimantan Selatan	633,625	377,500	
20	Kalimantan Timur	397,552	500,000	
21	Nusa Tenggara Barat	340,154	320,000	
22	Nusa Tenggara Timur		330,000	
23	Maluku	498,823	285,000	
24	Maluku Utara	455,829	322,000	
25	Gorontalo		375,000	
26	Sulawesi Utara	442,000	438,000	
27	Sulawesi Tengah		350,000	
28	Sulawesi Selatan	396,201	375,000	
29	Sulawesi Tenggara	435,541	325,000	
30	Irian Jaya		530,000	
	TOTAL	416,886	362,743	

Source:- Depnakertrans Directorate JSP & K April 2002.

7.9 Annex 9 - Allocation of revenues of Jamsostek

Contribution income ⁴⁹	Rp.
Employment accident benefits	247,288,076,880
Death benefits	102,740,478,356
Health care benefits	173,095,656,883
Special programmes	29,976,380,029
Total contribution income	553,100,592,106
Subsidiary operating income	19,963,798,741
Total income excluding investment and other	573,064,390,849
Investment income	1,141,045,088,585
Other income	12,043,783,275
All income	1,726,153,262,709
Allocated to:	
Employee benefits	
Employment accident	100,236,225,786
Death	24,634,739,000
Health care	120,066,723,857
Special program	2,292,632,617
Total benefits	247,230,321,260
Interest on old age benefit accounts	725,914,401,757
Technical reserve expenses	307,929,624,210
Operating expenses	203,721,392,666
Depreciation	19,243,697,634
Allowance for bad debts	9,878,031,694
Net income before tax	212,235,793,488

⁴⁹ Contributions to Old Age Benefit Accounts are not treated as Income of Jamsostek but as the assets of the members.

7.10 Annex 10 - Bibliography

Authors	No.	Title
Department Tenaga Kerja R.I. (Department of Manpower and Transmigration) BPS (Statistics Indonesia)	1	Profil Ketenagakerjaan Indonesia Tahun 1999. (Manpower profile in Indonesia 1999)
	2	The laws and Regulations of The Republic of Indonesia on The Employees' Social Security
	3	Human Resource Profile in Indonesia, November 2000
	4	Manpower & Employment Situation in Indonesia 1998 – 1999 (pub. 2000)
	5	Labour Force Situation in Indonesia August 2000.
	6	Poverty Reduction Strategy in Indonesia. 2001
	7	1996 Economic Census – Profile of Establishments with Legal Entity
ILO	8	Social Security for the Excluded Majority – Case studies of developing countries – Edited by Wouter van Ginneken
	9	Extension of Social Security Protection to the Self Employed Workers – ILO Study, Malaysia 1999
	10	Learning From Experience: A gendered approach to social protection for workers and the informal economy. Frances Lund and Smita Srinivas.
	11	Decent Work & the Informal Economy (Report VI) – ILC 90 th Session 2002
	12	Conclusions Concerning Decent Work in the Informal Economy – ILO 2002
	13	Learning From Experience – A gendered approach to social protection for workers in the informal economy – Frances Lund and Smita Srinivas.
	14	Review of the migrant Workers Management and Options for further development Assistance to the Program, Nov 2001 – ILO Jakarta office
	15	Workers Education Assistance in Strengthening Trade Union support for Workers in the Informal Sector in Selected ASEAN Countries – CTA Uffe Elbaek July 2001
	16	Financing Micro-Insurance: Perspective and Prospective David M. Dror.
	17	The Indonesian Poverty Reduction Strategy Paper: An ILO perspective. Oct 2002. ILO Jakarta and Geneva.
	18	Extension of social security protection to the self-employed workers – ILO study Malaysia 1999
	19	Out of The Shadows, Practical Actions for the Social Protection of Homeworkers in Indonesia – Lucita Lazo ILO 1996
	20	Indonesian Healthcare Reform (1988-99), The Health Sector Finance Project and Klaten Field Trial Revisited - James R. Marzolf
	21	SME clusters in Indonesia - An analysis of growth dynamics and employment conditions, ILO Jakarta October 2002
	22	Role of the Informal Service sector in urban poverty Alleviation in Indonesia
	23	Assessment and Lessons Learned from the Klaten Integrated Health Care Reform Field Trial, 1999
	24	Social Security Profiles in ASEAN Countries
	25	Social Protection Programs: Components, Priorities, Strategic Choices and Alternatives for Indonesia. Oct 2002, Stuart Callison and Bambang Widiyanto.
UNSFIR Asian Development Bank	26	The Social Implications of the Indonesian Economic Crisis, Perception & Policy
	27	2000. Poverty Assessment of Indonesia, February 14.
Bappenas	28	Poverty Reduction at Intermediate Level : The Roles of Local Government, Paper Presented at Seminar on Renewing Poverty Reduction Strategy in Indonesia Bakti Setiawan, 2000., August, 2000. Jakarta.
Central Bureau of Statistics	29	Laporan Perekonomian Indonesia 2000 : Angkatan Kerja, Konsumsi dan Kemiskinan Penduduk, BPS, Jakarta
Deuster, P.R.	30	Survey of Recent Developments, Bulletin of Indonesian 2002, Economic Studies, vol. 38, No. 1, pp. 5-

Authors	No.	Title
	37.	
Firdausy, C.M.	31	Urban Poverty in Indonesia :Trends, Issues and Policies, Asian Development Review, vol. 12, no. 1, ADB, Manila, 1994
ILO	32	Employment Challenges of the Indonesian Economic Crisis, ILO Jakarta 1998
Pradhan, M., A. Suryadi, S. Sumarto and L. Pritchett	33	Measurement of Poverty in Indonesia, 1996, 1999 and Beyond, SMERU, Working Paper, Jakarta, 2000
World Bank	34	Indonesia: Accelerating recovery in Uncertain Times, Brief for the Consultative Group on Indonesia, report No. 20991-IND, October 13, 2000
	35	Indonesia :From Crisis to Opportunity, 21 July 1999.
Notes		
1.References 27 – 35 inclusive were used for the Poverty Study in Section 3.		

7.11 Annex 11 - List of organizations contacted

Organization	Main Contacts	Organization	Main Contacts
Ministry of Manpower and Transmigration (Depnaker)	Mr. Heru Susmono Manager Regional Office III Ms. Rini Said Director of Employment Promotion & Placement Mr. Damianto Director of Wages Policy in Binawas Mr. Parulian Torvan Director of Informal Sector Policy Mr. M. Silalahi Director, Development & Extension of Job Opportunities	JAMSOSTEK	Dr. Bambang Purwoko Director Research and human Resources Mr. Syami Syahrizzamzami Assistant Manager, Information Technology Bureau Mr. Heru Susmono Manager Regional Office III (Jakarta) Mr. Andi Achmad M. Amin Manager Regional Office IV (Bandung) Dr. Koes Antarto Manager Majalaya Branch office Mr. Odang Muchtar Member of the Board of Management
Centre for Agricultural Policy Studies	Dr. H.S. Dillon Executive Director		
APJATI (Indonesian Overseas Workers Service Association)	Mr. Husein A. Alaydrus Chairman	Ministry of Cooperatives and Small and Medium Enterprises	Dr. Muhammad Taufiq Deputy Minister of Business Development & Restructuring
Ministry for the Empowerment of Women	Dr. Sri Harijati Hatmadji Secretary to the Minister Erni Agustus Bureau of Foreign Affairs Drs Wahyu Hartmono Planning & Foreign Cooperation	Federation of Indonesian Wood and Forestry Workers Unions	Dr Sofiati Mukadi President
Rumah Sakit Islam Al-Ihsan (Islamic Hospital)	Dr. H. Rachman Maas Director	Bumiputra Bank and Insurance Group	Mr. Dirman Pardosi Marketing Division
Dinas for Cooperatives and Small and Medium Enterprises (Bandung)	Mr. Ibrahim Director Mr. Iyan Ramlan W. Deputy Director	Indonesian Forum of Parliamentarians on Population & Development	Ms. Ermalena Executive Secretary
Department of Social Affairs	Ms. Lisning Sri Hastuti Director of Social Security Mr. Yholak Dali Munthe Head of Social Welfare Insurance	HIPOSINDO (Organisation for promotion of Ojek drivers in Bandung)	Mr. Deddy Wijaya Manager Mr. Dobby Pratama Assistanst
		Bina Swadaya (Self Reliance Development Foundation)	Bambang Ismawan Chairman Mr. DE Susapto Training Manager