



International Labour Office

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# Indonesia

## **Social Protection in Indonesia Issues and Options for Development**

**July 2006**

# Contents

	Page
<b>Summary</b> .....	4
<b>1. Introduction</b> .....	9
1.1. Overview of the development of social protection in Indonesia .....	9
1.2. Existing social insurance schemes .....	10
1.3. Challenges in social protection in Indonesia .....	11
1.4. Organisation of the report .....	13
<b>2. Implementation of the National Social Security System (SJSN) Law</b>	14
2.1. National Social Security System (SJSN) Law (Law No. 40 of 2004) .....	14
2.2. Issues in implementation of the SJSN Law .....	15
2.3. Recent developments of the SJSN Law .....	15
<b>3. Reform of Jamsostek</b> .....	17
3.1. Introduction.....	17
3.2. Change of the legal status of Jamsostek to Trust Fund .....	17
3.3. Decline of Jamsostek membership.....	20
3.4. Improvements in the Jamsostek governance .....	20
3.5. Reform of the existing Jamsostek benefit programs.....	22
3.6. Feasibility if new benefit programmes for the formal sector .....	24
3.7. Concluding remarks.....	27
Appendix to Chapter 3: Summary of recommendations on Jamsostek operations and IT28	
<b>4. Extension of social security coverage to the informal economy</b> .....	31
4.1. Introduction.....	31
4.2. Problems with extending social security coverage to the informal economy workers.....	31
4.3. Social security assessment of the informal economy workers .....	32
4.4. Policy options and proposed programs .....	33
4.5. Extension of Jamsostek coverage for the informal economy workers .....	38
4.6. Conclusion .....	41
<b>5. Social assistance for the poor</b> .....	43
5.1. Introduction.....	43
5.2. New Health Cards for the poor.....	43
5.3. The Cash Transfer system .....	45
5.4. A National Employment Guarantee Programme .....	47

**6. Conclusion and the ways ahead ..... 51**

Possible areas of ILO technical assistance in social protection ..... 51

**Annexes**

Annex A: Social security in Indonesia ..... 53

Annex B: Statistics ..... 66

**References**

# SUMMARY

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

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

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

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

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

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

Although there is a general recognition that the SJSN Law is a first major step to develop a comprehensive national social security system in Indonesia, action to effect any concrete programmes has been delayed, and seemingly lacking in coordination and real commitment.

## **2. Reform of Jamsostek**

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

### **2.1. Changing legal status of Jamsostek into Trust Fund**

The current legal status of Jamsostek as a Persero, or state-owned limited liability company, create a number of problems including the financial control by Ministry of Finance/ State-

owned Enterprises and liability to pay dividends and tax. As envisaged by the National Social Security Law (SJSN), Jamsostek should be transformed into a Not-For-Profit entity operating Trust Funds, which should improve net returns to members.

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

The Trust Fund would have the following features:

- The Trust Fund is governed by a tripartite Board of Trustees;
- It would consist of a 'Fund' which receives social security contributions, interest from investments, etc. and pays benefits and administrative expenses of the scheme;
- Thus all income and investments (assets) would be held 'in Trust' for the Members – investments being decided by Trustees on the basis of professional advice, according to published Guidelines approved by the President;
- Investment income should be free of tax and returned to members in increased benefits; and
- Assets are to be used exclusively for the benefit of members.

## **2.2. Improvement in Jamsostek governance**

A major weakness of Jamsostek is the poor enforcement of compliance. This has implications for the sustainability of most of the Jamsostek benefit programmes.

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

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

## **2.3. Operations and IT systems**

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

## **2.4. Old-age benefit (JHT)**

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

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

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

## **2.5. Employment injury benefit (JKK) and death benefit (JKM)**

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

- The scope of employment injury benefits should be reviewed.
- The death benefit should provide survivor's pensions to the dependant family members of the deceased.

## **2.6. Maternity benefit**

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

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

## **2.7. Unemployment insurance**

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

## **2.8. Social assistance**

While it would not be currently feasible to set up a country wide cash social assistance scheme, it could be possible that such an approach could be considered in some of the more advanced provinces or districts of provinces. Among a number of options for administering a social assistance programme, the most promising options would be to involve some negotiated arrangements between central and local governments within the framework of a national social assistance programme. In practice this would mean considerable diversity in programmes at the local level.

# **3. Extension of social security coverage to the informal economy**

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

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

#### **4. Social assistance targeting the poor**

Whilst there has been little visible progress in respect of social insurance for workers in the formal employment sector, the current Government has given high priority for public interventions targeting the poor. The dominant changes actually implemented since 2004 have been two major initiatives in social assistance.

- The first of these was the extension of coverage of the Health Card for the Poor, which entitles holders to free treatment in Public Health Centres (Puskesmas) and Hospitals. The new target for coverage is 60 million people in 15 million households, an increase from the previous target of 36 million people. The new target means that a group equal to around 28 per cent of Indonesia's nearly 220 million population are entitled to free Health Care in public facilities. A distinctive feature of the new Health Card is that it is issued by ASKES, the public sector health insurance scheme. It reimburses hospitals for the cost of treatment of Health Card holders.
- The second major change was the introduction of a Cash Transfer system, also targeted at 15 million households assessed to be in poverty or near-poor. This programme, which began in October 2005, and is currently scheduled to last for one year, provides grants of 100,000 rupiah (US\$10) per month to the designated households. Payment is made via the Post Office on the basis of a household classification procedure developed by Statistics Indonesia (BPS).

These new initiatives took place against a background of high price inflation accentuated by major fuel price increases which was increasing the financial stress on low income households. These new programmes have been funded by part of the proceeds of reductions in the oil price subsidy. The currently unconditional Cash Transfer system is to be reviewed with the possibility of converting it into a conditional cash transfer system in late 2006. Also in 2006 the current rice subsidy programme for the poor is expected to be phased out.

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

The ILO, in collaboration with BAPPENAS, has formulated a National Employment Guarantee Programme (NEGP) for Indonesia. This programme aims to serve a dual purpose: (1) helping to alleviate situations of poverty, unemployment and underemployment, particularly among youth and in rural areas, and (2) creating productive assets and services for the economy. Implicit in the arguments is also the notion of empowerment of the poor through

work provision, and economic decentralisation, both of which are pre-requisites for achieving decent work conditions among the larger workers' community.

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

## **5. The ways ahead**

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

Areas where ILO input could be helpful to Indonesia include the following;

- 1) The development and implementation of the Cash Social Assistance scheme, including issues of conditionality.
- 2) Social protection of migrant workers.
- 3) Extension of Jamsostek for informal sector
- 4) Implementation of the National Social Security System
- 5) Capacity building for strengthening Governance through tripartite efforts
- 6) Awareness raising on social protection
- 7) Improving the effectiveness of targeting of Health Cards for the Poor.



# 1. INTRODUCTION

## 1.1. Overview of the development of social protection in Indonesia

Indonesia is a country in which only part of the population of nearly 220 million is covered by formal systems of social security, and these systems cover only some of the contingencies set out in ILO conventions. Until recently, employment-linked systems of contributory social insurance which currently cover only around 12 per cent of the population were the only significant formal systems of social protection in the country, apart from a few social welfare services run or subsidised by the Ministry of Social Welfare or its local government counterparts. The rest of the population when faced with adverse events affecting their livelihood, relied mainly on informal mutual support arrangements based on extended families, local communities, and religious groups. These informal arrangements are referred to as “local wisdom” in Indonesia.

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

The impact of the 1997-98 Asian crisis on Indonesia was severe. Output dropped an estimated 13.7 per cent in 1998, and it took four or five years for total output to recover to pre-crisis levels. Unemployment rose sharply, and has continued to trend upwards, exceeding 10 million or nearly 10 per cent of the labour force by 2004. Involuntary under-employment involved a further 13 per cent of the labour force. Many business enterprises collapsed, and poverty levels rose sharply. The longer term downtrend in the national estimate of poverty reversed, and evidence of hardship multiplied. Many former formal sector employees who lost their jobs withdrew their retirement fund balances from Jamsostek under the “five years plus 6 months rule” in order to cover income deficiencies. Many displaced workers returned to rural villages or sought to set up micro businesses in the informal economy. Others moved abroad to seek employment. Documented overseas workers, mainly female, rose from 232,275 in 1997-98 to 435,219 in 2000. This is probably a substantial under-estimate since many undocumented workers sought employment abroad.

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

were a number of other initiatives, including subsidised employment schemes, grants to schools, and rural development grants.

The three core social assistance schemes have continued on, and have provided aid to many low income people. The Rice Subsidy scheme however may be phased out in 2006. Despite some significant problems in the accuracy of targeting and diversion of resources to non-target groups, the social assistance initiatives appear to have played a major role in reducing the adverse impact of the economic crisis on the Indonesian population, and more particularly on the poor.

From around the year 2000 the Indonesian economy resumed a moderate expansion path, with real GDP growth rate averaging over 4 per cent per year. However, these growth rates have not been sufficient to absorb the growing labour force. Unemployment has trended upwards, and is now at nearly 10 per cent of the labour force is twice the pre-crisis level. For a significant part of the recovery period a marked shift from formal to informal employment was visible, though by 2004 growth in formal sector employment had resumed. This may be temporary, as further economic problems associated with rising fuel prices are expected to touch off a new wave of retrenchments in the formal economy. As of late 2005 year on year consumer price inflation was expected to be 17 per cent.

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

## 1.2. Existing social insurance schemes

The existing social security funds in Indonesia are the following.

- **Jamsostek** is the social insurance fund for private sector employers and their employees. It provides four programmes: Health Insurance, a Death Benefit, Work Injury cover, and a Provident Fund type Old Age Retirement Benefit. For full programme coverage Employees contribute 2 per cent of their salary (all for retirement), and employers 7.24 to 10.74 per cent. For employers the cost of Death Cover for their employees is a 0.3 per cent premium, and Old Age 3.7 per cent. However, Health cover is 3 per cent for a single employee, but 6 per cent for a family. Work Accident levies range from 0.24 to 1.74 per cent.
- **Taspen** is the fund for civil servants. It provides a retirement lump sum, and a pension programme. Employees contribute 3.25 per cent of salary for the lump sum programme, plus 4.75 per cent for pensions. The Government budget covers any pension deficits.
- **Asabri** is the counterpart fund for the armed forces and police. It provides similar lump sum retirement benefits and pensions for the same 3.25 and 4.75 per cent contributions. Similarly, the Government Budget covers any pension fund deficits.

- **Askes** provides Health Insurance cover for public sector employees and some others. Public Sector and Armed Forces employees pay 2 per cent of their salaries for this.

The Armed forces also have some hospitals of their own.

By 2004 the new social security status quo in Indonesia could be described as follows:

- About 12 per cent of the population was covered by formal social security for at least some programmes through the various contributory social insurance schemes. This percentage had been declining as employment shifted towards the informal economy or non-complying small business enterprises. In 2001 active Jamsotek membership was estimated at 9.3 million, but 2004 estimates were around 7 million.
- About 18 per cent of the population appear to have qualified for at least part of the time for some forms of Social Assistance created in the Social Safety Net programmes, though the basis of some of the estimates is unclear.
- The other 70 per cent of the population appeared to have no formal social protection.

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% 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.

### 1.3. Challenges in social protection in Indonesia

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

- A strong reliance on the extended family and communities to provide an informal social safety net against loss of income, ill health or other misfortune;
- Limited reliance on employers through labour legislation reinforced by collective agreements, to directly provide benefits such as wages during sickness and maternity and on termination of employment;
- Only limited social insurance for the private sector with reliance on the provident fund system to provide a lump sum on retirement;
- An integrated package of conditions of service and social benefits for civil servants and members of the armed forces.

The fragmented responsibility for the different elements of the present system – spread between different Ministries and public organisations adds another challenge. The division of responsibility, together with the absence of a clear strategy or any coordinating mechanism, has resulted in a piecemeal approach to social security development and to some uncertainty and policy inconsistency.

Current estimates (Annex B. Table B.1) based on the legal status of enterprises and their employees put formal economy employment (defined as regular employees plus their

employers) at about 28 per cent of the economically active labour force of just over 103 million. Informal economy employment is around 62 per cent, and unemployment nearly 10 per cent of those economically active. Some other labour force classifications which add in casual employees to the formal economy total would produce a somewhat higher percentage of formal economy employment, aggregating to somewhat over one third of those economically active.

Only a minority of the population are employed in the formal economy. The majority of those employed are involved in various forms of rural and urban informal employment, including farming which still employs over 40 per cent of the employed workforce (Annex B. Table B.2). And even within the formal economy at best under half of the employed workers are actually active members of social insurance funds. Indeed, if public sector employees are deducted from the calculations, possibly only 30 per cent of employees in the formal private sector are actively enrolled in social insurance funds.

In substance therefore, formal social insurance fund membership is concentrated mainly amongst employees of larger private sector enterprises, plus public sector employees. Labour shedding by large enterprises following the Asian Economic Crisis, and a shift in economic activity towards smaller enterprises and the informal economy depressed social insurance membership statistics.

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

- Legally only enterprises with 20 or more workers, or a payroll of over one million rupiah a month are required to enrol their workers in Jamsotek, the social insurance fund for the private sector.
- Many small employers simply do not comply with the regulations. The "one million rupiah" payroll criteria, if complied with, would enrol about 70 per cent of formal private sector employees.
- Jamsotek, the fund for private sector employees, has an unfavourable image amongst many workers, and some are reluctant to contribute to it.
- Jamsotek has no inspectors under its own control to enforce compliance, and relies on the activities of Labour inspectors currently deployed into regional government.

The only other significant social protection entitlement for formal sector workers was the right under Manpower Law to service and severance pay on retirement or retrenchment. In practice, this right often turned out to be illusory in the wake of the enterprise failures which accompanied the Asian Economic Crisis.

Women are particularly disadvantaged in relation to formal social protection coverage. Amongst men who are classified as economically active 7 per cent were unpaid workers, usually family members engaged in a small farm or non-farm enterprise. However, in the case of women 33 per cent of those classified as economically active were unpaid workers (Annex B.1. Table B.1). Women were not only less likely to be economically active, since the employment participation rate of women was only around 60 per cent of that of men, but also less likely to be in forms of employment which attracted social security cover.

Administrative capacity is a key issue in developing any national plans for improved social protection in Indonesia, since there are few national agencies with effective local population coverage, and a high degree of decentralisation of administrative functions. In 2004 Indonesia had 33 provinces, subdivided into 440 districts and cities, 5,227 sub-districts, and

69,858 villages. Links between national programmes and local households may have to pass through multiple channels.

## **1.4. Organisation of the report**

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

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

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

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

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

## 2. IMPLEMENTATION OF THE NATIONAL SOCIAL SECURITY SYSTEM (SJSN) LAW

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

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

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

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

assistance for the poor and economically disabled, but its details are entrusted to the Presidential Regulations that follow.

- With respect to financing, the law only stipulates that the contributions for the social security programmes should be paid jointly by the employers and employees but does not specify the contribution rates or how contributions are shared between employers and workers. The Government will subsidize the contributions concerning the social assistance for the poor and the economically disabled. In the first phase, the Government provides health insurance for the poor and alike (there are estimated 40 million people in this category and the estimated amount of health insurance contributions is Rp. 4 trillion for each year ).

## **2.2. Issues in implementation of the SJSN Law**

The SJSN Law is a major milestone in the development of social security system in Indonesia. However, the law is only a framework (umbrella law) and a number of issues still remain to be worked out in the future. There is a vital need for immediate technical cooperation in the following three areas:

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

## **2.3. Recent developments of the SJSN Law**

The SJSN Law provided for a 15 person Board to be set up to advise the President on Social Security policy. Reportedly, only the Chairman of the SJSN Board (Mr Sudirman, Deputy of MENKOKESRA) has been appointed by the President, but the Board members (15 members from tripartite stakeholders and social security experts) has not been appointed yet as of end-2005. However, work on social security and social assistance issues is going on in a number of Ministries.

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

Thus there is a general recognition that the SJSN Law is a first major step to develop a comprehensive national social security system in Indonesia, but action to effect any concrete programmes has been delayed, and seemingly lacking in coordination and real commitment.



## 3. REFORM OF JAMSOSTEK

### 3.1. Introduction

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

The first objective of the project was the establishment of a new institutional structure of Jamsostek, which is the major social security institution. The focus was the legal status of Jamsostek under Law 3 of 1992 as a Persero, a public limited liability company required to make profits and pay taxes. This is widely considered to be inappropriate for a system based on State responsibility and constitutional rights. The strategy of the project was to reconstitute Jamsostek as a public social security institution that would hold its members’ contributions in trust against future benefit entitlement under the supervision of a tripartite Board. Such changes also require the improvements in governance and operating efficiency.

The second objective was to develop a national strategic plan for the restructuring of the social security system. The project conducted a series of studies on the options for improvements in the existing Jamsostek benefit programme and on the feasibility of new benefit programmes<sup>1</sup>.

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

### 3.2. Change of the legal status of Jamsostek to Trust Fund

#### 3.2.1. Problems with the current legal status of Jamsostek

The current legal status of Jamsostek as a Persero, or state-owned limited liability company, is required under the Law No. 3 of 1992. Under the provisions of Law No.1 of 1995 the State must be the majority shareholder of a Persero. In the case of Jamsostek all the shares are State-owned. Ownership used to be vested in the Ministry of Finance but currently Minister of State-owned Enterprises is the sole shareholder. However, it is understood that in

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<sup>1</sup> In addition, special studies were conducted on the extension of coverage, on an actuarial valuation of the Jamsostek and on a social budget analyses.

practice the supervision is still carried out in the Ministry of Finance. This current status means that Jamsostek must operate to generate a profit for its shareholder and, like other limited liability companies operating on a commercial basis, the profit earned is taxable. Only the balances of old-age benefits are tax-exempt.

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

- Financial control is by Ministry of Finance/ State-owned Enterprises and Operational control is by Depnaker;
- Investment is controlled by Finance, although this should be in accordance with the Investment Regulations (No. 28 of 1996);
- Dividends are paid to the Government as the single shareholder, and profits are taxable. As a result, considerable portion of social security contributions are rediverted to the Government.

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

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

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

### **3.2.2. The notion of Trust Fund**

The consensus in favour of changing the status of Jamsostek to that of a trust fund has been forming over years and a number of draft Bills to amend Law No. 3 of 1992 have been prepared but little concerted effort has been made at discussion of the implications or the detailed provisions. This is partly because in the absence of a law (similar to those relating to Persero, Perum, etc.) to regulate the constitution and administration of trust funds in Indonesia (a so-called ‘Trustee Law’), there is no wide understanding of the implications of trust fund status and no general agreement on how to proceed to transform Jamsostek into a trust fund<sup>2</sup>.

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

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<sup>2</sup> Law No. 11 of 1992 on the establishment of pension funds (dana pensiun) is the closest in concept (in that it provides for full return of proceeds from contributions, etc. to be returned to members through future benefit and provides for control by a board consisting of representatives of employers, members and the bank in which the fund is kept in trust; the board in turn is controlled by the Ministry of Finance).

The Trust Fund would have the following features:

- The Trust Fund is governed by a tripartite Board of Trustees;
- It would consist of a 'Fund' which receives social security contributions, interest from investments, etc. and pays benefits and administrative expenses of the scheme;
- Thus all income and investments (assets) would be held 'in Trust' for the Members – investments being decided by Trustees on the basis of professional advice, according to published Guidelines approved by the President;
- Investment income should be free of tax and returned to members in increased benefits; and
- Assets are to be used exclusively for the benefit of members.

One way to achieve tax-free status and to alleviate the payment of dividends to the Government without amending the existing social security laws is to insert a relatively simple provision in the SJSN Act:

"Notwithstanding the provisions of the law [law on Persero's] requiring the payment of annual dividends to the Government and the levying of tax on the profits, no such dividends or tax shall become payable in respect of any social security carriers covered by the this (SJSN) Law."

### **3.2.3. Issues related to the transform of Jamsostek to Trust Fund**

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

- Is a separate law required stipulating what a trust fund is (similar to the laws on Dana Pensiun, Perum and Persero), or can a 'Trust Fund' simply be established by describing its function in the amending legislation? As discussed earlier, such a trustee law is not necessary if one can ensure that the new organization is non-profit, independent, supervised by tripartite board and free from tax liability.
- Is there a need to wind up Jamsostek legally before the Trust Fund is established? Currently, the share capital held by the Ministry of Finance amounts to Rp. 62.5 billion. Hence, if the legal status of Jamsostek changes from a public limited company to a trust fund, this amount will have to be redeemed to the Ministry of Finance.
- What should be the reporting line upwards from the Board of Trustees and what should be the frequency of reporting? (e.g. to Minister/President by annual or special report).
- Trust Fund status implies that there should be no residual departmental control over Jamsostek (after the change), other than via periodic reports from the Board of Trustees to Minister/President. Do Ministries of Finance, State Enterprises, Manpower, etc. agree to this?

- In particular, do Department of Manpower and Transmigration, Ministry of Justice and MENPAN agree that enforcement of the social security laws should be undertaken by Jamsostek (not Depnaker) either directly or by seconded inspectors?

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

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

### **3.3. Decline of Jamsostek membership**

The core problems in social security coverage in the formal private sector economy relate to Jamsostek, which has been losing members. In 2001 Jamsostek was estimated to have 9.3 million active contributor members, but by 2004 the estimate was decreased to 7 million. Part of the statistical drop may be due to data cleaning. However, there seems to have been an ongoing employment shift into the informal economy, or non registration with Jamsostek by businesses which otherwise meet formal sector criteria. In effect only around 30 per cent of formal private sector employees are active contributors to Jamsostek rather than the about 70 per cent that compliance with the law would produce.

This membership erosion is a serious concern, and tends to undermine the short term prospects for extending formal social insurance coverage by progressively expanding the proportion of formal economy workers actually enrolled in Jamsostek. Regarding this issue, further reference should be made to Chapter 3 which extensively discusses the policy and strategy to extend the social security coverage.

### **3.4. Improvements in the Jamsostek governance**

#### **3.4.1. Compliance and enforcement**

A major weakness of Jamsostek is the poor enforcement of compliance. An estimated rate of compliance stood at as low as 40%<sup>3</sup>. This has implications for the sustainability of most of the Jamsostek benefit programmes.

In addition to the weak enforcement capacity of Jamsostek, there is a legal obstruction to strengthen it. As far as control of compliance is concerned, Article 31 of Law No.3/1992

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

states that investigation is carried out by labour inspectors. The decentralization process adds further complication in the line of operational control. Inspectors used to be under the direction of the Department of Manpower but since decentralization this responsibility has been delegated to Provincial Governors through Dinas Tenaga Kerja. This raises questions about consistency and, since Provinces will be collecting local taxes, also the priority that would be given to collection of social security contributions. Unless there is rigid control, the possibility of corruption or collusion between inspectors and errant employers will arise.

It is recommended that the responsibility for inspection this should be transferred from Depnaker/Dinas to Jamsostek itself. Changing the responsibility for enforcement to Jamsostek will inevitably have implications for human resources, particularly recruitment, training and career structure. A transitional measure without amending the relevant legislation is for Depnaker to assign labour inspectors who will exclusively conduct social security inspection in coordination with Jamsostek.

As of mid-2006, Jamsotek is still not permitted to have its own inspectors. A number of training programmes have been run with the regional governments, where Labour inspectors are now located, but the lack of direct accountability to Jamsostek significantly inhibits effectiveness in enforcement. Despite training initiatives with labour inspectors, their location in regional government has further complicated enforcement. Also, some provinces have talked about setting up their own equivalents of Jamsostek, which may reduce their commitment to enforcing Jamsostek membership. There is currently a legal dispute over whether the monopoly status of Jamsostek is compatible with the regional decentralisation law.

### **3.4.2. Financing of Jamsostek**

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

One reason for the continuous surplus is the low expenditure on short-term benefits in relation to their contributions. The benefits/contributions ratio in each branch shows stable trends in recent years. On average, this ratio is in the range of 40-50% for work injury, 20-30% for death benefits, 70-80% for health care benefits and 10-40% for special programmes. With the exception of health care programme, all programmes retain substantial reserves which cover more than four years' current expenditure.

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

### **3.4.3. Issues in the investment of the Jamsostek fund**

As a result of poor investment performance in the past, the Jamsostek's provident fund accounts have substantially lost their real value<sup>4</sup>. However, under the current investment

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<sup>4</sup> Historically, over the period 1978 to 2000, cumulative earnings index from investment has been 38% below the level of inflation and 63% less than the average market rate.

regulation and improved investment management, an equitable interest is expected for the future. Consideration should be given to improving investment regulations by a further restriction of equities and direct participation; and diversification of the risk in the domestic market through the possibility of foreign investment (initially with a limited scope). Further to the investment regulations, organisation of regular and efficient fund supervisions and the design of the institutional structure that enables effective monitoring and inspection are also crucial for ensuring sound fund governance in the long-term.

#### **3.4.4. Operations and IT systems**

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

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

In the area of the updating of the Jamsostek IT systems, progress is being achieved. The Jamsostek management has teamed up with a bank to allow on-line access to member account details via ATM machines, so that members can check the state of their balances and contribution records. This system is supposed to be operational in 2006.

### **3.5. Reform of the existing Jamsostek benefit programs**

#### **3.5.1. Old-age benefit (JHT)**

Unlike the public sector scheme (Taspen), no retirement pension option exists for private sector employees, who receive only lump sum retirement benefits from Jamsostek old-age provident fund. In general, provident funds do not meet the requirements of the ILO Social Security (Minimum Standards) Convention No.102 of 1952, in particular because they do not provide benefit in the form of a periodic and predictable payment throughout the period of the contingency and do not replace adequately the loss of income on retirement.

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

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

- Conversion of the lump-sum provident fund into annuity, by activating the provision of Article 24 (2)(b) of Government Regulation No.14 of 1993 (made under the social security legislation, Law No.3 of 1992) for paying out the accumulated balances as periodic payments.
- A partially funded public defined-benefit scheme that would pay benefit after a fixed number of years during which contributions have been paid is the system which is recommended for the conversion of the Jamsostek Provident Fund. A variant is a

notional defined-contribution scheme whereby workers earn 'pension points' from their social security contributions towards an eventual pension.

- A mandatory defined-contribution scheme in which contributions are collected and invested by Jamsostek or transferred for investment by an approved and regulated private pension company. The accumulated sums would be used at retirement age to purchase an annuity (with the possibility of commuting a part of the accumulated sums to a lump sum).
- A mixed pension system under which a mandatory flat rate defined-benefit system is provided for all workers, supplemented by a defined-contribution system (with the possibility of investment choice) being mandatory only for workers with an income above a certain level.

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

The level of the old-age benefit is not sufficient for adequate economic protection for life after retirement. Even if the members' individual accounts earn an equitable interest for the future, the estimated benefit level is 2.5 years' contributory salary (Currently, the average amount of the old-age lump-sum for the retirees at age 55 is only 5 months' contributory salary due to intermittent contributions and past unfavourable interest rates). This leads to the conclusion that the current contribution rate for old-age (5.7%) is too low to produce sufficient savings for old-age.

To date no progress is evident on the development of pensions scheme. This may be an issue for the National Social Security Board to address when it is finally established. In addition, coordination is necessary for the adjustment of retirement pensions and the provident fund benefits as stipulated in the SJSN Law.

### **3.5.2. Employment injury benefit (JKK) and death benefit (JKM)**

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

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

### **3.5.3. Health insurance (JPK)**

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

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

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

- Reforming each sub-sector separately – addressing the main efficiency and equity issues within each sub-sector separately while maintaining system segmentation;
- The integration of social health insurance – maintaining system segmentation between the poor and informal population and the formal population but developing a single, unified system for the formal sector with either:
  - A single integrated system with a single payer or insurance carrier; or
  - Virtual single integration through the uniform benefit-premium structure for all workers but with competition permitted between insurers, possibly with some mechanisms in place to compensate for the eventuality of market failure;
- Total system integration with the formal sector subsidizing the premium for the poor and the informal sector, so that they can join any insurer of choice (within the above scenarios). It would mean total separation of purchasing and provision and a radical shift from historic supply-side financing to “portability” of the public subsidy.

### **3.6. Feasibility of new benefit programmes for the formal sector**

#### **3.6.1. Maternity benefit**

In the last few decades, more women are employed in both formal and informal economies. The percentage of females in the workforce, which was 35.88% in 1985, rose steadily to 36.47% in 1995 and 38.3% by 2000. Despite these changes at the macro level, women constituted only 32.9 per cent of wage and salary earners. Women are also at a disadvantage in the labour market and on average are employed in less skilled jobs that pay a lower wage. These trends, which are prominent in most developing countries, require the attention of policy makers to ensure adequate social security protection that promotes greater gender equality.

Views were expressed that the present system of maternity protection providing paid maternity leave required by the employers' liability under Government Regulation No. 21 of 1954 needed review in order to overcome evasion by employers of their statutory obligations and to avoid discrimination against the employment of female workers. It was



considered that cash maternity benefit could be incorporated into the Jamsostek benefit programme as a social insurance benefit.

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

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

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

Since 2002, no progress has occurred either in relation to paid maternity leave in Indonesia. Lack of paid maternity leave further disadvantages Indonesian women workers in the formal economy. The lack of progress in this area is surprising since paid maternity leave is one of the low cost social protection programmes. This also is an area which the new SSJN Board could consider options.

### **3.6.2. Unemployment insurance**

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

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

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

There was, however, reluctance amongst the social partners to contemplate the extra funding costs that even a modest short term unemployment benefit would involve. It is reported that workers do not wish to see any further reduction in their net wages, nor lose severance pay entitlements. Employers do not wish to see their non-wage labour costs rise any further, or would wish to see their severance pay obligations reduced if unemployment insurance is introduced. Discussion with social partners should continue on priority, timing and funding for unemployment benefit insurance and on implications for the existing severance pay system.

A number of other issues would need to be resolved before any unemployment insurance benefit can be introduced in Indonesia. These include decisions on:

- The priority of unemployment insurance in relation to other social security objectives;
- What should be the funding source and, if funded by contributions, who should pay the required contributions?;
- The implications for existing severance pay system; and
- The need to upgrade the capability of Jamsostek, which is the logical carrier for the unemployment insurance programmes.

As of 2006 no action has been taken on this issue. Some preliminary consideration however has been given to the idea of redundancy insurance.

### **3.6.3. Social assistance**

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

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

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

- A rice subsidy scheme for poor people which entitled the recipients to buy 20 kilos of rice per month at a low price from Government supplied stockpiles.
- An Education Scholarship scheme which paid cash grants to students from poor households in order to encourage them to remain in schooling

- Health Cards (Kartu Sehat) for poor people which entitled them to free medical treatment in public hospitals and clinics (Puskesmas).

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

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

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

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

While it would not be currently feasible to set up a country wide cash social assistance scheme, it could be possible that such an approach could be considered in some of the more advanced provinces or districts of provinces. The core social assistance could include the following:

- Rice subsidy or its equivalent for the poor;
- Other food assistance for young children and nursing mothers in poor families;
- Health cards for the poor giving access to free treatment in public facilities and free or subsidised medicines;
- Education scholarships for children for poor families; and
- Cash grants to poor households where the local capacity to run such a system exists.

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

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

### **3.7. Concluding remarks**

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

## **Appendix to Chapter 3:**

### **Summary of recommendations on Jamsostek operations & IT**

#### **Processes and administration**

##### ***(i) Registration process***

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

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

##### ***(ii) Membership focus***

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

##### ***(iii) Compliance***

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

##### ***(iv) Work injury reporting***

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

#### ***(v) Jamsostek marketing***

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

### **Data management**

#### ***(vi) Unique Jamsostek membership number***

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

#### ***(vii) Record integration***

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

#### ***(viii) Data redundancy***

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

#### ***(ix) Data management***

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

#### ***(x) National index***

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

### **Information Technology**

#### ***(xi) IT organization***

The successful development and maintenance of IT systems is critical to the operations of Jamsostek and the achievement of its business goals. In recognition of the technical nature and to enhance the liaison and decision making process with the other directors, the management of the IT organization should be at directorate level and separated from the Finance Directorate.

The IT organization should be reviewed and the employment conditions for IT staff restructured to attract capable staff to fill all of the vacancies and maintain the critical data management positions in all sites.

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

#### ***(xii) IT development and maintenance***

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

#### ***(xiii) IT standards and procedures***

Jamsostek should have documented standards and procedures for:

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

#### ***(xiv) IT training***

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

#### ***(xv) Business re-engineering***

A business re-engineering planning workshop should be conducted to review the business needs and the IT architecture in order to develop an IT strategic plan and development plan in order to implement the new processes. The re-engineering workshop should be supported by the findings of an international study tour that targets the key organizational and IT architectural issues and the completion of an inventory of existing systems and their functions.

## 4. EXTENSION OF SOCIAL SECURITY COVERAGE TO THE INFORMAL ECONOMY

### 4.1. Introduction

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

The National Social Security System Law (SJSN Law, Law No. 40 of 2004) which came into effective on October 2004 is a major milestone in the development of social security system in Indonesia. The law anticipates the achievement of the universal coverage in a phased manner. The new Government gives high priority on the provision of health insurance for the poor. In 2005, Askes is tasked to provide health insurance for 36.1 million poor persons.

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

This Chapter presents the analysis of social security needs assessment of workers in the informal economy in both urban and rural areas and provides a basis for the formulation of the policy to extend the social security coverage to workers in the informal economy, based on the ILO Working Paper "Extension of Social Security coverage for the Informal Economy in Indonesia" in 2004.

### 4.2. Problems with extending social security coverage to the informal economy workers

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

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

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

employees, efficient collection of contributions is difficult with the existing administrative infrastructure.

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

### **4.3. Social security assessment of the informal economy workers**

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

#### **4.3.1. Classification of the informal economy workers**

Though the workers in the informal economy consist of heterogeneous groups, one can classify the workers in the (urban) informal economy in terms of access to and stability of the place of employment and the resources. This classification can help policy planners to develop progressive measures to extend the social security cover to workers in the informal economy. It may also assist in the identification of the poor and vulnerable groups in the informal economy. A realistic strategy would be to extend the scope of the coverage from relatively organised workers with more regular income to highly mobile workers who live on a day-to-day basis.

#### **4.3.2. Identification of priority needs and contributory capacity**

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

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



### 4.3.3. ILO surveys in the urban and rural informal economy

The ILO conducted two surveys which aim at collecting primary indicators of social security needs and information of the informal economy workers<sup>5</sup>. Key survey results are as follows:

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

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

## 4.4. Policy options and proposed programs

In general, there is no single solution to achieve the over-arching goal of universal coverage of social security. The following describes three policy options and formulate proposed programs.

- The first option is a gradual extension of the statutory social security schemes such as Jamsostek and Askes to all workers with employer-employee relation. Improvement in the administrative capacity and governance of these schemes is a key to the success of this option.
- The second option is to adapt the schemes to include benefit programs specifically designed to meet the needs and contributory capacity of self-employed workers.
- The third option is to promote micro-insurance schemes. To ensure the sustainability of the micro schemes, these schemes should be linked with the government that is expected to play a coordinating role and to act as the guarantor of last resort<sup>6</sup>. These policy options should be translated into action in an integrated manner.

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<sup>5</sup> The urban survey was conducted in 2001 in three areas that had heavy concentrations of urban informal economy and a total of 1,999 people were surveyed in East Jakarta, Bandung and Yogyakarta. The rural survey was conducted in November 2003 with a total of 2,169 informants in the rural areas surrounding Bandung at Sakabumi and Pandangaran in West Java, around Cirebon north east of Jakarta, and around Semarang in central Java.

<sup>6</sup> ILO has been implementing a global programme, Strategies and tools against social exclusion and poverty (STEP), which aims to extend social protection, in particular health insurance, to the excluded and the poor by

#### **4.4.1. Extension of the existing social security schemes**

##### ***(i) Measures and recommendations***

The option aims to bring all the workers with employer-employee relationships within the bounds of current legislation of the statutory social security schemes. In the case of Jamsostek, this option intends to remove the existing legislative restriction (Government Regulation No. 14, 1993), which limits the compulsory coverage to the formal sector enterprises with 10 or more workers and a monthly payroll of Rp. 1 million.

A shift of focus to smaller workplaces will require additional resources for the development and implementation of a program to reinforce the compliance with the regulations, which involves marketing, promotion, additional staffing, training, accommodation, IT programs and transport. The efficiency should also be enhanced to provide services for smaller workplaces. The extension of the formal scheme coverage should be accompanied with the improvements in the supporting administration capacity. A number of recommendations on the improvements in the procedure and administration, and information technology of Jamsostek made in the ILO Restructuring project are still valid. Without these improvements expansion of the membership will be difficult to achieve or remain less efficient.

The contribution and benefit structure under the existing legislation cannot provide the flexibility needed for workers in the informal economy. In the short term it is more feasible for Jamsostek to develop a policy for informal sector workers jointly with organized groups and private insurance companies by delivering flexible programs through local facilitators. The employer group collection method should be kept as it has proven to be efficient; however additional group collection methods need to be devised if smaller enterprises and self-employed workers are included in the statutory membership of Jamsostek.

##### ***(ii) Migrant workers***

Particular mention must be made to the international migrant workers as a growing number of Indonesian workers, a majority of whom are women, leave the country to work overseas. Migrant workers face multiple disadvantages in their working conditions, such as the lack of social protection. There is a need for improved social protection for migrant workers. The following issues should be addressed:

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

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promoting the development of community-based micro health insurance schemes and strengthening their administrative capacities.

#### **4.4.2. Special scheme for the informal economy workers**

Given the limitations of the current legislation and fund structure, it may be more effective to create a new fund and contribution model for informal economy workers. In the case of Jamsostek, this could be achieved through the development of the Government regulations as mentioned in Article 4 (2) of Act No.3, 1992.

##### ***(i) Development of the models***

To develop a viable social security scheme for informal economy workers it will be necessary to develop models that provide meaningful benefits with affordable contributions. Implementation of such schemes needs 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.

- Select the executing agencies and identify risks to be covered by the scheme.
- Design the programs in terms of the benefits, services, contributions and management fees (including risk assessments). The programs should offer flexible 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, old-age and other voluntary savings schemes.
- Develop administrative procedure 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 evaluation of the schemes. Develop a training strategy and programme for administrative staff.
- Define user requirements, analysis and design of an IT system with sufficient data that can be integrated into the unified IT system in the future.
- Design and develop the implementation and marketing strategy. Conduct a small-scale test of the suitability and sustainability of the programs.

Although a flexible approach that allows for more choices to the members will facilitate the entry of currently excluded workers, voluntary membership should be seen as a transitional measure to alleviate temporary administrative and budgetary constraints. In the long term the government must accept its responsibility to provide for a minimum social security system for all citizens.

##### ***(ii) A proposed self-funded program***

In extending social security to the informal economy workers, without government assistance by means of a contribution subsidy the success of any scheme will depend critically on being able to attract sufficient numbers of contributors. It is recommended that a large-scale (possibly area based) pilot scheme be conducted as the precursor to full-scale implementation of the scheme across the country.

The pilot programme would need to incorporate the elements of the above recommendations 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 economy 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 improve the enrolment rates and thus ensure a higher probability of long-term success and sustainability.

#### **4.4.3. Promoting micro-insurance schemes**

##### ***(i) Basic ideas***

Promotion of micro-insurance schemes based on group contributions would need to be considered as an alternative interim measure to provide social security for the informal economy workers.

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

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

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

##### ***(ii) A proposed pilot project***

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

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

- Self-help groups should be the core of the social security models.
- Groups should have external local facilitators from the social security agency and selected NGO and be supported by local administrations and other local partners.
- Contributions and benefits should incorporate flexibility to cope with the situation of the informal economy workers.
- Subsidies from all levels of government would encourage contributors and offset the high contribution to personal income ratio which is a feature of micro-insurance schemes,

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

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

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

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

The pilot scheme could assess the suitability and effectiveness of:

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

## **4.5. Extension of Jamsostek coverage for the informal economy workers**

### **4.5.1. Background**

The Ministry of Manpower and Transmigration (Depnaker) is currently working on draft Government Regulation to extend the four Jamsostek contributory social insurance programmes to “non-poor” workers in the informal sector, including farmers.

The drafting is proceeding on the assumption that some form of contributory membership will be compulsory, but with individuals voluntarily choosing the programmes they participate in. However, this development is at a very early stage, and many practical issues need to be worked through. These include how contributions are to be collected, and whether group schemes would be used for this purpose. Pilot projects are planned for 2006 in Central Kalimantan and Jambi.

Current thinking is that contributions will be flat rate amounts set on the basis of a percentage of the regional minimum wages. While contributions might formally be compulsory, the limited ability to enforce contributions indicates that compliance would in reality be largely voluntary for the foreseeable period.

### **4.5.2. Comments on the draft Government Regulation**

The draft Government Regulation aims to provide the coverage of Jamsostek for workers outside employment relationship. The legal framework for the Government Regulation depends on the Employees’ Social Security Act (Act No. 3, Year 1992), known as Jamsostek Act. Article 4 (2) of the Jamsostek Act stipulates that social security for the “employees outside the contract of employment” (i.e. those workers who do not have an employer-employee relation) will be provided by further Government Regulation.

The structure of the draft Government Regulation is similar to that of the formal sector employees (Government Regulation on the Implementation of Jamsostek, No.14, Year 1993). Although the draft Government Regulation takes into account some specific features of the workers in the informal economy (as we shall describe later), some of the provisions in the initial draft which reflect provisions designed for the formal employed workers may not be implementable in practice.

The following presents specific comments on the draft Government Regulation:

#### ***(i) Scope of the Government Regulation***

The scope of the draft Government Regulation covers workers outside employment relationship (Tenaga Kerja Di Luar Hubungan Kerja). However, under the current Jamsostek Act (Law No. 3 of 1992), the actual mandatory coverage is limited to employers with 10 or more employees or a monthly payroll of more than Rp. 1 million. Thus, the employees working in small-sized enterprises are still outside the scope of Jamsostek coverage. It is suggested that adequate action be taken to include the employees in small-sized workers in Jamsostek system.

### ***(ii) Types of program***

The draft Government Regulation stipulates that Jamsostek offer workers in the informal economy with the same programmes provided to the current Jamsostek members. These benefits include, Employment Injury, Death, Old-Age and Health care. A notable difference is that a worker in the informal economy can join selected programmes if he/she cannot afford to pay the contribution of the entire four programmes (Art 7 (3)).

### ***(iii) Compulsory or voluntary coverage***

It is a significant question as to whether the coverage of the informal economy workers will be compulsory or voluntary. Article 3 (1) says that every worker outside the employer-employee relationship is obliged to participate in Jamsostek. However, Article 2 says that this Government Regulation concern workers outside the employer-employee relationship who can afford to pay contributions. Article 7 (2) refers that a worker outside the employer-employee relationship is obliged to join the programmes in accordance with his/her ability to pay contributions. It is to be expected that rates of compliance with the Regulation and Jamsostek's capacity for enforcement will both be low, which coupled with the provision on partial coverage of benefits, means that the participation in the scheme will be, de facto, voluntary. In these circumstances, it may be advisable not to insist on compulsory coverage.

### ***(iv) Determination of contributory income***

The assessment of the ability to pay contributions is entrusted to a further Ministerial Regulation (Art 7 (4)). As most workers in the informal economy receive low and irregular income, it would be difficult to establish a reliable monthly income.

### ***(v) Rates of contribution***

The rates of contribution for the four benefit programmes will be specified in a further Ministerial Regulation (Art 8 (1)). In the absence of employers' participation, the total contributions are expected to be paid solely by workers, unless they are subsidized by the Government or by contributions from the formal sector workers. This may also make the contributions unaffordable by many workers in the informal economy.

Moreover, general lack of awareness of social security concept and distrust of government institutions, which are common among workers in the informal economy, negatively affect the willingness to pay contributions.

Results of the ILO surveys on social security needs assessment of the informal economy workers indicate that in the urban survey 41.4% replied that they were willing to contribute to a suitable scheme, while 16.0% replied positively in the rural survey. At the same time, the survey results confirm the limited contributory capacity for rural and urban informal economy workers. Without any form of cost sharing or subsidy, it would be difficult for the informal economy workers (especially those working in rural areas) to contribute Rp. 25,000 per month for health insurance in addition to premiums for other programs.

### ***(vi) Collection of contribution***

Unlike the case of employed members where the employers comply with making social security contributions on behalf of the employees, efficient collection of contributions is

critical to contain administrative expenses at a reasonable level. The draft Government Regulation allows for the registration and collection by organized groups. This is supported as the group collection will result in lower administrative costs.

### ***(vii) Benefit design***

As noted earlier, the same benefits are provided as the workers in the formal employment. Whilst it is certainly desirable to provide the full range of social security benefits when this is feasible, that objective must be balanced against the practicality of providing the type and level of the benefit programmes which are responsive to the priority needs and income constraints of workers in the informal economy.

The results of the ILO surveys on the social security needs assessment of the informal economy workers show that there is indeed a high need for some form of social protection for the informal economy workers and that health insurance is the highest priority across all sectors, followed by old-age provision; however workers in the urban areas then prioritised coverage for work injury whereas those in the rural areas highlighted the need for increased facilities for education..

Provision of employment injury benefits seems to be difficult to administer. First, it would be difficult to establish definitions of occupational accident or diseases due to irregular working hours and the fact that some jobs are done in the home or on the streets and that some employ family workers including children. Second, as there is no employer-employee relation, workers are the main sources of funding. Thus, instead of limiting benefits to work-related accidents and diseases, it may be more manageable to deal with accidents and diseases in the framework of health care and death and invalidity benefits programmes.

The ILO project has made a number of recommendations on the Jamsostek's benefit design (See Chapter 3). It would be instructive to summarise key recommendations in the following.

- The old-age benefits should allow for conversion of the provident fund benefits into pensions. It is also suggested that the pension age be set at higher than 55 years of age in consideration of life expectancy and the employment condition for elderly workers.
- The current provision to allow for withdrawals of old-age provident fund balance in the event of unemployment for longer than 6 months for workers who contributed at least 5 years (so-called 5 year / 6 month rule) should be repealed.
- The death benefit should also be paid as survivor's pensions.
- Health insurance should not limit the number of dependent children to three.

### ***(viii) Administration and enforcement capacity of Jamsostek.***

The improvement of administrative capacity of Jamsostek is a prerequisite for any projects that attempt the expansion of coverage. According to ILO estimates, the compliance rate of the formal employment sector currently stood at 32.5%. Given the fact that those currently excluded are more likely to pose considerable problems of registration, compliance, collection of contributions, and record keeping, expansion of the membership will be difficult to achieve or remain less efficient without the improvement in the supporting administration capacity.



Regarding supervision and inspection, as a state-owned enterprise, Jamsostek has to rely at present entirely on labour inspectors of the Depnaker for the inspection of establishments and collection of contributions (Art 38(1)). In addition, in the context of decentralisation, parts of the supervisory function have been transferred from the central to local governments. Lack of knowledge and skills regarding social security inspection for labour inspectors and local government staff is one reason for weak enforcement of compliance. Evidently, there is an urgent need for a collaborative approach to these functions as between Jamsostek and the labour inspectorate, which might also be extended to the inspectorate functions of the health ministry. It is suggested that, at the least, legislation should be amended to allow social security inspection to be managed by Jamsostek in order to improve compliance.

### ***(ix) Coordination with other programmes***

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

In particular, the programme for the informal sector workers is closely linked with the programmes to cover the persons who have insufficient capacity to pay contributions. The current Government gives high priority on the provision of health insurance for the poor. In 2005, Askes is tasked to provide health insurance for 36.1 million poor persons through JPK-GAKIN (Jaminan Pemeliharaan Kesehatan untuk Keluarga Miskin). An effective coordination should be ensured between the Jamsostek programme for the informal economy and the programme of health care for the poor.

Although the draft Government Regulation refers to the SJSN Act in its preamble, it is invoked within the framework of the Jamsostek Act. There is a need to consider the coverage of social security for the informal economy workers in the wider framework of national social security system.

### **4.5.3. Concluding remarks**

The draft Government Regulation is a first concrete step to extend the social security coverage for workers in the informal economy. The approach of the draft Government Regulation is to apply the provisions designed for the formal employed workers to the informal economy workers. In order to develop a viable social security scheme for informal economy workers it will be necessary to develop models which may be more flexible, and that provide meaningful benefits with affordable contributions.

As stipulated in Art 4 (3) of the draft Government Regulation, there needs to be an implementation plan (road map) defining the process of achieving the universal coverage in stages and strategic action plans that describe the goals to be achieved for each stage of implementation.

## **4.6. Conclusion**

There is a large unmet need for social security in the informal economy in Indonesia. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programs based on risks, income and needs, (iv) identify group collection

and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

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

The process of extension is slow and complex and it is not accomplished without strong commitment of the key stakeholders. Limited population coverage of social security is one of the major deficits for the fulfilment of Decent Work and the extension of social protection coverage should be given a priority in the Indonesia Decent Work Country Programme.

# 5. SOCIAL ASSISTANCE FOR THE POOR

## 5.1. Introduction

Whilst there has been little visible progress in respect of social insurance for workers in the formal employment sector, the current Government has given high priority for public interventions targeting the poor. The most dramatic of this work has involved new initiatives in Social Assistance introduced in 2005. These related to (i) Health Cards and (i) the Cash Transfer scheme for the poor. Some background work is taking place in departments on possible programmes for the non-poor in the informal economy, and more preliminary thinking on issues related to the existing social insurance institution programmes.

## 5.2. New Health Cards for the poor

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

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

The distinctive feature of the new system was the issue of Health Cards by PT Askes, the existing Health Insurance provider for many formal sector workers, with the Government paying premiums on behalf of the card holders.

Two distinct phases characterised the 2005 Health Card programme.

- In the first Semester covering the period January to May 2005, a target of 36 million covered individuals was set. This was equivalent to the estimated number of poor people in Indonesia, at just under 17 per cent of the population. Districts were allocated quotas on the basis of the estimated number of poor people resident in the district, with the local authorities providing the lists of qualifying individuals to the local branch of Askes. The cards then issued covered both free outpatient treatment in the local Health Centres (Puskesmas), and free treatment at hospitals, generally 3<sup>rd</sup> class public hospitals. PT Askes received funds to cover both areas, and in turn reimbursed Hospitals and Health Centres on a fee for service basis for health services provided to card holders.
- For the second semester covering June to December 2005, a higher target of 60 million was set, to include the estimated number of poor and near-poor. However, a

major change in coverage was made. Direct funding of the Health Centres was resumed, with funding going from the Ministry of Finance via the BRI Bank to the District Health Office. Fund holding by PT Askes was limited to the amount allocated to pay for use of hospital services. Health Card holders continued to get free treatment in the Health Centres.

Under the revised system funding for services delivered by Puskesmas is thus allocated directly to each district, as previously, with an allocation also to the provincial government to fund support services. PT Askes receives the funding for hospital health services for the poor who hold their issued cards.

As with the earlier Kartu Sehat, the biggest difficulty experienced in card issue has been in actual identification of the poor. Statistics Indonesia (BPS data) which was used as the basis for financial allocations to districts and in estimating "quotas" of poor people until recently had simply been a sample survey of under 1 per cent of the population. Hence, other methods had to be used to decide who are the poor at the local level.

Districts set up sub-district teams to do this. Some used the local Family Planning (BKKBN) estimates of household economic level. Others applied Statistics Indonesia (BPS) criteria, or their own methods. In effect there has been no uniform assessment system.

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

- Problems in reaching all the poor. In the first phases only an estimated 80 per cent of the quota numbers were actually achieved. People without local residence cards tended to be particularly disadvantaged.
- Targeting accuracy is problematic, with some poor households missing out on card allocation, and some non-poor people receiving cards.
- So far there does not seem to be an effective integration of poverty measurement for the scheme with the parallel BPS (Statistics Indonesia) poverty assessment for the cash transfer scheme, nor with the older BKKBN (Family Planning) assessment of household poverty.
- Socialisation problems in getting some card holders to believe that they will actually receive the services covered by the cards
- Excess allocation of cards by some districts. PT Askes can ask these districts to pay for the excess. Some districts in oil-rich East Kalimantan have done so, as their local policy is to widen coverage.
- The "temporary letter" from village heads giving people the equivalent of Health Card free services in Puskesmas still seems to be operating.

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

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

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

The involvement of PT Askes in the issue of Health Cards and the reimbursement of hospital providers now means that there is a degree of integration between Health Insurance cover for formal sector workers, and Social Assistance health cover for the poor. However, the large “non-poor” informal sector is not covered by these systems.

### **5.3. The Cash Transfer system**

The second major initiative commencing in October 2005 was the issue of grants of Rp. 100,000 per month (US\$10) to households of poor and near poor families. The announced target was 60 million people in 15 million households. The poor were to be initially identified by local authorities and classified by economic level on the basis of 14 criteria developed by BPS (Statistics Indonesia) (See Box 5.1.). Local authorities at the lowest level produce lists of households of people said to be poor. These households are then visited by a BPS enumerator who helps them fill out the assessment form. This is then sent to the local BPS office where the forms are graded and a list of poor households is developed. This list is then supplied to the Post Office, while entitlement cards are issued to the households assessed as poor. Cash transfers are made via the BRI Bank to the Post Office, which in turn makes payments in quarterly lump sums to the designated households. These must produce their BPS card to receive payment. Payments are made in lump sums of three months allocation at a time.

The source of this scheme is the budget surplus as a result of two oil price increases in 2005, which is estimated Rp. 89 trillion. The full year amount is estimated Rp. 137 trillion. The resulting oil price is still 80% of the global market price. Thus if the oil price is further increased at the global market price, further surplus up to Rp. 180 trillion is expected for 2006.

### Box 5.1. Criteria for receiving cash transfers

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

Other questions asked:

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

*Source: Translation of BPS Form PSE05.RT.*

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

This unconditional cash transfer is a one-year program. The government has allocated Rp. 17 trillion, of which Rp. 15 trillion is for the payment of the first three quarters (benefits and administrative costs) and Rp. 2 trillion as contingency reserves. BAPPENAS intends to implement a conditional cash transfer, possibly from the third payment in April 2006 and thereafter using the Rp. 2 trillion reserve.

This system has been running for only two months as part of a one year programme period, and feedback on its effectiveness is limited. However, issues expected to arise include:

- The accuracy of targeting, including poor people who miss out and leakages of assistance to non-poor people
- Whether there should be some extra conditionality on the eligibility of assistance, such as children attending school, and medical vaccinations achieved.

- Tradeoffs between cash transfers and direct provision of services. The merits of a cash transfer approach as against the alternative of direct services delivery to the poor via health, education, and nutrition programmes.
- Whether payment should be made to the (usually male) Head of Family, or the mother of children in the household as has been the case with some of the Latin American cash transfer programmes (e.g. Mexico).
- The administrative effectiveness of the scheme.

It may be noted that the Ministry of Social Welfare (Depsos) considered that poverty was on the rise again in late 2005 in the wake of the major fuel price increases. It thought that the gradual downtrend of poverty visible in the BPS statistics up to 2004 would reverse in late 2005. It considered the cash transfer system to be a needed offset to this trend. The Ministry currently uses a poverty income guideline of 125,000 rupiah per person per month as a measure of the poorest of the poor, 150,000 rupiah for other poor, and 175,000 rupiah for the near poor. These guidelines would classify 15 million households containing over 60 million people as poor or near poor, representing about 28 per cent of the Indonesian population of nearly 220 million people. On this basis payment of 100,000 rupiah per month to a poor family of 4 would raise their income by 16 to 20 per cent.

However, some other Ministries including Bappenas (Planning) were less enthusiastic about the Cash Transfer system, and questioned whether it was the most effective long term method of reducing poverty in a sustainable manner. As things currently stand, the new Cash Transfer programme is scheduled to last for one year. A project is being set up to look at the option of replacing the unconditional cash transfer with a conditional cash transfer programme.

## **5.4. A National Employment Guarantee Programme (NEGP)**

### **5.4.1. Rational of the NEGP**

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

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

The ILO, in collaboration with BAPPENAS, has formulated a National Employment Guarantee Programme for Indonesia. This programme aims to serve a dual purpose: (1) helping to alleviate situations of poverty, unemployment and underemployment, particularly among youth and in rural areas, and (2) creating productive assets and services for the economy.

Implicit in the arguments is also the notion of empowerment of the poor through work provision, and economic decentralisation, both of which are pre-requisites for achieving decent work conditions among the larger workers' community.

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

#### **5.4.2. The design of the NEGP in Indonesia**

The programme consists of three pillars:

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

Each of these would reinforce the other to form synergies.

##### ***(i) Targeting***

The programme proposes to target on the poor (and near-poor) who, as per the latest SUSENAS surveys and BPS's calculations, add up to about 15 million households in the country. For operationalising this (guarantee) programme, it is de rigueur to first identify the poor households through a census count, using relatively simple variables in the checklist: human capacities, physical assets and demographic characteristics. To double check on the list and also bring about greater legitimacy, participation from desa/kota communities as well could be sought. Some region-specific targeting—for identifying poorer locales—is also proposed, for which the 'small area estimating technique' could be of use. More research in this direction, however, is necessary before the method is standardised. Finally, a major issue is also of itinerant populations, and special effort would be required to accurately enumerate such populations.

##### ***(ii) Governance of NEGP***

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

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

A close cooperation between various ministries and departments, between provinsis, and between kabupatens within the provinsis, in addition to cooperation between different levels



of governance from the desa to the centre, are essential for the success of this programme. Finally, an organic link with different stakeholders is paramount.

### ***(iii) Workers' rights, obligations and wages***

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

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

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

### ***(iv) The asset link***

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

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

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

### ***(v) Monitoring and evaluation***

A strong monitoring and evaluation system will serve the programme to protect the interests of workers, projects and taxpayers. The M&E system would include: keeping accounts of employment, expenditure and completion of projects, inspection of working conditions,

wages and other problems of deployment at work sites, user-evaluation of completed projects, expenditure audit, and assessment of overall impact of the programme on the living conditions of workers and their households. Periodic open-house discussions at desa/kota levels to review the programme's priorities and local actions necessary to bring about improvement are also suggested. Finally, there is a proposal for redressing grievances.

#### ***(vi) Capacity building and social security***

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

(1) For capacity building, there are three aspects put forward:

- a. Select capacity building of the participating workers through skill impartation;
- b. Sustained schooling of the young in the targeted households;
- c. Very select health intervention.

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

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

#### ***(vii) Financing***

The annual expense of the proposal works out to about Rp. 31.9 trillion, minus the indirect expenses. The cost is worked out based on: (a) A monthly wage of Rp. 350,000 (national average); (b) Apportioning of up to 20 per cent workers on larger (or private) sites where the programme only pays the wages; (c) Keeping the wages to material expense ratio at 45 (wages):55 (material), on aggregate for projects exclusively designed for the programme; and (d) A token contribution for health insurance.

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

#### **5.4.3. Concluding remarks**

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

## 6. CONCLUSION AND THE WAYS AHEAD

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

- Formal contributory social insurance provides only four benefit programmes, and these enrol a small proportion of the economically active population. At best under half of formal sector workers currently representing only about 12 per cent of the total labour force are currently enrolled in these programmes, and in the private sector at least membership has been declining. This decline undermines one of the key traditional approaches for expanding social security coverage. Due to the delay in implementation of the SJSN Law, a number of the issues and reforms needed to address the issue remain unresolved.
- On the other hand, social assistance programmes have expanded rapidly since their initiation in the Social Safety Net, with a further major wave of expansion introduced in 2005. The new measures aim to increase social assistance coverage in the form of Health Cards and Cash Benefits from around 38 million to about 60 million people in about 15 million households, or about 28 per cent of the population. The rapid expansion of social assistance has been accompanied by issues of the long term effectiveness of programme design, and the accuracy of social assistance targeting.
- The majority of the population has no formal social security cover, including virtually all non-poor informal economy workers, and at least half of the formal economy workforce. However, preliminary thinking is going on about requiring informal sector workers to join Jamsostek programmes. The current thinking is to extend mandatory membership of Jamsostek to the informal economy, but to make specific programme membership voluntary. The effectiveness of this approach is likely to be low in view of the fact that most small employers and their staff currently avoid their legal requirements to enrol in Jamsotek.

### *Possible areas of ILO technical assistance in social protection*

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

Possible areas for future ILO involvement are the following:

- 1) The development and implementation of the Cash Social Assistance scheme, including issues of conditionality**

The ILO can assist the Indonesian Government (Bappenas) to develop an implementation strategy for the employment guarantee scheme. There is a possible collaboration with Starting Your Own Business (SYOB) project in East Java.

With respect to the conditional cash transfer, the ILO, through IPEC time bound programme, can play a role of monitoring the compliance of school attendance of children.

## **2) Social protection of migrant workers**

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

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

## **3) Extension of Jamsostek for informal sector**

ILO can assist DEPNAKER in developing the Government Regulation to cover the informal economy workers.

## **4) Implementation of the National Social Security System**

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

In line with the recommendations in Chapter 3, the ILO can contribute in the discussion on the design of the new benefit programmes

## **5) Capacity building for strengthening Governance**

The ILO can assist in the development of guideline (checklist) of social security inspection for the Labour Inspectors (with DEPNAKER, JAMSOSTEK, ASKES).

## **6) Awareness raising on social protection**

Possible activities include:

- Under the Youth Employment programme, an education material of social protection programme could be developed.
- Development of awareness raising materials for employers and workers (DEPNAKER, APINDO & Unions)

## **7) Improving the effectiveness of targeting of Health Cards for the Poor**

The ILO can work with partner agencies in the Indonesian Government to help improve the accuracy of targeting of the Health Cards to the poor.

The primary output will be an evaluation report which indicates whether the intended target group is being reached with the Health Cards. In the long term, the Indonesian authorities will regularly monitor the targeting accuracy of the Health Cards on an ongoing basis.

# ANNEX A: SOCIAL SECURITY IN INDONESIA

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

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

### ***(i) JAMSOSTEK (PT Jaminan Sosial Tenaga Kerja)***

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

### ***(ii) TASPEN (PT Tabungan Asuransi Pensiun)***

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

### ***(iii) ASKES (PT Asuransi Kesehatan Indonesia)***

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

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

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

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

Responsibility for different elements of the social security system in Indonesia rests with various government departments and public agencies, as illustrated in Figure A.1. The Department of Manpower and Transmigration (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 supervision of all public limited liability

companies (Perseros like Jamsostek, Askes and Taspen). The Ministry of Finance is responsible for the supervision of social insurance schemes (Minister of Finance is the single shareholder in these companies) and private pension schemes. The Department of Health and Social Welfare is responsible for the provision of health care but Jamsostek and Askes implement health insurance schemes. Social welfare is the responsibility of the National Social Welfare Agency.

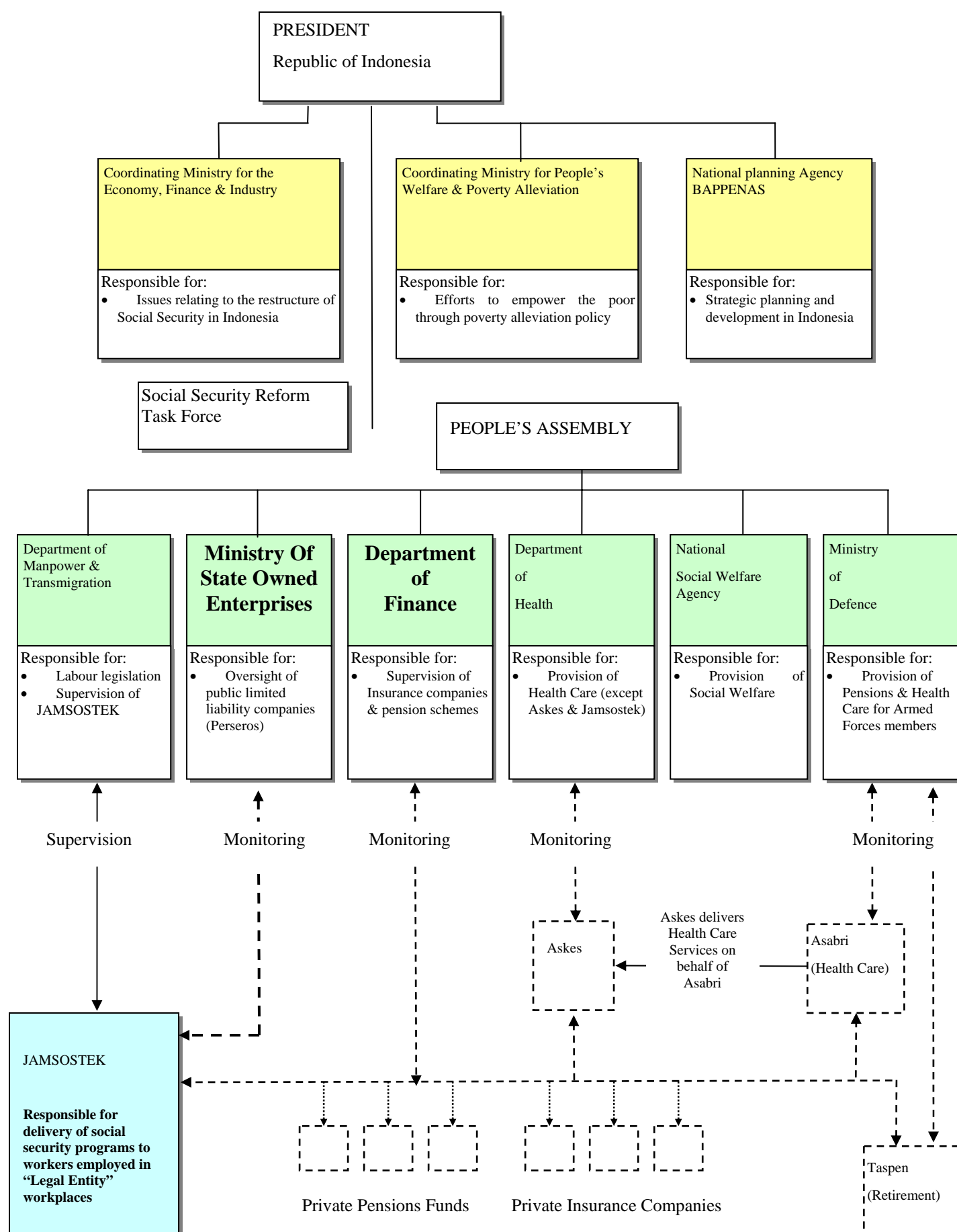
The current social security eligibility extends to employees of the civil service, military and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy and the unemployed or aged, rely on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

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

**OVERVIEW of INDONESIA SOCIAL SECURITY SYSTEM (Existing)**

SCHEME		GOVERNMENT EMPLOYEES SCHEMES Law No. 8/1974 on government personnel policy						PRIVATE EMPLOYEES SCHEME Law No. 14/1969 on basic manpower regulations			
LEGAL PROVISION		Armed Forces Presidential Decree 8/1977			Civil Servants Presidential Decree 8/1977			JAMSOSTEK Law No. 3/1992			
PROGRAM		Retirement Govt Reg No. 67/1991	Pension Law No. 6/1966	Health Care MOD Decree	Retirement Govt Reg No. 25/1981	Pension Law No. 11/1969	Health Care Govt Reg No. 69/1991	Work Accident	Old Age	Health Care	Death
FINANCIAL CONTRIBUTION	Employee	3.25%	4.75%	2.00%	3.25%	4.75%	2.00%		2.00%		
	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

**Figure A.1. Social security responsibilities in Indonesia**





## A.2. Labour force and social security coverage

As shown in Table A.2, social security is currently provided to a small portion of the population. Only about 16 million workers are covered by Taspen, Asabri and Jamsostek schemes out of a total labour force of about 101 million people (including job seekers). This means that only about 16% of workers are currently covered by formal social security schemes.

Health insurance by means of the public scheme (Askes) and private and micro schemes has more extensive coverage including family members. The estimated number of persons covered by the Jamsostek health care program is 2.7 million (of whom 1.5 million are workers). The coverage of Askes is estimated to be 13.8 million (plus 1.4 million 'commercial' members). Thus about 18 million people in Indonesia are covered by the formal health insurance schemes. Even adding those covered by private or employer-funded health insurance, a total of 30 million persons are estimated to have health insurance cover.

The formal employment sector represents about one-third of the labour force and this is the current capture group for Jamsostek membership. It can be seen that out of 33 million formal sector workers, only 9.3 million workers or 28% are actually contributing to Jamsostek. It should be noted that by 2004 the estimated Jamsostek membership was down to 7 million.

The employer groups excluded under current Jamsostek legislation are those 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% of the labour force.

**Table A.2. Labour force and social security statistics, 2002**

No.	Item	2002 (millions)
1	Population aged 15 years and over	148.729
2	Labour force (economically active)	100.779
3	Labour force participation rate	67.76%
4	Employed population	91.647
5	• <i>Employers</i>	<b>2.786</b>
6	• <i>Formal enterprises (for employers with legal entity)</i>	<b>33.123</b>
7	○ Urban formal workers	22.022
8	▪ Urban casual workers	3.559
9	○ Rural formal workers	13.101
10	▪ Regular employee in agriculture	2.238
11	▪ Casual employee in agriculture	4.513
12	▪ Rural employees not in agriculture	6.258
13	• <i>Informal enterprises (for employers without legal entity)</i>	<b>58.524</b>
14	○ Urban informal workers	17.069
15	○ Rural informal workers	41.454
16	Job seekers	9.132
17	Population below poverty line age 15 years and over	38.000
18	Jamsostek members (total data records held)	18.471
19	<i>Estimated Actual Jamsostek Individual Contributors</i>	<b>9.383</b>
20	Civil Service (Taspen, Asabri and police scheme contributors)	<b>6.300</b>
21	Taspen pensioners	1.780
22	Health care (including Jamsostek and Askes)	18.000
23	Health care (including Jamsostek, Askes and private schemes)	30.000
24	Active Taxpayers in 2003 (- includes 885,410 active companies)	2.134

### A.3. Overview of Jamsostek program

This section summarises key structure of the main social security scheme, Jamsostek. Table A.3 gives a brief overview of Jamsostek programs.

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)

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

#### A.3.1. Legislative framework on the coverage

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

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

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

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

**Table A.3. Jamsostek programs overview**

<b>JAMSOSTEK PROGRAMS</b>				
	<b>PROGRAMS and PAYMENTS of BENEFITS</b>			
<b>Program</b>	<b>Retirement Program</b>	<b>Life Program</b>	<b>Accident Protection</b>	<b>Health Care</b>
<b>Type of Scheme</b>	Provident Fund	Death Benefits Scheme	Employment Accident Scheme	Health Care Scheme
<b>Current Law</b>	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
<b>Description</b>	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.
<b>Coverage</b>	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.
<b>Contributions</b>	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
<b>Benefits</b>	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"> <li>➤ At age 55 years,</li> <li>➤ Total permanent disability,</li> <li>➤ Benefits to the surviving spouse or children in the event of death of member before age 55 years</li> <li>➤ When membership ceases due to unemployment after at least 5 years membership</li> </ul>	Provision of payments for: <ul style="list-style-type: none"> <li>➤ funeral expenses of Rp 1,000,000</li> <li>➤ death allowance of Rp 5,000,000</li> </ul>	The Accident benefits are: <ul style="list-style-type: none"> <li>➤ Transportation costs</li> <li>➤ Costs of medical examinations, medicinal treatment and nursing</li> <li>➤ Rehabilitation expenses</li> <li>➤ Monetary allowances for partial permanent invalidity, total permanent invalidity, loss of functions, and death allowance</li> </ul>	The Health care benefits are: <ul style="list-style-type: none"> <li>➤ Primary out-patient care</li> <li>➤ Subsequent out-patient care</li> <li>➤ In-patient hospital care</li> <li>➤ Pre natal, delivery and post natal care</li> <li>➤ Diagnostic support</li> <li>➤ Special care</li> <li>➤ Immediate life saving emergency services</li> <li>➤ Maximum of Rp 6,500,000</li> </ul>

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

This Regulation reduced the obligation of employers to register their employees in the social security scheme only to those employers with 10 or more employees and a monthly payroll of not less than Rp. 1 million (Note: Rp. 1 million is equivalent to around US\$ 100, or 2 to 3 times the minimum salary). The elucidation section of the Laws and Regulation manual indicates that the intent is to provide social security coverage to all employees but implementation is to be progressive and the first compulsory stage is the enterprises with 10 employees or Rp. 1 million payroll. Article 2 (4) of the Regulation provides that employers providing health care (by Askes or private health insurance) may opt out of the Jamsostek health insurance component if the benefits they provide for their employees are 'superior to the basic health care package'.

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

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

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

**A.3.2. Compliance**

Table A.4 indicates the membership statistics of Jamsostek as of September 2001, when there were about 9.4 million active contributors. The active members' data comprise only those members currently registered and contributing to the scheme.

**Table A.4. Membership statistics of Jamsostek, 2001**

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
<b>TOTAL</b>	<b>9,382,786</b>	<b>5,769,827</b>	<b>3,318,531</b>	<b>18,471,144</b>

Source: Jamsostek

The inactive members data 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.

It is seen that 5.8 million workers, or nearly 40% of the current members, are inactive and thus do not pay regular contribution.

The claimants' data represent the cumulative number of members who have claimed their retirement for the period from 1978 to 2000.

**Table A.5. Enterprises by size, 1996**

Enterprises	Number of enterprises by size of employees						
	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
<b>Total Enterprises</b>	<b>10,031,245</b>	<b>6,274,441</b>	<b>543,680</b>	<b>94,257</b>	<b>41,380</b>	<b>65,370</b>	<b>17,050,386</b>

Source: Economic census 1996, Profile of establishments with legal entity, BPS.

As shown in Table A.5, there were 97,499 employers registered with Jamsostek as at July 2001. Of these, 74,966 were active and 22,533 were inactive. It is seen from Table A.3 that the number of the registered employers (97,499) is approximately equal to the number of employers having a legal entity with 10 or more employees. This does not take into account the total payroll of Rp. 1 million which, if included would probably extend to all of the employers with 5-9 employees and most of the employers with 2-4 employees.

It is therefore estimated that at least 190,000 employers (with legal entity) should be compulsorily covered by Jamsostek. Moreover, if employers without legal entity are taken into account, the real potential under the existing legislation is at least 500,000 employers. The potential number of eligible employees i.e. from the formal employment sector with 10 or more employees or monthly gross payroll exceeding Rp.1 million, is estimated at about 27.3 million employees .

In addition to the limited scope of coverage, there is a problem of exemption. Although the coverage is compulsory for the old-age and death benefits, an employer is allowed to "opt out" to a private insurance that provides higher level of benefits. This clause inevitably results in the evasion of large enterprises from the scheme and thus limits the redistributive effect. Under certain simplified assumptions, about 3.7 million workers are not participating in the work injury scheme.

The participation of health care is significantly low. When this benefit was introduced in 1992, most state-owned and some private enterprises had already been registered with Askes. In addition, the contracting-out clause applies to this benefit. As noted earlier, the contracting-out clause has resulted in some adverse selection with better-paid workers more likely to be covered by Askes or 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.

### **A.3.3. Contribution evasion**

Contributions collected from employers and workers are the main income to the Jamsostek fund. As indicated in Table A.3, the total contributions for an average married worker for four benefits are about 13 percent of the contributory wage, of which 2 percentage-points

are deducted from the worker's salary. For the health care, the contributory wage is subject to a maximum of Rp. 1 million per month.

Moreover, there are some evidences of contribution evasion by means of underdeclaration of contributory wages. A common type of underdeclaration is to report the basic wage only that excludes various allowances and bonuses. The average contributory wage for old-age is estimated at Rp. 380,000 per month. Further, the estimated average contributory wage for health care is Rp. 250,000 per month, which is almost equivalent to the minimum wage level. Being a state-owned enterprise, Jamsostek has to rely entirely on labour inspectors of the Depnaker for the inspection of establishments and collection of contributions. The Government Regulation No. 14 / 1993 stipulates that employers have to pay a fine of 2% of contributions due for each month of late payment. In case of fraud, a penalty of Rp. 50 million or 6 months imprisonment can be charged. In practice, however, this clause is rarely applied.

#### **A.3.4. Benefit programs**

##### ***(i) Old-age benefit (JHT)***

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

- The average old-age benefit attaining 55 years of age is Rp. 2.1 million, or 5.5 months' average contributory salary (8.5 months' minimum wage). This benefit level is far from sufficient to provide an adequate income protection for the life after retirement. The low benefit level results from (i) an unfavourable rate of return, (ii) high administrative costs, (iii) low compliance rates and (iv) an insufficient contribution rate (5.7%).
- Since the economic crisis the number of withdrawals has increased significantly as a result of a sharp increase in the claims on grounds of the 5-years/6-months rule. In 2000, for example, more than 0.6 million workers, or 3.3% of covered workers, received this benefit for this reason. As of mid-2001, this trend was continuing. This suggests that since the economic crisis period the old-age benefit has been used as an unemployment benefit to cope with the emergent need of cash for the unemployed workers. However, these immature withdrawals of the old-age savings in turn weaken the old-age income protection.

##### ***(ii) Work injury benefits (JKK) and Death benefits (JKM)***

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

- The estimated incidence rate is about 1.3% per active insured worker, which appears to be significantly low.
- Medical costs have the largest share in the work injury benefits (38%), followed by death benefits (33%), temporary disability benefit (14%) and permanent disability benefit (13%). As a consequence of employment accidents, 86.5% of cases recover from illness but 9.5% remain permanently disabled and 4.0% die.

Death benefits are cash benefits payable to the family in the event of non work-related death of an insured worker. Currently, the benefits consist of a lump-sum cash benefit (Rp. 3 million) and a funeral grant (Rp. 0.6 million). It is planned to change the benefit formula to 6 times the last drawn salary with a minimum guarantee of Rp. 3.6 million. Also planned is to pay the funeral grant upon the death of the spouse of an insured worker.

### ***(iii) Health care benefits (JPK)***

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

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

#### **4.3.5. Casual and contract workers**

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 paid on a daily basis or are contractors and thus are not insurable under Jamsostek. Although this is common practice, it is not consistent with the legislation. There are numerous references in the Act and in the Regulation which clearly state that the intention of the legislation is for them to be included in the Jamsostek scheme.

Relevant examples are:

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

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

## **A.4. Overview of Taspen and Askes programs**

### **A.4.1. Taspen – Insurance and pension program for civil servants and retirees**

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

#### ***(i) Coverage***

Membership in the Taspen programme is compulsory for civil servants. In 1995, about 4 million current members and 1.5 million retirees were covered. In 1997, there were 1.646 million retirees and 743 thousand receiving survivors pension.

#### ***(ii) Contribution***

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

#### ***(iii) Benefits***

The benefits from Taspen include the pension plan providing periodical retirement pensions or survivors' pensions, and the lump-sum benefit (THT) payable upon death or retirement of an insured worker. The lump-sum benefit is equal to 16.5 months of salary in the event of death in service or on attainment of retirement age (56 years). The pension amount is calculated at the rate of 2.5% of the final monthly salary for each year of service. On death, before or after retirement, a monthly pension is paid to the widow or widower (or to the children if there is no spouse).

### **A.4.2. Askes – Health care program for civil servants and voluntary private organizations**

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

#### ***(i) Coverage***

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



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

### ***(ii) Contribution***

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

### ***(iii) Benefits***

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

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

## ANNEX B: STATISTICS

**Table B.1: Employment Status of Employed Men and Women aged 15 and over, 2004**

	Male	Female	Total
Own Account Workers	12,844,876	5,464,412	18,309,288
Self-employed assisted by family worker/temporary worker	16,896,284	4,616,121	21,512,405
Employer	2,602,977	363,596	2,965,893
Regular Employee	17,629,206	7,830,348	25,459,554
Casual Employee in Agriculture	2,841,687	1,608,234	4,449,921
Casual Employee not in Agriculture	3,228,822	504,016	3,732,838
Unpaid Worker	4,538,339	12,753,798	17,292,137
<b>Total Employed</b>	<b>60,581,511</b>	<b>33,140,525</b>	<b>93,722,036</b>
Unemployed	5,345,653	4,905,698	10,251,351
<b>Economically Active</b>	<b>65,297,164</b>	<b>38,046,223</b>	<b>103,973,387</b>

*Source: Labour Force Situation in Indonesia, August 2004, pages 115-117 and 25-27*

**Table B.2: Employment by sector in 2004**

	Male	Female	Total
Agriculture, Forestry, Hunting and Fishing	25,819,512	14,788,507	40,608,019
Mining and Quarrying	869,021	165,695	1,034,716
Manufacturing	6,660,143	4,410,355	11,070,498
Electricity, Gas and Water	210,527	20,342	230,869
Construction	4,428,668	111,434	4,540,102
Wholesale and Retail Trade, Restaurants and Hotels	10,230,959	8,888,197	19,119,156
Transport, Storage and Communication	5,285,517	195,010	5,480,527
Finance, Insurance, Real Estate, and Business Services	843,378	281,678	1,125,056
Social and Personal Services	6,233,786	4,279,307	10,513,093
<b>Total</b>	<b>60,581,511</b>	<b>33,140,525</b>	<b>93,722,036</b>

*Source: Labour Force Situation in Indonesia, 2004, pages 106-08*

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