

Indonesia

Restructuring of the social security system (Part 4)

ILO PROJECT INS/00/M04/NET

The feasibility of introducing an unemployment insurance benefit in Indonesia



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1. Executive summary

1.1 This report examines the feasibility of introducing an unemployment benefit in Indonesia as part of social security reforms to improve the level of social protection. The report forms part of the wider review “Restructuring of the Social Security System” (INS/00/MO4/NET) undertaken by ILO specialists. The report incorporates the findings of consultations and workshops held during 2001 and 2002 with social partners and other stakeholders. ILO consultant David Preston drafted this report.

1.2 At present Indonesia has no unemployment benefit, even for insured workers in the formal sector of the economy. It does have employer-liability redundancy laws in the form of severance pay. However, these proved to be of varying effectiveness and reliability during the aftermath of the 1997 economic crisis. Further, the absence of any more formal provision for unemployment compensation led to newly unemployed workers resorting to large-scale withdrawals of retirement savings balances from Jamsostek, Indonesia’s Social Insurance/Provident Fund in the wake of the crisis.

1.3 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 would make it very difficult to introduce wide coverage or long duration unemployment benefits in Indonesia. However, the report finds that 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. The capacity of Jamsostek would need to be upgraded to make this fully feasible.

1.4 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. However, there is currently a reluctance amongst the social partners to contemplate the extra funding costs than even a modest short term unemployment benefit would involve. 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. Government has no available revenue to spare. Further, some of the groups involved, including some NGOs, would prefer to see more active labour market policies rather than passive unemployment benefits. These issues need to be discussed further with social partners before any unemployment insurance benefit scheme can proceed.

1.5 The report analyses the financial viability of a short-term contributory unemployment insurance benefit, and concludes that a modest cost scheme is potentially viable, and would increase the degree of social protection for insured workers.

1.6 The report recommends that discussion with social partners continue on priority, timing and funding for an unemployment insurance benefit, and on implications for the existing severance pay system. It also recommends building into Jamsostek the capacity to administer a future unemployment insurance benefit.

2. Introduction

2.1 Indonesia, like many developing countries, has no unemployment benefit system. A severance pay system does operate for many formal sector employees, but not for the majority of the working population employed in the informal economy. De facto, the withdrawal of retirement savings balances held in Jamsostek, Indonesia's Provident Fund/Social Insurance Fund also acts unofficially as a means of coping with the financial impact of job loss, though again this option is available only to formal sector Jamsostek members, and erodes retirement provision for this group. Otherwise there is no formal provision for catering for unemployment. Instead people who lose a job or are unable to find paying work rely mainly on extended family and informal economy activities to manage.

2.2 The lack of any formal system to cope with unemployment led to large-scale hardship following the 1997 economic crisis. The ILO expert involved in the study concluded that a short-term contributory unemployment insurance benefit system is feasible, and could be introduced in the next few years as a means of improving social protection. At present the views of the social partners are divided on the relative priority of such a scheme, and who should pay for it. These issues will need further discussion and negotiation before any scheme can proceed.

2.1. Employment and unemployment in Indonesia

2.1.1 Out of a population estimated at just over 200 million in the year 2000, the estimated labour force in Indonesia was 95.7 million. Open unemployment was 5.8 million, with 89.8 million classified as being in employment. In 2001 open unemployment moved above the 6 million mark.

2.1.2 However, the majority of employed people in Indonesia are in the rural and urban informal economy rather than in the formal sector characterised by regular wage and salary employment and a clear employer/employee differentiation. Most of the informal economy workers are self employed farmers, vendors and small traders, and unpaid family workers.

2.1.3 Using a classification which treats all designated employers and employees as being in the formal sector suggests that Indonesia has about 31.5 million people employed in the formal sector, and 58.3 million in the informal economy. An alternative classification adds self-employed workers in professional, technical and administrative categories to the formal sector grouping, but treats wage workers in the agricultural sector as part of the informal economy. This approach suggests that Indonesia has about 26.7 million employed formal sector workers and about 62.4 in the informal economy. Either classification approach produces a substantial majority in the informal economy, and a minority in the formal sector of the economy.

2.1.4 Of the formal sector workers, somewhat over 9 million (9.4 million in 2001) were active members of the Social Insurance/Provident Fund Jamsostek. Another 9.1 million names on Jamsostek files million included 5.8 million inactive members and duplicate listings, and 3.3 million former members to whom benefits had been paid out.

2.1.5 A further complication in the formal sector is the frequent use of temporary contracts of up to 3 months employment or "outsourcing" of wageworkers. These people do not have the status of permanent employees, (though some contributions to Jamsostek may be paid on their behalf in some industries such as construction), and hence are not entitled to statutory severance pay or other redundancy payments from their employers if their contracts are not renewed.

2.2. Unemployment

2.2.1 The relatively low open unemployment rate of around 6 per cent hides a major degree of underemployment in Indonesia, particularly in the informal economy. People are classified as “employed” if they work at least one hour per week, including those involved in unpaid family labour. In the year 2000 a full 32 million of the “employed” group worked less than 35 hours per week, and many of these people would in fact take up more work if this were available. Adding this measure of underemployment to open unemployment would produce a figure of close to 40 per cent of the labour force being not fully employed or not employed. However, this approach tends to overstate unemployment since some of the group working under 35 hours does so from choice. Some officials suggested that about 10 million of the underemployed should be regarded as hidden unemployed, though the basis of this figure is not clear. The 1999 labour force survey indicated that 12 million in the group working less than 35 hours did so involuntarily. If this figure were used, it would imply that the underlying involuntary unemployment rate in Indonesia is about 18 or 19 per cent. Whatever the basis of the calculation it is clear that the official open unemployment rate significantly understates the degree to which the Indonesian labour force is under-utilised.

2.2.2 Prior to the 1997 crisis, most open unemployment in Indonesia consisted of young people who had left secondary schools or tertiary training looking for their first permanent paid job. Average job search time was then around 6 months. 82 per cent of the openly unemployed had never worked. Unemployment rates were lowest amongst the least educated people because they had little option other than to take up the least skilled and remunerated work, often as unpaid family workers. The somewhat better educated usually had some family resources to fall back on while they looked for better-paid work.

2.2.3 It may be noted that with an open unemployment rate of around 6 per cent and unemployment duration of around 6 months about 12 per cent of the labour force would become unemployed at some stage during each year. However, this calculation tends to understate the position because job losers who move into the informal economy are no longer counted as unemployed.

2.3. Impact of the 1997 crisis

2.3.1 The 1997 crisis changed the unemployment pattern, with several million people losing jobs in the formal sector. The impact was particularly severe in 1998, when real GDP in Indonesia declined by 13 per cent, and the proportion of establishments operating below 50 per cent of their capacity rose from 15.1 to 36.3 per cent. In the manufacturing sector in 1998, 2,526 enterprises dropped out of the lists of large and medium scale enterprises listed in the Statistics directory, equal to around 12 per cent of the number of listed enterprises. In the construction industry cutbacks were even larger. Even so, most of the displaced workers from closed or reduced scale enterprises did not show up in the open unemployment statistics. Part of the reason was that in the absence of any unemployment benefit, and in many cases also the absence of any severance pay, the workers who lost their jobs had to take any option available to support themselves and their families. Hence they continued to be classified in the statistics as “employed.” In the year 2000 the Labour Force Survey people who were formerly employed still constituted fewer than 30 per cent of those classified as openly unemployed.

2.3.2 Many of the displaced workers moved into other situations that were not classified as unemployment. Some returned to the agricultural sector as low paid workers or unpaid family workers, dropped out of the labour force (particularly women), took lower paid jobs in other parts of the formal sector, or informal economy work in urban areas. The latter category included many people who became itinerant vendors or

hawkers. Some also sought work abroad, though this effect was soon outweighed by the return of Indonesian workers from other countries also affected by the Asian crisis.

2.3.3 The statistical “disappearance” from the unemployment counts of most of the workers displaced by the crisis led to widely varying estimates of the “true” size of the rise in unemployment in 1998. The Ministry of Manpower estimated that displaced workers numbered 5.2 million in 1998 and estimated the unemployment rate at 14.8 per cent. BAPPENAS (Planning) initially estimated 3.84 million displaced workers, and the unemployment rate to be 13.6 per cent. The Task Force estimated 5.42 million displaced workers, leading to an unemployment rate of 10 per cent. None of these unemployment rate figures were reached when the actual survey results came out. The official open unemployment rate rose only from 4.7 to 5.4 per cent between August 1997 and August 1998, moving up to 6.4 per cent in 1999.

2.3.4 However, there was a massive decline in average real wages as price rises deflated the real value of money wages. General inflation was 78 per cent in 1998, while food prices rose by 118 per cent. Despite increases in money incomes, real wages fell by about one third in 1998. Mean consumption levels fell 24.4 per cent nationally. Those in urban areas fell 33.9 per cent, and in rural areas by 13.4 per cent. The distribution of the consumption cutbacks was skewed, and median consumption fell only 1.5 per cent, with the median urban reduction being 5 per cent. It is somewhat difficult to explain this pattern, but it may be composed of large consumption cutbacks by those directly affected by the first round effects of the crisis, plus precautionary reductions in discretionary spending by some other groups.

2.3.5 Per capita daily food consumption fell from 2,019.79 calories in 1996 to 1,849.36 in 1999. Protein consumption per capita in grams fell from 54.49 to 48.67. The national poverty index which had dropped to just over 11 per cent in 1996 rose to over 24 per cent by December 1998, though some changes in definitions cloud comparability of the figures. However the severity of the change is not in doubt.

2.3.6 Overall, the Indonesian labour market showed remarkable flexibility in adjusting to the crisis. However, the flexibility had a high human cost.

2.4. Impact on women

2.4.1 In Indonesia in the year 2000 women constituted about 38.3 per cent of the employed labour force. However, they constituted only 32.9 per cent of wage and salary earners, but 74 per cent of the unpaid family workers.

2.4.2 Women in Indonesia tend to be disadvantaged in the labour market and, on average, to occupy less skilled or at least less well-paid jobs than men. If employed they are more likely to be in the informal economy or in small-scale businesses in the formal sector where most workers are not Jamsostek members with social insurance cover.

2.4.3 The impact of the 1997 crisis on women was somewhat complex. On the one hand women were more likely than men to be dismissed from jobs in the formal sector as formal sector workers were laid off, and in the year 2000 constituted 42.5 per cent of the openly unemployed. On the other hand, the majority of women were in the informal economy or in small-scale formal sector employment where the employment impact of the crisis was less severe. This meant that in many households the women members became the breadwinners when males in the formal sector lost their jobs. Overall, employment rates amongst men and women changed to about the same degree, total employment for both groups rising only 0.3 per cent between 1997 and 2000.

2.4.4 Gender issues in relation to unemployment insurance benefits relate mainly to ensuring that women workers in enterprises are included in the insured workforce, rather than in the uninsured “outsourced” workforce, and obtain unemployment benefit rights. If active labour market programmes are also set up with unemployment benefit fund financing, the gender issues relate to ensuring that the types of programmes set up also relate to the needs and re-employment options of women and that women obtain access to such programmes in proportion to their representation amongst the unemployed.

2.4.5 For example, pilot small scale loan projects by the Office of the State Minister for Women’s Empowerment have indicated that there are significant numbers of women who have the capacity and motivation to run small scale businesses successfully provided funding and some training can be provided. The loan repayment rate of women who are advanced business credit compares favourably with that of men.

2.4.6 There are also gender issues for women in terms of maternity medical costs, maternity leave, and maternity leave benefits. These lie outside the area of unemployment insurance itself, but could be considered as part of a “package” restructuring of the Indonesian social security system.

2.5. Redundancy payments and use of retirement savings

2.5.1 Under Indonesian law permanent employees whose jobs are terminated by their employers are entitled to redundancy payments in the form of severance pay and service pay or gratuity, with amounts based on the number of years of employment. Generally under Articles 22 and 23 of the 20 June 2000 decree, one month’s pay accumulates for additional periods of employment up to a limit of 17 months total for the two elements combined. There are currently some unresolved disputes over the exact legal status of some of these entitlements. As noted, these provisions do not cover short-term temporary contract workers and those on 3 months probation before becoming permanent employees.

2.5.2 The law for severance pay provides for one month of severance pay for up to 12 months employment, with an additional month for each additional year of employment up to a maximum of 5 months severance pay for 4 or more years of employment.

2.5.3 Service pay (gratuity) accrues after 5 years of employment. It is 2 months for 5 but fewer than 10 years, 3 months for 10 but fewer than 15 years, 4 months for 15 but fewer than 20 years, 5 months for 20 but fewer than 25 years, and 6 months for 25 or more years.

2.5.4 After the crisis there was a variable outcome in terms of actual receipt of redundancy payments. In some of the worst affected sectors where enterprises collapsed (e.g. in construction) many workers did not receive their theoretical entitlements.

2.5.5 However, many formal sector workers drew on their retirement savings in Jamsostek the social insurance and provident fund for insured workers in the private sector. Jamsostek formally covers all workers in enterprises with 10 or more employees, or with a payroll of Rp.1 million a month or more. In theory this should mean coverage of the majority of formal sector workers. In practice coverage is somewhat more than 9 million members, or around 12 per cent of the employed workforce. This group is required to contribute to the Jamsostek old age benefit provident fund.

2.5.6 One of the ways for unemployed workers to adjust to their need for money to fund their expenses is to withdraw Jamsostek old age benefit balances. This can be done once a member has been a provident fund contributor to the old age benefit fund for five years or more, plus an additional wait period of 6 months, and has become unemployed. Total early withdrawal claims prior to the age of 55 because the workers were laid off were 241,760 in 1997, 493,131 in 1998, 610,791 in 1999, and 632,055 in the year 2000. In the same

years withdrawals made because the person had reached the age of 55 were only 28, 612, 33,657, 33,650, and 34,085 respectively. In effect the Jamsostek retirement savings scheme is being used mainly for purposes other than financing individual retirement savings.

2.5.7 First half-year data for 2001 showed that withdrawals for Jamsostek were 316,242, or in other words were continuing at the high year 2000 rate.

2.5.8 The use of Jamsostek old age benefit savings balances in this way suggests that there is a large financial need faced by dismissed workers which is not adequately met by other existing systems, including severance pay. The size of the groups making withdrawals in relation to Jamsostek active membership also suggests that Jamsostek may not have strictly observed the 5-year limit. It is also possible that part of the withdrawal was opportunistic. The high price inflation rates of recent years and the associated negative real return on Jamsostek investments may have persuaded many workers that Jamsostek old age benefit savings balances are not a good investment. These factors point to the need to achieve positive real net returns on Jamsostek investments - though this issue lies largely outside the scope of unemployment cover as such. However, attitudes to Jamsostek do affect workers willingness to sign up for Jamsostek programmes, which in turn impacts on the likely coverage of unemployment insurance if Jamsostek is the administrative carrier of an unemployment insurance fund.

2.5.9 The development of more formal arrangements to address income needs during unemployment may allow retirement savings in the Jamsostek old age benefit accounts to be preserved for their intended purpose. This issue is to be addressed in the pensions project.

2.6. Options for unemployment cover

2.6.1 In principle there are a number of different ways by which some additional protection could be provided to Indonesian workers who lose their jobs because of economic conditions affecting the firms previously employing them. Before returning to the option of unemployment insurance, it is desirable to comment briefly on each of these options.

- expanding redundancy payments to cover short-term workers;
- redundancy insurance;
- a central redundancy fund;
- unemployment insurance with private companies;
- a compulsory savings scheme;
- social assistance for the unemployed;
- tax-funded unemployment benefits; and
- unemployment insurance on social insurance principles.

2.6.1. Expanding redundancy coverage

2.6.1.1 Indonesia already has a redundancy payment system in the form of service and severance pay for those permanent employees who are discharged from employment. It does not cover short-term contract workers, those legally employed for periods of less than 3 months (notably probationers), and some other categories of “outsourced” workers.

2.6.1.2 It would be possible to extend the redundancy scheme to short term workers by treating all cumulative periods of employment with the same employer as periods of service for service and severance pay purposes.

2.6.1.3 However, there are a number of problems with this approach:-

- firstly, employers could get around the severance pay requirement by hiring different workers at the end of short-term contract periods. This would mean that short-term workers were still uncovered in practice;
- the second problem is that people with short periods of employment with any employer, even if they are permanent employees, would get very little out of severance and service pay, even though their income support needs are the same as those of a worker with longer periods of employment; and
- thirdly, as now, if an enterprise collapsed financially workers may get little or nothing in the way of severance or service pay. This was a major problem after the 1997 crisis.

2.6.1.4 One partly offsetting advantage of lump sum redundancy payment schemes is that the former employee has an incentive to seek re-employment rather than remain passively unemployed.

2.6.2. Redundancy insurance

2.6.2.1 A second option is to require all employers to take out redundancy insurance from private insurance companies for their employees to ensure that due severance and service pay obligations are met.

2.6.2.2 This is theoretically possible, though the costs of this to employers are unclear. An employer with many long serving staff is likely to have to pay very high insurance premiums. This would work against stability of employment for workers because when the system came in it would be cheaper to for some employers to seek to replace longer-term staff with new workers whose insurance premium costs were lower. It would be cheaper to hire new workers for short periods only.

2.6.2.3 A second problem is that it will be difficult to enforce compliance on insurance, particularly from smaller employers, just as it is difficult to enforce compliance with requirement to pay premiums to Jamsostek. However, the biggest problem is that staff with short periods of service would get very little severance and service pay, as at present. This means that the amount received would be unrelated to their needs or period of unemployment. This is a basic flaw of the existing system.

2.6.3. A central redundancy fund

2.6.3.1 A related option would be to set up a central redundancy fund financed by premiums from employers. This could be attached to Jamsostek. This would levy premiums on employers based on the length of service of their staff, and pay redundancy when workers lost their jobs.

2.6.3.2 This approach is also possible, but is likely to require much higher average premiums from employers than would an unemployment benefit insurance scheme because it would have to take over liability for past service. It would also be more complex to administer because it would need a highly differentiated premium structure. Calculating premiums would require large amounts of detailed information from employers about the length of employment of their staff members in order for premiums to be set. This would rise administrative and compliance costs.

2.6.3.3 Like the private insurance option, it suffers from the disadvantage that workers with short periods of employment would receive little when they lost their jobs, but those with long service would receive the most even if they immediately became re-employed elsewhere.

2.6.4. Unemployment insurance with private companies

2.6.4.1 The fourth option is to require unemployment insurance with private insurance companies for formal sector workers. This would mean that employers would have to take out insurance cover to protect their staff against periods of unemployment.

2.6.4.2 This option is theoretically possible, and improves the position of workers employed for short periods, and workers whose employer collapses and is unable to pay severance and service pay. However, private unemployment insurance has many of the same problems as redundancy insurance with private companies. It would also mean that employers were paying contributions both to Jamsostek and to the private insurance company, which raises both administration and compliance costs.

2.6.4.3 Risk pooling would be less than with a central fund, and the need for private companies to make profits and pay taxes would imply a higher premium cost for employers than with a centralised fund.

2.7. Compulsory savings schemes

2.7.1 A further option would be to require all formal sector workers to contribute to individual compulsory savings schemes. Amounts from these schemes could be withdrawn when a person became unemployed.

2.7.2 In reality this is virtually what has happened to the Jamsostek old age benefit scheme, with the side effect of undermining its primary purpose of providing savings for old age benefits.

2.7.3 However, as a means of providing unemployment protection the compulsory savings approach has serious flaws. There is no risk pooling, so the amount required to be saved by each individual involves far higher contribution rates than would an unemployment insurance fund. Further, younger workers or those with limited periods of employment including many women would not have much accumulated in the way of balances to cover their unemployment risk.

2.7.4 If the Government ever wished to introduce a compulsory savings scheme, this would have to have other objectives than providing unemployment insurance. The compulsory savings approach could have some attractions in a period of booming demand and rising pressure on resources. However, this is not the current situation in Indonesia.

2.8. Social assistance for the unemployed

2.8.1 A sixth option is not to have any unemployment benefit as such, but simply cover the unemployed by any social assistance allocated to other poor people in social safety net programmes.

2.8.2 This is possible, but would mean that many formal sector workers continued to have no unemployment protection that recognised their special situation. This usually involves location away from their villages of family origin and residence in higher cost urban areas.

2.8.3 Social assistance to this group would also raise government budget costs. Fiscal considerations suggest that it would be preferable if any provision for coverage of the unemployed were self-funded rather than an extra claim on the normal revenue base. However, social assistance is a fall back option if none of the other options proceed. Further, once entitlement to unemployment benefit expires, social assistance would be required for some of those unable to obtain employment. Social assistance is covered separately in a different part of the ILO project.

2.9. Tax-funded unemployment benefit

2.9.1 Another option is for the cost of unemployment benefits to be met from the government budget. This type of system might involve flat rate unemployment assistance benefits, perhaps set at the level of the minimum wage in each area, and tax increases to cover the costs.

2.9.2 This is also theoretically feasible. However, the Ministry of Finance has indicated that there is no spare money to fund such a programme, and it could not be considered a priority for scarce budget funding. Accordingly, this option is not further considered.

2.10. Unemployment insurance with a central fund

2.10.1 The most feasible option (if unemployment benefits are to proceed) is unemployment insurance operated from a central unemployment insurance fund, and funded by standard premiums set as a percentage of insured wages.

2.10.2 This is the option with the simplest structure and potentially the lowest operational costs. It could be run as a Jamsostek programme, which would mean that formal sector employers would have to deal only with the organisation they are already dealing with. This would lower their administration costs and the overall compliance cost.

2.10.3 Once Jamsostek has completed its proposed computer and information system upgrade, it should be possible to add in an Unemployment Insurance programme to existing Jamsostek functions. However, Jamsostek would need more staffing and other resources, and the cost of this would need to be built into the contribution levy rate.

2.10.4 A major potential advantage of a separate unemployment insurance scheme is that this would make it possible to preserve old age benefit savings accounts in Jamsostek solely for retirement purposes. Ending the practice of using these balances as a source of unemployment finance would have two types of benefit. It would provide more for workers when they retired from the labour force. It would also tend to raise the national savings level, providing more domestic funding for development.

2.11. International Labour Standards in relation to unemployment benefit

Two up-to date ILO Conventions cover unemployment benefit: The Social Security (Minimum Standards) Convention, 1952, No. 102 and the Employment Promotion and Protection against Unemployment Convention, 1988, No. 168. Convention No. 102 fixes worldwide agreed minimum standards of social security whereas Convention No. 168 sets higher standards with regard to the protection in case of unemployment. Indonesia has not yet ratified either Convention No. 102 or Convention No. 168. However, Convention No. 102 contains basic requirements and general principles and serves therefore as a guideline which should be applied for all social security systems throughout the world. A short description of the requirements of the Convention with regard to unemployment benefit is set out below.

Convention No. 102 covers the contingency of unemployment benefit in respect of suspension of earnings, as defined by national legislation, due to inability to obtain suitable employment in case of a person protected who is capable of, and available for, work.

The Convention prescribes that, in case of a contributory unemployment benefit scheme, at least 50 per cent of all employees in the country shall be protected. In case of a universal unemployment benefit scheme, all residents whose means during the contingency do not exceed a prescribed limit, shall be protected.

The Convention requires that in case of an earnings-related unemployment benefit scheme, the cash benefit shall be at least 45 per cent of the previous earnings of the protected person whereas in case of a flat-rate unemployment benefit scheme, the cash benefit shall amount to at least 45 per cent of the wage of an unskilled male labourer of the country

The Convention allows to fix a qualifying period, however, only as long as the State, which has ratified the Convention, regards it as necessary to preclude abuse.

According to the Convention, the payment of the unemployment benefit may be limited to 13 weeks within a period of 12 months. Where all residents, whose means during the contingency do not exceed prescribed limits are protected, the benefit may be limited to 26 weeks within a period of 12 months. The Convention also authorizes a waiting period of the first seven days in each case of suspension of earnings.

Seasonal workers may be treated in a different way: the duration of the cash benefit and the waiting period may be adapted to their conditions of employment.

3. The feasibility of unemployment benefit in Indonesia

3.1 There are a number of conditions, which should desirably be met before introduction of an unemployment benefit scheme is considered in a country. These include:-

- need for the scheme
- economic feasibility
- ability to administer the scheme
- the existence of matching services for employment and training.
- support from the social partners

3.2 These issues will be considered briefly.

3.1. Need for a scheme

3.1.1 There is little doubt that some type of measure to assist those who become unemployed is necessary. While the Indonesian labour market has showed itself to be remarkably flexible, and the rural extended family still operated to a considerable degree in helping those affected by the recent crisis, the overall impact of the 1997 crisis on the population was severe, particularly for those who lost their jobs. This is indicated in particular by the decline in food consumption per head. The massive withdrawals of provident fund savings balances by the unemployed also pointed to an unmet financial need.

3.1.2 Over the longer-term perspective, those who become waged workers in the urban formal sector (and also many informal economy workers in urban areas) gradually lose touch with their rural roots, and extended family ties tend to erode. This means that formal systems of protection against the consequences of unemployment become important to workers. What these formal systems should be is a more open question.

3.1.3 The existing system of severance and service pay for formal sector workers did not operate well in the crisis. When firms collapsed, no severance pay was available. Further, many workers with short periods of service only received very little, while all the short-term contract workers were ineligible for any payments.

3.1.4 An unemployment benefit would assist workers who become unemployed. It will also provide benefits for the other social partners by strengthening social consensus and reducing employee resistance to economic and industrial restructuring.

3.2. Economic feasibility

3.2.1 Unemployment benefits and more particularly, wide coverage unemployment benefit systems generally operate only in developed economies where the majority of the employed population is in the formal sector, and there is a substantial “economic surplus” above household consumption needs and basic administration and development costs. Where such a surplus emerges, contributions or taxes can be levied to fund unemployment benefits or other social security priorities.

3.2.2 On these two criteria Indonesia ranks poorly. Most of the labour force is in the informal economy. Per capita GDP was only US \$669 in 1999. In purchasing power parity terms this was still only US \$2,857.

This leaves limited scope to fund social protection measures; Government expenditure priorities for development in the social area are heavily weighted towards improvement of the educational and health services available to the population. Social protection priorities are currently located in “Social Safety Net” provisions designed in principle to help the very poorest.

3.2.3 What this amounts to is a situation where “wide coverage” unemployment benefits are not yet economically feasible in Indonesia. It is not possible to envisage granting entitlement to unemployment benefits to the majority informal economy, nor to all the potential job seekers in the population. There are also significant limits on the extent to which even formal sector workers can be covered in the short run. For the next few years all that appears to be economically feasible is the development of unemployment insurance benefits for insured workers in the formal sector. On the basis of Jamsostek active membership this is only around 12 per cent of the employed labour force, plus possible coverage for those in the public sector who represent about 4 per cent of the labour force. However, as economic conditions improve this proportion could be increased by widening the net of mandatory coverage as well as increasing compliance rates amongst those who are currently required to be Jamsostek members, but have not enrolled for membership.

3.3. Ability to administer an unemployment benefit system

3.3.1 The potential administrative capacity to run an unemployment benefit system in Indonesia is mixed.

3.3.2 The Indonesian social insurance and provident fund for private sector employees (Jamsostek) is currently able to administer several social insurance and savings programmes for over 9 million active members. With some extension of capacity, including better information and processing systems it could add unemployment insurance to its existing set of programmes for existing client members and for new contributors who are prepared to sign up to membership. However, the extent to which this would much widen the membership base in the short run is uncertain since Jamsostek is currently unable to draw in all the employers and workers who are legally required to be members. Non-membership, under-reporting of staff numbers, and under-reporting of wages paid are all existing problems for Jamsostek.

3.3.3 More seriously, Jamsostek currently lacks the ability to run a large-scale periodic payment system, and the capacity to verify the actual employment status of benefit claimants. Jamsostek does not at present even have its own inspectorate. A periodic payment system could be set up in the medium term. However, it will be much more difficult to verify the employment status of benefit claimants, since a high proportion of the jobs into which the unemployed might gravitate will be in the informal economy or in the parts of the formal sector not connected to Jamsostek, and hence not providing a source of information on re-employment.

3.3.4 What this amounts to is a situation where “long duration” unemployment benefits are not administratively feasible for the medium term. Any unemployment insurance benefit at this stage could be short duration only because of the inability to verify employment status for long duration benefit claimants. A possible outcome of this situation is that most claimants could receive the benefit for the maximum legal duration of payment.

3.4. Existence of counterpart services

3.4.1 Unemployment benefit systems operate more effectively when there are counterpart services for job seekers, notably employment services, training schemes, and in some cases special employment schemes. Available data indicates that Indonesia has limited labour force coverage through its employment centres, and very limited availability of training places for the unemployed. This means that these counterpart services can provide only limited support to an unemployment benefit scheme.

3.5. Employment services

3.5.1 In Indonesia there are a number of employment centres set up by the Government at which the unemployed can register their status. The 1997 Depnaker (Ministry of Manpower) statistics showed that 1,542,522 people registered, and 492,705 employment placements were made. Thereafter numbers in both series declined. Registrations dropped to 1,119,750 by 1999, despite higher unemployment levels, and to 865,392 in the first 10 months of 2000. Placements were down to 395,214 by 1999 and 238,861 by the first 10 months of 2000. It is not clear how much of the declines are due to a reduction in actual registration rates, and how much to deficiencies in reporting to the central government since regionalisation and devolution of the responsibilities to provinces and districts.

3.5.2 How these registration statistics relate to the numbers of the openly unemployed is less clear. The labour force survey of the 6,030 thousand openly unemployed in 1999 identified only 214 thousand or 3.5 per cent of this group who had registered with the unemployment centres. Assuming an average unemployment duration of 6 months, including that of first job seekers, and hence a flow of about 12 million formally unemployed in the course of the year, this would still give only 428 thousand of the openly unemployed who used these centres over the course of 12 months. This is only 38 per cent of the numbers reported as using the centres. The difference may reflect the large numbers of people who are not officially unemployed but who were looking for formal sector employment and registered their interest with the centres. This could include many intending school leavers and unpaid family workers.

3.5.3 In terms of capacity, on the basis of existing Jamsostek active members and the “standard” calculation explained later in this text, the requirement for unemployment insurance fund members to register with the employment centres in order to claim unemployment benefits would somewhat more than double the number of people registering with these centres. Whether the employment centre system could cope with this surge without additional resources is unclear. Some of the surge could presumably be taken up from existing capacity if registrations returned to the 1996-1997 level of 1.5 million per year, but compulsory registration of insured job seekers is likely to push the annual registration totals to closer to 2.5 million registrations per year, unless there was a large drop in registrations of the non-insured.

3.6. Training

3.6.1 Training capacity for the unemployed in Indonesia is on an even more limited scale. There are currently 156 training centres in Indonesia, though only 24 are of significant size and most have an annual training capacity of only 600 to 700 per year. There is a very limited geographical coverage in relation to local labour markets, since Indonesia has over 4,000 districts.

3.6.2 In 1997 the centres provided training to 95,709 people, including employed as well as unemployed. This was equal to around 6 per cent of the registered job seekers but only 1.6 per cent of the openly unemployed and around 0.5 per cent of the numbers of openly unemployed plus involuntary short time workers who were underemployed. Since then regionalisation has shifted all but 6 centres out of the central government sector, and national on training are currently not available. Centrally financed training place availability was estimated at around 25,000 places in the year 2001, including that provided by mobile teams. Depnaker officials thought that the training centres were operating at about 40 per cent of capacity, but that some other training programmes were running in the private sector. However, the recession had weakened employer incentives to train. For the public centres the policy was to train to meet needs where jobs were available, not simply to train.

3.6.3 Overall, while there is some spare training capacity in the existing centres, it is quantitatively small in relation to the size of the pool of unemployed people. Further, liaison problems associated with devolution will be difficult to deal with in the short term.

4. Attitudes of the social partners and other stakeholders

4.1 ILO consultation with the range of stakeholders indicated a range of attitudes towards unemployment insurance that impact on the feasibility of an early introduction of this form of social protection. Discussion with various groups of social partners probed the issue of the need for and priority of an unemployment benefit, and a number of funding options. These were:

- employer funding;
- employee funding;
- shared cost funding between employers and employees; and
- employers pay, but obligations to pay severance pay reduced.

4.2. Employees

4.2.1 Generally, employee organisations contacted as part of the project were cautious. Most favoured unemployment insurance benefits in principle. However, with some exceptions most wished employers to pay all or most of the premiums needed, and did not wish to lose existing severance and service pay entitlements. They were reluctant to envisage any financial arrangements that resulted in any further reduction in net real wages. A number of employee organisation representatives indicated that they wished to have more information on what any scheme would involve before they expressed a firm view. Detailed points, which emerged in a number of discussions, were:

- employee organisations were supportive of the idea of unemployment benefits. In the first instance this could be payment of benefits for people who lost their jobs. They also felt that something needed to be done for low-income people in the informal economy;
- a preference was that unemployment benefits should be funded by employer levies. The Government should pay for assistance to people in the informal economy. The counter-comment that the real economic incidence of the levies might fall on the real net incomes of workers was also acknowledged;
- when asked how much the employees were themselves prepared to contribute to an unemployment benefit system, the answer was that it would first be necessary to know what such a system could deliver. The Bali union representative was prepared to accept a 50/50 split of costs between employers and workers provided real minimum wages were first raised. Other employee groups were not currently prepared to go this far, or reserved their position;
- there were mixed views about social budget priorities. Some felt that the priority was employed people in the formal sector who lost their jobs. This group was seen as needing some form of income-related unemployment compensation. However, some of those present thought that the low-income unemployed were the priority;
- the process of developing any system was seen as important. The unions wished to be consulted and involved, and not marginalized as was considered to have happened in the past;
- Jamsostek was not held in high regard. It was regarded as slow, unresponsive to workers needs, and wasteful in its administrative spending, including the building of lavish buildings;
- governance of any future unemployment insurance scheme was seen as critical. It should not be run or dominated by Government. A tripartite Board was favoured; and
- the need for policing of unemployment benefits to prevent fraud was acknowledged.

4.3. Employers

4.3.1 Employer organisations had a more varied response. Some supported and some opposed the idea. Those supporting the idea, particularly a number of the Jakarta employers, recognised a problem and were prepared to envisage shared costs for unemployment insurance in the longer run, provided that there was some offset to severance pay obligations. However, they felt that existing economic conditions were unfavourable to any such new initiative. Employers generally considered that employers could not currently afford anything that raised real production costs and the cost of employing labour. There was clear opposition to any unilateral increase in costs faced by employers. Some employers wanted any unemployment insurance coverage limited to those they regarded as permanent staff.

4.3.2 The Jakarta employers were also doubtful of the cost-effectiveness of special employment and retraining schemes for the unemployed. They noted that Indonesia lacked sufficient training capacity places, and in any case priority needed to go to training for actual jobs for employed or soon to be employed people. Also, labour-intensive unskilled work did not do much to fit people for more skilled work when the economy picked up.

4.4. Attitude of NGOs and community organisations

4.4.1 Some NGOs and community organisations also had reservations about unemployment benefits paid for passive inactivity following job loss. For example representatives of Muslimat (a large Muslim women's organisation) expressed preference for active programmes for the unemployed, which taught new skills that led to jobs, provided special employment, or developed other options for longer term self support.

4.4.2 A preference for active labour market policies and initiatives which developed capacity was also expressed by some other NGO representatives.

4.5. Government officials

4.5.1 Officials generally were cautious in their views on an unemployment benefit or unemployment insurance. A number considered it to be not affordable or not a priority for Indonesia's current stage of development. Some officials in Depnaker (the Ministry of Manpower) thought that it should be off the policy agenda for the next 10 to 15 years while other development priorities were pursued. This group of officials considered that any available resources related to the unemployed should go into Active Labour Market programmes such as retraining, special employment, skill development, micro-credit, and assistance in setting up into self-employment.

4.5.2 Some other officials were more attracted to the idea of individual compulsory savings accounts along the lines of the Singapore and Malaysia schemes, though whether the unemployed could access any part of the savings balances as a means of income support was less clear.

4.5.3 The Ministry of Finance indicated that budget considerations meant that there could be no available tax funding for any scheme. This implies that any unemployment benefit scheme would have to be self-funded from employer or employee contributions. .

4.6. Other responses

4.6.1 A number of those contacted who favoured an unemployment benefit scheme felt that any scheme should be funded from Jamsostek surpluses or from improvements in administration efficiency or in

Jamsostek investment performance rather than increased premiums. This amounted to a proposal that existing levies should be restructured so that part was re-designated as a contribution for unemployment insurance, without total levies themselves increasing. Others however felt that Jamsostek levies should be used for the purposes they were intended, and real benefits to members improved. The issue is examined in more detail in a subsequent section.

4.6.2 Overall, consultation responses indicated that considerably more discussion between social partners was required before a firm scheme could be brought forward.

5. Possible characteristics of unemployment insurance in Indonesia

5.1 Even with agreement of the social partners, it would be very difficult in the short run to introduce more than a very limited form of unemployment insurance benefit in Indonesia. In part this is because the predominance of informal economy employment, and also because the large numbers of formal sector small employers who are not members of Jamsostek makes it difficult to know whether a person has become re-employed or not. In developed economies most workers are in the formal sector, and most are covered by social insurance or other forms of social security for unemployment. In developed countries with compulsory social insurance for unemployment, when a formerly unemployed worker takes up another job, the fact can be registered automatically in the databases of the social insurance fund and the benefit payment cancelled and overpayments recovered. However, this is not the case in Indonesia, as many workers who are laid off would find jobs in areas not providing data to an unemployment insurance fund. Alternative measures to verify employment status are likely to be costly and with limited reliability under current circumstances.

5.2 A second problem is that the only organisation that has the potential to operate a national unemployment insurance fund (Jamsostek) is a number of years away from having the capacity to run a periodic payment system such as a weekly unemployment benefit. It also lacks its own inspectorate function.

5.3 Because of the particular characteristics of employment and unemployment in Indonesia, it is suggested that at this stage only a short-term unemployment benefit is feasible. This would mean that the insured unemployment benefit was time-limited, and payable only for a specified number of weeks. After entitlement ran out those who were still unemployed would have to access other social safety net programmes such as Padat Karya (special employment schemes).

- entitlement to claim a benefit if a worker is made redundant would accrue after a worker or their employer had paid premiums for a specified period, for example one year, or 12 months in the past 24 months. Once a benefit had been claimed, the worker or their new employer would have to contribute again for a further qualifying period before becoming eligible for a benefit again.
- unemployment benefit would not be payable if a person voluntarily left a job, or if seasonal work ceased on its normal cycle. It would also be necessary to devise rules about whether any entitlement existed if a worker was dismissed for misconduct. In most benefit systems specified types of misconduct disqualify the person from benefit receipt, subject to appeal rights.

5.4 Initial membership of an unemployment insurance fund could be defined as the same group now required to be members of Jamsostek. Coverage could subsequently be expanded to other groups.

5.5 A more restrictive initial membership option would be to start only with the groups classified as permanent employees. However, this would mean that the group most liable to be unemployed – the short-term contract workers – would not be covered in the first stage of the scheme. An option is to include these groups in coverage by allowing premiums paid via several successive employers to accumulate an entitlement to benefit.

5.6 A decision would also need to be made on whether Civil Servants would be included in the coverage of the scheme. Traditionally it has been assumed that civil servants had highly stable employment, and that provided they carried out their work properly, they were at minimal risk of unemployment. Hence, they would not need to be covered by an unemployment insurance scheme. However, the upheavals connected with the abolition of a number of departments, the “sinking lid” policy on numbers, plus the impact of regionalisation and devolution now throw the assumption of long term job security for civil servants into

question. If civil servants were to be included in an unemployment insurance scheme, then either they or the government would have to pay the premiums to the unemployment insurance fund

5.1. Form of benefit

5.1.1 One option for implementing unemployment insurance in Indonesia on a fast track basis is to begin with a lump sum payment system rather than periodic payments. This would mean that the unemployment benefit system would initially operate rather like a severance pay system. Once the unemployment insurance fund had built up capacity, including capacity to verify employment status, it would be possible to consider shifting to a periodic payment system such as a weekly, fortnightly, or monthly unemployment benefit. The fund could also consider developing “second tier” active labour market programmes to assist the unemployed to find alternative means of self-support.

5.1.2 One advantage of starting with a lump sum unemployment benefit is that the processing requirements for claims would be very similar to those already used for verifying claims for withdrawal of retirement savings balances from Jamsostek. The volume of claims could be expected to be larger, but it should be feasible to handle these once the reforms to the Jamsostek computer and information systems are in place.

5.1.3 While a lump sum unemployment benefit system shares some of the disadvantages of severance pay in that the amount of payment is not related to actual need for support, it is a system which could be set up relatively quickly for existing Jamsostek clients if this were a government priority. It could then be modified later into a periodic payments system when the capacity to implement such a system had been developed.

5.2. Level of benefit paid

5.2.1 An option is that the benefit paid to any unemployed worker would be a percentage of the insured wage upon which premiums had been paid. This would give workers and unions an incentive to scrutinise their records to ensure that premiums had been paid on their behalf, and that employers had declared the full wage paid to the unemployment insurance fund. The ILO proposal that Jamsostek provide regular information to employee members would assist in this process. A side benefit of improved information and scrutiny is that payment into other Jamsostek programmes could increase.

5.2.2 As an example of how an initial lump sum unemployment benefit might work, suppose that the benefit rate was set at 50 per cent of the insured wage. If the benefit were paid in a lump sum to cover 6 week of benefits, this would be a lump sum equal to 3 weeks normal pay. If it were to be for 12 weeks, this would be a lump sum equal to 6 weeks normal pay.

5.2.3 Alternative options to the model above are:

- to pay a flat rate unemployment benefit based on the minimum wage, or possible on the local minimum wage, or a specified percentage of the minimum wage. This option would redistribute income from the better paid to the lower paid workers in the event of unemployment. It would also tend to lower the average cost of the scheme and hence the premiums which had to be paid. A possible problem is employer/employee collusion to declare only minimum wages since the amount paid in would not change benefit entitlement. It could also be possible to charge a flat rate contribution for coverage, though this would bear most heavily on the low-paid; and

-
- to pay supplements to the benefit for the need to support a dependent spouse and children. This option would mean that the basic benefit would have to be set at a lower percentage of wages to cover costs, or else higher premiums charged. Higher premiums for married people are currently applied for Jamsostek health insurance.

5.2.4 As noted, it is considered that more discussion between social partners is needed on such issues.

6. How an unemployment insurance benefit might be funded

6.1 In the discussions with social partners, a number of options for funding unemployment benefits were explored. These are commented on in more detail.

- employer payments;
- employee payments;
- payments shared between employers and employees;
- employers paying, but offsetting unemployment insurance entitlement against severance pay; and
- use of Jamsostek surpluses.

6.1 Employer premium funding

6.1.1 One option is for employers to pay the entire premium costs of unemployment insurance without any changes in existing severance pay obligations. This is administratively feasible, but raises the cost of employing people. It might also lead to further pressures for employers to avoid Jamsostek and unemployment insurance fund membership, or not to declare all their workers, or the full salaries paid. Conversely, employees would have greater incentive to press their employers to join the Fund. As noted, employers were strongly opposed to this option.

6.2 Employee payments

6.2.1 A second option is that employees should pay all the premiums by deductions from their wages and salaries. This is also administratively feasible. However, it would mean some further reduction in real wages in the short term, following on from the declines after the 1997 crisis. There might also be increased pressure from some employees for their employers not to join Jamsostek and the unemployment insurance fund. Employee organisations consulted were strongly opposed to this option.

6.3 Employees and employers share payment

6.3.1 A third option is for employers and employees to share the costs of the premium. This could impose equal sacrifice, but could give both an incentive to avoid fund membership, however, it is a model which operates in many countries.

6.3.2 This option achieved cautious responses from the social partners that appeared to depend on what else was on the table. However, it was clear that employers did not wish net labour costs to rise, and employees did not wish real net wages to fall. The option may be more acceptable in a time of economic buoyancy accompanied by rising real wages and profits.

6.3.1. Employer funding with severance pay offset

6.3.1.1 A fourth option would be for employers to pay the premiums, but be allowed to reduce any severance pay due by the amount of lump sum unemployment benefit payable to the discharged worker. Thus for example if the lump sum unemployment benefit payment was equal to five weeks pay, the employer who had

paid all due premiums would be entitled to deduct five weeks payment from any severance pay due to the discharged worker.

6.3.1.2 For employers the system amounts to a partial pre-payment of severance pay liability. While it raises up-front costs for employers, it means the financial burden of severance pay is less when their enterprise is in difficulties.

6.3.1.3 This option also improves the position of workers. While the total amount due to longer-term employees is unchanged, they are certain of getting the unemployment benefit lump sum even if the enterprise employing them collapses. Shorter-term employees gain financial rights, which they do not currently have.

6.3.1.4 For this system to work, there would have to be a specified minimum number of months of premium payments made in respect of each qualifying employee before the benefit became payable. If this were not done, there would be a tendency for some employers to join the unemployment insurance scheme opportunistically just prior to making workers redundant.

6.3.1.5 As noted some employers expressed interest in this option. Employee representatives however did not wish to see any erosion of existing severance pay rights.

6.3.2. Replacing severance pay with unemployment benefit

6.3.2.1 A longer-term option would be to replace severance pay entirely with an employer-funded unemployment benefit for insured workers and employers. Uninsured employers could still be left liable to pay severance pay. This would act as an incentive to become insured. Service pay (Gratuity) is not considered in the discussion, which follows.

6.3.2.2 Replacing severance pay with unemployment benefit would involve winners and losers amongst both workers and employers. The workers who would “gain” would be those who received unemployment benefit for a longer period than the equivalent of their former severance pay entitlement. These would be mainly those with shorter employment duration. Those who would “lose” would be the workers who found new jobs relatively quickly. However, the payments then would be more closely related to need. The payment receipt would also be more certain than is currently the case with severance pay.

6.3.2.3 Amongst employers those who would gain would be those with a less stable employment pattern, because their premium payments would be less than previous severance pay obligations. Employers with very stable employment patterns who did not make staff redundant would tend to lose out. It would of course be possible to have differential employer premiums, as in the employment accident scheme, though this would require a more complex administration.

6.3.2.4 To replace all of the current 5 months of maximum severance pay with unemployment benefit is a relatively major undertaking. A “trade-off” might be an equivalent maximum period of unemployment benefit payment. However, 5 months severance pay translates into about 43 weeks unemployment benefit payment at a rate of benefit payment equal to 50 per cent of the insured wage. This is substantially longer benefit duration than is envisaged for the type of short-term unemployment benefit discussed earlier. Accordingly, it may be feasible to replace only part of severance pay with unemployment insurance benefits in the early stages of setting up a system. Alternatively, the balance of the current severance pay entitlement could be “traded off” against the cost of some other types of employer-funded social insurance protection, such as maternity benefits for women workers and sickness or invalidity benefits.

6.3.2.5 Employer and employee views on this option follow the responses earlier indicated. Discussion by the social partners might need to be set in the context of a much wider ranging consideration of social protection options.

6.4. Use of Jamsostek surpluses

6.4.1 Another option is to use Jamsostek surpluses to fund an unemployment insurance benefit scheme. If there were enough profits available, this approach could be implemented technically by lowering contribution rates for programmes other than old age benefit, and re-designating the amounts saved as unemployment insurance premiums. This approach would leave total premiums paid unchanged.

6.4.2 However, the year 2000 surpluses of Jamsostek were about Rp.212 thousand million before tax. This is only about one third of the amount needed to run an unemployment insurance benefit providing 50 per cent replacement income for 3 months. Hence present profits would not be enough to fund an unemployment benefit scheme, though they could provide part of the necessary funds. However, increased efficiency by Jamsostek, notably in increasing the proportion of real incomes on which premiums are paid, could raise the current level of surpluses.

6.4.3 It also needs to be recognised that even if these increased amounts of surpluses were realised, there are several competing claims for the use of Jamsostek surpluses. These include improving benefits in existing programmes (e.g. for long term disability), expanding other programmes (e.g. sickness benefit), increasing allocations for old age benefit or pensions, and upgrading Jamsostek computer systems. The relative priorities of these claims would need to be decided.

6.4.4 Finally, while Jamsostek currently has surpluses, changed financial conditions could erode this potential partial funding source.

6.5. Other financing options for informal sector workers

6.5.1 If informal sector workers were also to be provided with some form of unemployment insurance cover, there would need to be a means of financing this.

6.5.2 For “informal” economy workers and temporary workers whose conditions of employment are in reality similar to those of formal sector workers, an option is simply to deem them to be covered and require their sponsoring firm to collect and pay contributions on their behalf. However, under present circumstances compliance with this requirement is likely to be a problem.

6.5.3 For “cottage industry” type informal economy workers, the funding problem is more difficult. Where they are subcontractors for a larger firm, an option is to collect a percentage of the contract price, with the main contracting firm being responsible to collect this amount and pay it to Jamsostek. For other situations, voluntary standard payments linked to standard minimum benefits may be an option.

7. Jamsostek as a potential administrator of unemployment insurance

7.1 Jamsostek is the only public entity in Indonesia potentially capable of administering an unemployment insurance fund. The collection of premiums could be associated reasonably easily with its current collection of premiums for old age benefits, death benefits, and employment accident benefits. Provided the legal liability for contributions to pay for the different sets of benefits were the same, the premium could simply be collected along with existing premium collections from the same group of members.

7.2 However, to set up a payment system for paying out unemployment benefits some changes in Jamsostek computer and information systems would be needed. These would include individual employee identification, a unique membership number, and eventually provision for a periodic payment system and an inspection function. These issues are set out more fully in the ILO Review of Operations and Information Technology Systems of Jamsostek.

7.3 For an initial lump sum payment system the changes required would not be so large. An initial lump sum payment system would require very similar processes to the existing processes used for verifying and paying entitlements to old age benefits for workers who have been members for five years or more who have been made redundant. On current processes these require provision of:-

- original Jamsostek membership card (KPJ)
- personal ID card (KPT)
- family identification card (Kartu Keluarga)
- letter confirming termination of employment /PHK from the company.

7.4 Jamsostek is currently geared up to process over 600,00 such applications each year. Addition of unemployment insurance to Jamsostek programmes would substantially expand this volume, requiring more staff and resources, but would not involve radically new processes. The main additional requirement would be evidence of registration with the Employment Service offices.

7.5 Shifting to a periodic payment system for unemployment insurance benefits would require much larger changes, and if this were a priority would probably take several years to set up, including the initial policy development and legislative phases. An early requirement would be an Inspection capacity in Jamsostek.

7.6 However, Jamsostek will need to develop a periodic payment system in any case if there is to be any future transformation of the old age benefit into a pension paid on a periodic basis.

7.7 Currently Jamsostek has 2,164 permanent staff plus about 600 “outsourced” or temporary staff. This is a rather low ratio to its 9 million plus active members. In part this reflects the limited number of programmes Jamsostek runs, plus the fact that some functions which are normally part of a social insurance entity, are currently designated as the responsibility of other agencies. The notable case is inspection, which has been carried out by Depnaker, the Ministry of Manpower, but has recently been transferred to the regional administrations.

7.1. Jamsostek cost structure

7.1.1 Currently Jamsostek offers a standard “package” of three or four programmes to employers and their staff. Most members take only the three compulsory programmes (old age benefit, employment accident benefit, and death benefit), while only a minority also signs up for the health benefit programme. Employers and their staff may instead choose health coverage from a private health insurance company.

7.1.2 In addition to this standard arrangement there are certain “Special Programmes” which cover short-term contract workers in industries such as construction. These cover only employment accident and death benefits. Unlike the standard programmes their funding is not wage-based, but is financed by levies on the value of the contract. Currently these special programmes operate with substantial financial surpluses.

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

7.1.4 Isolating the cost of the old age benefit programme alone is more difficult as Jamsostek does not keep its accounts in a form that separately identifies costs. However, a 1997 exercise attempted to build a cost allocation model, which produced the following tentative estimates:-

Figure 1 Costs of the Jamsostek schemes

Title	Scheme	% of costs
JHT	Old age benefit	86.24
JKK	Employment accident	2.98
JPK	Health	1.64
JKM	Death benefit	1.28

7.1.5 The cost allocation to old age benefit seems high, and may be influenced by the increased numbers claiming an early payout when the Asian crisis struck. The health and employment accident estimates also look low. However, these are the only figures available at the moment.

7.1.6 On this basis the administrative cost of running the old age benefit system would be about Rp. 21,400 a year per active member.

7.1.7 This figure gives some idea of the possible order of magnitude for the cost of running an unemployment insurance benefit system covering existing Jamsostek members, which made only lump sum payments to those who became unemployed. In practice the incremental costs of collecting premiums should be less than the collection cost embodied in this figure, because some of the joint costs of collecting premiums would not be repeated. How much this is cannot be estimated more closely until a more detailed costing model is developed which separately identifies the cost of activities such as premium collection and payment of claims. Offsetting this, it is probable that the frequency of claims for unemployment benefit would exceed the current frequency of claims for withdrawal of old age benefit account balances. Tentatively it is assumed that the median claim rate might be a little more than twice as high. This would raise the claims component of administrative costs. In the other direction, the potential reduction in claims for early withdrawal of old age benefit (or the possible joint determination of any such claims) would provide a cost saving on the existing old age benefit programme.

7.1.8 What the administrative cost figure will actually turn out to be cannot be estimated with any real accuracy until Jamsostek develops a proper cost allocation system for its separate programmes and for the

separate activities, notably premium collection and claims processing within these programmes. For costing purposes is provisionally assumed that the incremental costs of Jamsostek operating a modified lump sum payment unemployment insurance benefit system is Rp. 15,000 per member per year. This cost would rise if a periodic payment system were introduced, though benefit payment costs might be reduced.

7.1.9 Using the Rp. 15,000 per member incremental cost assumed above, and multiplying this by the assumed current active membership of 9,382,786 Jamsostek members produces an annual cost figure of approximately Rp. 140 thousand million. This is equivalent to about 0.4 per cent of the insured wage base in Jamsostek. These figures assume year 2000 cost levels and numbers of members. The figures could be expected to be higher in the future, but revenue would also rise if numbers were larger and wage levels higher.

7.1.10 What would be provided by this figure would be premium collection, recording of member data, and claims processing and payment of benefits. Most of this work would be integrated with existing Jamsostek processes. There would be little resource left to verify the validity of ongoing claims of unemployed status

8. Benefit costs

8.1 Cost estimates for benefits depend on what percentage of wages the benefit replaces, and how many weeks the benefit is payable for. The following calculations assume:-

- alternative replacement rates of 50, 60 and 70 per cent of insured wages; and
- alternative average periods of payment of 5, 10 and 15 weeks.

8.2 It may be noted that in a properly administered periodic payment system the average number of weeks of benefit payment would be lower than the maximum number of weeks for which it is payable. However, in a lump sum payment system the two would be the same.

8.3 The ratio of average to maximum duration of unemployment benefits is hard to estimate in Indonesia. General labour force data suggests long average unemployment durations of around 6 months, which could imply that most people would not have moved off a short duration benefit of say 13 weeks maximum period of payment. However, first job seekers heavily weight the labour force average, and the average unemployment duration for those formerly employed may be lower. On the other hand, the existence of an unemployment benefit could change job search behaviour. It might lead to longer job search periods (and hence longer periods on benefit) as workers looked for good or average jobs rather than taking the first option available.

8.1. Benefits and insured wages

8.1.1 The estimate of average insured wages has been derived by taking the revenue for the death benefit (calculated at 0.3 per cent of the insured wage), dividing this by the number of active members, then grossing the average figure up to what the base wage must have been to produce these revenue numbers. This calculation suggested that the average insured wage in Jamsostek is equal to Rp. 3,650,000 per year, or about Rp. 70,000 per week. This may be a substantial underestimate of actual wages in the insured group. Average urban wages in the year 2000 labour force survey were just under Rp.500, 000 per month, and the skew of Jamsostek membership towards larger companies suggests that the current membership true average wage may be higher again. However, the lower figure used in these calculations it is what actual current contributions to Jamsostek are based on. I should also be noted that even when actual wages are fully declared, these may be only basic wages and may not include the variety of supplements, fringe benefits, and overtime payments that boost the actual pay packet. However, an insurance system bases payments on insured wages.

8.1.2 On the basis of wages actually declared to Jamsostek, the weekly cost per person of various replacement rates for unemployment benefit would be as follows. The average cost figures assume a random distribution of unemployment in relation to wage level:-

Figure 2 Table of costs of wage replacement rates

Replacement rate percentage	Average weekly cost per benefit paid (000 rupiah)
50	35
60	42
70	49

8.1.3 From these figures a matrix of cost per beneficiary can be derived for 5, 10 and 15 week average duration of payment:-

Figure 3 Average cost per beneficiary of benefit payment (000 Rupiah)

Weeks of Payment	Replacement rate %.		
	50%	60%	70%
5	175	210	245
10	350	420	490
15	525	630	735

8.1.4 The next stage requires an estimate to be made of how many beneficiaries might claim and receive unemployment benefit in any one-year. Low medium and high projections have been made. The low projections assume 10 per cent, the medium projection 15 per cent, and the high projection 20 per cent.

8.1.5 It should be noted that the Claim Grant Rates are not Unemployment Rates. Unemployment rates at any point of time are usually much lower than annual claim or grant rates. For example if the average duration of unemployment was 3 months, and all insured people who became unemployed lodged claims, then an annual claim rate of 10 per cent would mean an average unemployment rate at any point in time amongst insured workers of only 2.5 per cent. If the average duration of unemployment was 6 months, the 10 per cent claim rate would represent an unemployment rate of 5 per cent amongst the insured group.

8.1.6 Based on year 2000 estimates of active members; the low, medium and high annual claim grant rates would be:-

Figure 4 Estimated claim rates

Claim rates	Numbers receiving benefits (thousands)
Low	940
Medium	1,410
High	1,880

8.1.7 The medium grant rate is assumed to be the most probable under current conditions. It involves total grants about twice as large as the number of people with 5 years or more of contribution who currently withdraw their old age benefit savings prior to age 55. The high rate could occur if another major economic crisis emerged such as that of 1997. The low rate assumes a return to very favourable employment conditions such as prevailed prior to 1996.

8.1.8 Using these numbers, a larger table can be constructed showing what it would cost to pay benefits for specified number of weeks and with each of the three alternative replacement rates. The figures are for average payment duration, and not maximum period of entitlement to a benefit:-

Figure 5 Costs of alternative replacement rate and time duration of benefit payments

Option A. Benefit paid for 5 weeks

Replacement rate	(Thousand million Rupiah)		
	Claim rate %.		
	10%	15%	20%
50	164.5	246.8	329.0
60	197.4	296.1	394.8
70	230.3	345.5	460.6

Option B. Benefit paid for 10 weeks

Replacement rate	Claim rate %.		
	10%	15%	20%
	50	329.0	493.6
60	394.8	592.2	789.6
70	460.6	697.0	921.2

Option C. Benefit paid for 15 weeks

Replacement rate	Claim rate %.		
	10%	15%	20%
	50	493.5	740.4
60	592.2	888.3	1,184.4
70	690.9	1,036.5	1,381.8

8.2. Premiums needed to support these costs

8.2.1 Any self-funded unemployment insurance benefit system would have to set premiums sufficient to cover these costs of benefits plus administrative costs. It should also desirably create a buffer fund to have the resources to deal with economic crisis. To some extent a buffer fund would build up in the initial period while premiums were being collected, but before entitlements began to accrue. However, it might be desirable to build up a somewhat larger buffer fund than this process would create. Earnings on this fund could then help offset administrative costs. Using the same estimates of average insurable earnings of Rp.3, 650,000 per member per year means a revenue base of Rp.34, 247,000 million. Levy rates of 1 per cent, 1.5 per cent, 2.0 per cent, 2.5 per cent, 3 per cent, 4 per cent and 5 per cent would raise the following amounts of revenue:-

Figure 6 Revenue raised and administration costs vs. levy rates

Levy rate	Revenue raised (thousand million)	Revenue less administration costs
1.0%	342.5	202.5
1.5%	513.8	373.8
2.0%	685.0	445.0
2.5%	863.0	723.0
3.0%	1,027.5	887.5
4.0%	1,370.0	1,230.0
5.0%	1,712.5	1,572.5

8.2.2 Deducting administration costs, provisionally assumed to be Rp.140 thousand million for a simple short period payment system, and using the medium 15 per cent estimate of annual approved claimant numbers, produces the following conclusions: The figures are not proportional because of the fixed level of benefit administration costs assumed. These mean that a levy of about 0.4 per cent of insured wages must be collected to finance the cost of administration even before any benefits can be paid. Hence, if the unemployment insurance fund operates on a pay as you go basis, and a claim rate of 15 per cent is assumed, the following average levels of benefits would link to alternative premium rates. If the fund built up a buffer reserve in the early years, earnings on the buffer fund could produce slightly better outcomes than those listed below:-

8.3. PAYG benefits at specified contribution rates:

8.3.1 The indicative range of premiums and the benefit levels these would support are indicated as follows. In each case the premium is expressed as a percentage of insured wages.

- a premium rate of 5 per cent would support a benefit of 70 per cent of insured wages for 32 weeks or a benefit of 50 per cent of insured wages for 45 weeks;
- a premium rate of 4 per cent would support a benefit set at 70 per cent of insured wages for 25 weeks, or at 50 per cent of insured wages for 35 weeks;
- a premium rate of 3 per cent would support an unemployment benefit of 70 per cent of insured wages for about 18 weeks, or a benefit set at 50 per cent of insured wages for about 25 weeks;
- a premium rate of 2.0 per cent would support a benefit of 70 per cent of insured wages for about 9 weeks or a benefit of 50 per cent of insured wages for about 13 weeks; and
- a premium of only 1 per cent would support a benefit of 70 per cent of insured wages for about 4 weeks, or 50 per cent of insured wages for about 6 weeks.

8.3.2 It should be noted that these figures are averages. An effectively policed periodic payment system could reduce benefit average duration while increasing the maximum allowable period on benefit.

8.3.3 A second consideration is the probability that numbers of employers under-declare wages paid for Jamsostek purposes. To the extent that a more active inspection policy raised average wage declaration rates levy income might be higher than the figures calculated here. Average benefits would also rise, but the financial position of the fund (and hence capacity to pay more benefits) would improve because administrative costs were fixed in the short run.

8.3.4 However, the initial calculations suggest that an unemployment benefit fund would have to set levies at several percent of insured wages if a worthwhile amount of benefit is to be payable. How much above this level is a matter of policy choice related to how much employers and workers are prepared to pay to improve protection against unemployment.

8.3.5 A minimalist periodic payment scheme would be one with a levy rate of around 1.5 per cent, a maximum benefit duration of 13 weeks (ILO Convention 102), and a benefit rate set at 50 per cent of insured earnings. This calculation assumes that average benefit duration is around 8 weeks rather than the 13 weeks maximum. However, because of the potential margin of error in benefit uptake rates, it might be better to establish a minimum scheme with a contribution rate of 2 per cent of insured wages. This would provide some margin to build up a buffer fund, and to subsequently expand generosity of cover plus the associated cost of a more extensive inspection and verification system and/or some active labour market measures.

8.3.6 A sensible approach may be to set the levy rate at 2 per cent and then review the situation once the Unemployment Insurance Fund had built up to a level sufficient to cover one year's payments of benefits and other costs. If it was then decided to keep the scheme at a minimalist level it might be possible to then drop the contribution rate back to 1.5 per cent. (This might not be the case if the economy moved into severe recession again). Alternatively, additional funds could be spent on Active Labour Market Programmes such as training or special employment.

9. Implementation strategy

9.1 In the final analysis it is the decision of the Government of Indonesia and the social partners who must decide whether they want an unemployment insurance benefit system and if so what level of cost they are prepared to pay to fund it. The calculations above suggest that premium rates of at least 2 or 3 per cent of insured wages will be needed to provide a worthwhile period of social protection for those who lose their jobs in the formal sector. A modest minimal scheme might cost 1.5 per cent to 2 per cent of wages. The standard calculations used for illustrative purposes assumes a 2 per cent contribution rate.

9.2 If Government and the social partners wish to proceed, then there are some strategic decisions, which would need to be made, particularly concerning the type of system, which would come in, and the phasing of contributions and entitlements. As noted, at this stage of Indonesia's development only a scheme for insured formal sector workers seems currently feasible. Other measures would be needed to assist other groups:

- it would be necessary to decide if a periodic payment system would be set up from the beginning, or if an initial stage of a lump sum only scheme would start the system off. If it was desired to begin with a full periodic payment system, then more start-up time would be needed to allow systems development to take place, including proper inspection systems attached to the unemployment insurance fund to verify compliance with legislative conditions of entitlement;
- if it is desired to develop "Active Labour Market" schemes as a second tier to an initial period of passive receipt of unemployment benefit, then thought will need to be given as to what these schemes are to be and who is to administer and deliver them; and
- it will also be necessary to decide a phasing strategy in relation to the state of the economy and the size of the buffer fund which could be built up. If the scheme started in a period of low unemployment it would be possible to build up a buffer fund quickly, or to phase contribution rates up more gradually. Conversely, if the unemployment insurance benefit scheme started up during an economic crisis it would be necessary to move immediately to full contribution rates and possibly seek start-up assistance from the Government.

9.1. Alternative phasing

9.1.1 Three alternative implementation strategies could be considered depending on the scheme chosen.

- all of the required contribution rate could be imposed from the first year. This approach allows an initial buffer fund to build up, since no benefits are payable until after 12 months of contributions have been paid. This approach could be considered if a relatively modest minimal scheme were to be set up, and possibly also if employer liability to pay premiums was "traded off" against some existing liability to pay severance pay;
- a second option is a phased implementation timetable. For example if a contribution rate of 3 per cent were chosen, the rate could go up by one per cent each year, reaching the target level in the third year. Benefit entitlements could also be phased in; and
- the third option is a staged implementation. There would be no fixed timetable, but stages would be brought in when conditions were favourable, for example when the economy was expanding and business conditions were good, or when Jamsostek was geared up to run a periodic payment system.

9.2. Implementation and the economy

9.2.1 There is something of a dilemma in choosing the right economic time to bring in an unemployment insurance benefit scheme. It can be most easily afforded when economic conditions are buoyant and unemployment low. However, the need for a scheme is greatest when economic conditions are bad, and unemployment is high. Unfortunately, these conditions also mean more claims on the scheme, and fewer people paying in contributions.

9.2.2 A scheme launched in the middle of a recession such as that of 1997 would have to charge higher premiums, or receive an initial government subsidy, or face the risk of becoming insolvent. Conversely a scheme launched in good times could build up large buffer funds to deal with future crises.

9.2.3 In the end this is a political choice. However, it is suggested that any scheme launched in the next few years should include the objective of holding reserves equal to at least one full year of benefit payments plus administrative costs. If reserves were more than twice annual costs for more than two years in a row, the scheme conditions and premiums could be reviewed.

9.2.4 Unlike “long tail” schemes such as pensions or disability benefits, there is no good reason to accumulate large reserves in a short-term unemployment insurance benefit fund. However, the reserves should be large enough to enable the fund to withstand recession shocks such as the 1997 Asian crisis.

9.2.5 It may also be noted that if reserves have been built up to a healthy level, it would be possible to invest some of this reserve into small scale business loan schemes to fund unemployed people into their own small businesses.

9.3. Premium level needed

9.3.1 A number of sets of calculations and economic scenarios were calculated for the project. The calculations indicated that a contribution rate of about 2 per cent of insured wages appears to be of about the right order of magnitude for the type of scheme modelled under existing economic conditions in Indonesia. This was a scheme paying insured workers 50 per cent of their insured earnings for up to 3 months in the event of unemployment

10. Conclusions

10.1 There is clearly a need for some form of unemployment assistance in Indonesia in the longer term. Unemployment is a serious problem which has very adverse consequences for those who lose their jobs. At the same time the existing redundancy pay system has not worked particularly well for many workers. In practice also large-scale early withdrawals of old age benefit savings by workers who are Jamsostek members indicates that the old age benefit scheme has become a kind of de facto unemployment assistance scheme. This undermines its role as an old age savings scheme, and further undermines the potential to turn it into a pension scheme.

10.2 Of the options, a short- term unemployment benefit for insured workers seems the most feasible option for Indonesia in its present circumstances.

- a wide coverage unemployment assistance scheme also covering uninsured workers appears not feasible because of the high proportion of the workforce in the informal economy, and the huge scale of underemployment in the labour force. Unemployment amongst the uninsured group will need other solutions, including capacity development and special employment schemes; and
- at this stage it appears to be feasible to operate only a short period unemployment benefit scheme. Long duration unemployment benefits appear to be unfeasible for the present because of the limited ability to verify whether a worker who has lost a job in the insured sector has actually been re-employed or not including employment in the informal sector.

10.3 It does appear to be economically feasible to develop a short period unemployment benefit. A scheme with up to 3 months benefit duration and a 50 per cent income replacement rate could operate for a premium rate of around 2 per cent of insured wages. Further, it seems feasible for Jamsostek to operate such a scheme provided its information and computer systems are upgraded as recommended in the separate report on Jamsostek systems.

10.4 However, while a short period unemployment insurance benefit is economically and administratively feasible; the priority and acceptability of any particular scheme to major stakeholders is unclear. Some groups have reservations about paying benefits for passive inactivity. Further, even amongst the groups supporting the idea, there is still lack of agreement on who should pay for it, or at least opposition to anything that further depresses real wages and profits in the present economic conjuncture. Making progress at this stage requires options to be further worked through to identify if there is a social consensus on an unemployment insurance benefit scheme proceeding.

11. Recommendations

11.1 It is recommended that Government agree:

- that the Jamsostek reforms build in the capacity to run an unemployment insurance benefit programme for Jamsostek members, including the capacity to run a periodic payment system.
- that the unemployment insurance benefit be a contributory system, with contributions from employers or workers set to cover all of the costs of paying and operating the unemployment benefit system.
- that the benefit should be a short term unemployment benefit set at a specified percentage of the wage of each member declared to Jamsostek.
- that a minimum period of 12 months contributions be required to access this benefit. This period would be cumulative where a worker moved between several employers.
- that Government undertake negotiations with the main stakeholders in Jamsostek (employers and workers) to determine:
 - the priority of unemployment insurance benefit in relation to other social protection priorities, and hence an indicative timing for its introduction.
- ▶ the funding arrangements for the benefit, including whether this should involve any variations in severance pay obligations for workers insured for unemployment benefit.
- ▶ the level and duration of the benefit, and the consequential level of funding contributions required.

11.2 It is also recommend that Government note that the main calculations done assume a benefit with a maximum duration of 3 months set at 50 per cent of insured wages, and with a contribution rate of 2 per cent of insured wages.

12. ANNEXES

12.1. Annex 1.

Terms of reference for study on the feasibility of introducing unemployment insurance

Within the framework of the ILO project “Restructuring of the Social Security System - INS/00M/NET/001” the International Expert on Unemployment Insurance will assess the feasibility of introducing an unemployment insurance benefit scheme in Indonesia.

In collaboration with the Chief Technical Adviser and with the support of a national consultant, the International Expert will undertake the following specific tasks, following up on the work carried out during his initial study (9-16 July 2001):

- establish in consultation with employers and workers organisations and relevant government officials the issues which will determine the need for and scope and feasibility of an unemployment insurance scheme;
- obtain data in respect of the labour force and the unemployed and identify the numbers and profile of the involuntary unemployed who have been in regular employment;
- arrange any necessary research;
- assess the administrative implications of an unemployment insurance benefit scheme; and
- outline and consider alternative approaches to meet the needs of income protection amongst the unemployed; and

In collaboration with the social budget study

- determine the capacity of existing labour market mechanisms to support a benefit system for the unemployed;
- design a model unemployment insurance scheme consistent with other social insurance benefits with provision for design options;
- project through actuarial analysis the expenditure of the scheme and determine the appropriate contribution rate;
- determine the affordability of an unemployment insurance benefit scheme.

Annex 2 Statistics

Table 1. Structure of GDP in 1999

Sector	%
Agriculture, forestry and fishing	19.4
Mining and quarrying	9.9
Manufacturing	25.8
Electricity, water and gas	1.2
Construction	6.0
Trade, hotels and restaurants	16.5
Transport and communication	6.0
Financial ownership and business	6.4
Services	8.9
GDP	100.0
Source. "National Income of Indonesia 1996-99"	

Table 2 Percentage growth rates of real GDP

Year	GDP growth
1994	7.5
1995	8.2
1996	7.8
1997	4.7
1998	-13.0
1999	0.3
2000 (provisional)	4.5
Source. 1994-1999. IMF Report "Indonesia: Selected Issues" IMF 2000. Year 2000 data estimated by officials.	

Table 3. Employment by industrial sector in Indonesia in 2000

Industrial sector	Millions
Agriculture, forestry, hunting and fishing	40.676
Manufacturing	11.642
Construction	3.497
Trade, restaurants and hotels	18.489
Transport, storage and communication	4.554
Financial and business services	0.882
All other	0.523
Total	89.837

of which:

Men	55.439
Women	34.399
Source. Labour Force Situation in Indonesia, August 2000. Table 12.5	

Table 4. Composition of employment in Indonesia in 2000

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

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

Table 5. Age structure of the unemployed in 2000 (millions)

Age	Men	Women	Total
15-19	1.004	0.813	1.817
20-24	1.248	0.872	2.120
25-29	0.593	0.431	1.024
30-34	0.225	0.182	0.407
35-39	0.095	0.074	0.169
40-44	0.057	0.050	0.107
45-49	0.073	0.025	0.098
50-54	0.023	0.010	0.033
55-59	0.012	0.009	0.021
60 plus	0.010	0.007	0.016
Total	3.341	2.472	5.813

Source. Labour Force Situation in Indonesia August 2000. Tables 30.3, 30.4 and 30.5

Table 6. Education level and unemployment in Indonesia

Educational level	Number	% unemployed
No schooling	7,128,964	0.4
Incomplete primary	14,622,078	1.3
Primary school	35,507,292	3.4
Junior high school	15,363,010	8.9
Senior high (general)	13,737,140	13.8
Senior high (vocational)	4,853,789	13.4
Diploma	2,143,989	8.6
University	2,294,699	12.0
Total	95,650,961	6.1

Source: Labour Force Situation in Indonesia, August 2000. Table 4.5.

Table 7 Alternative estimates of crisis-induced unemployment in 1998 (millions of people)

Category	Ministry of Manpower	Bappenas (planning)	Task force
Backlog 1997	5.80	5.80	5.80
New entrants 1998	2.70	2.80	1.40
Displaced workers	5.20	3.84	5.41
Totals	13.70	12.44	9.29
Percentage rate of unemployment	14.80	13.60	10.00

Source: ILO "Economic Challenges of the Indonesian Economic Crisis" June 1998.

Table 8. Principal job search techniques used by the unemployed.

Job Search Technique	1999 (thousands)
Approached businesses to seek work	2,820.7
Sought help from family and friends	2842.2
Registered with employment service	214.0
Advertising, etc	150.3
Totals	6,030.3

Source: Situasi Tenggara Kerja Dan Kesempater Kerua Di Indonesia. December 2000.

Table 9. Medium and large manufacturing enterprises listed by statistics

Year	Number	Enterprises delisted	New listings
1998	1.004	0.813	1.817
1999	1.248	0.872	2.120
2000	0.593	0.431	1.024

Source: BPS (Statistics Indonesia).

The statistical discrepancy represents enterprises delisted which were subsequently re-instated. Delisting can occur either because the enterprise closes, or because it falls below the employment size level used to classify it as a medium or large manufacturing enterprise.

Table 10. The national poverty measure in Indonesia

Year	Numbers (millions) below the poverty line	% of population below the poverty line
Old measure		
1970	70.0	60.0
1976	54.2	40.1
1978	47.2	33.3
1980	42.3	28.6
1981	40.6	26.9
1984	35.0	21.6
1987	30.0	17.4
1990	27.2	15.1
1993	25.8	13.7
1996	22.6	11.4
New 1998 basis measure		
1996	34.5	17.7
1998 Dec	49.5	24.2
1999 Feb	48.4	23.5
1999 Aug	37.5	18.2

Sources. 1970 to 1996 UNDP 1997 "The Indonesian Economic Transition and the end of Poverty". After 1997 SMERU and Statistics Indonesia.

Note. The national poverty measure is based on an ability to afford an average household food consumption of 2100 calories per day per household member, 90 per cent of which are provided from grain, plus a basket of non-food items.

The Indonesian national poverty measure in 1996 equated to the equivalent of US\$ 0.55 per day in urban areas and \$0.40 in rural areas. An alternative measure of US\$ 1.0 in urban areas and US\$0.80 in urban areas would have produced a poverty percentage of 57.3 per cent in 1996 compared with the national measure of 11.3 per cent.

Table 11. Per capita daily food consumption in Indonesia

Year	Calories	Protein (grams)
1993	1,879.13	n.a.
1996	2,019.79	54.49
1999	1,849.36	48.67

Source. Expenditure for Consumption in Indonesia 1996 and 1999.

Table 12a Withdrawals of old age benefits and death benefit payments (number of cases)

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

Table 12b Early withdrawals by those laid off with 5 years and 6 months membership

Year	Number
1993	11,910
1993	8,512
1994	7,064
1995	171,057
1996	258,827
1997	241,760
1998	493,131
1999	610,791
2000	632,055
2001 First half	316,242

Source: PT Jamsostek, August 2001 Statistical Report.

Table 13. Social security contributions-per cent of covered wages

A. Private sector – Jamsostek

Scheme	Minimum %	Maximum %
Work accident (JKK)	0.24	1.74
Old age (JHT)	5.70	5.70
Death (survivors) (JKM)	0.30	0.30
Health (JPK)	3.00	6.00
Total	9.24	13.74

Note. Employees pay 2 per cent of the 5.7 per cent contribution rate for the old age scheme. The employer pays all of the other charges. Employers may opt out of the Jamsostek health care fund and instead select a private insurer. The Jamsostek Health Care premium is 3 per cent for a single employee and 6 per cent for an employee family.

B. Civil servants

Scheme	Contribution rate of employee %
Retirement (PT Taspen)	3.25
Pension (PT Taspen)	4.75
Health care (PT Askes)	2.00

C. Armed forces

Scheme	Contribution rate of employee %
Retirement (PT Asabri)	3.25
Pension (PT Asabri)	4.75
Health Care (Armed Forces Hospital/Askes)	2.00

Note. The Government, as employer pays any additional costs of the Civil Servants and Armed Forces scheme costs.

Table 14. Operating and administration costs of Jamsostek

Operating expenses	Rp
Management expenses	5,968,792,509
Operational expenses	46,765,550,810
Personnel expenses	
Wages, salaries and allowances	71,432,316,712
Social insurance for employees	9,991,934,148
Training	6,503,959,496
Recruitment	2,628,669,613
Other	671,354,763
Sub total	91,228,234,732
Administration and general expenses	
Office supplies	13,386,495,061
Rent	5,883,496,925
Lighting, water, gas, telephone	10,896,957,535
Maintenance of buildings	8,700,970,233
Tax and insurance	1,864,916,960
Household	5,451,803,130
Cost of data processing	1,712,288,980
Research and development	2,205,857,226
Stamp duty	3,437,835,548
Others	6,218,194,016
Sub total	59,758,815,615
Expenses before depreciation	203,721,392.666
Depreciation	19,243,697,634
Allowance for bad debts	
	9,878,031,694
Total expenses as per accounts	232.843,021,994
Total expenses in thousand million rupiah	232.8
Plus staff and management bonuses	23.3
Total expenses (thousand million rupiahs)	246.2

Notes.

- 1.The staff and management bonuses are allocated from tax-paid profits of Jamsostek
- 2.The Administration and General Expenses do not include 307,929,624210 rupiahs allocated to Technical Reserves prior to determining profits.

Table 15 Allocation of revenues of Jamsostek

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

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

Table 16 Allocation of Jamsostek profit before tax

	Rp.
Net income before tax	212,235,793,488
Corporate income tax	2,984,916,000
Net income after tax	209,250,877,488
Minority interest	1,136,261
Net income	209,249,741,227
In thousand million rupiah	209.2
Allocation of profits (thousand million rupiah)	
Dividend to shareholder (Ministry of Finance)	101.7
Old age accounts	58.0
Additional benefits to members	10.1
General reserves	27.2
Employee and management bonuses	23.3
Small scale enterprise programme	2.0
Total allocated	203.0
Staff and Management Bonuses :	
Employees	21.9
Management	1.4

Table 17 **Unemployment and placements by employment offices.**

Year	Unemployment registrations	Job vacancies registered	Job placements made
1991	1,324,681	301,553	282,357
1992	1,213,018	364,240	327,852
1993	1,338,990	381,495	352,616
1994	1,228,159	421,189	400,230
1995	1,198,281	462,257	398,300
1996	1,497,159	629,464	527,248
1997	1,542,522	593,153	492,705
1998	1,191,745	546,091	471,160
1999	1,191,750	475,260	395,214
2000 (10 mths)	865,392		258,861

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12.4. Annex 4 List of people consulted

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	Mr Maurin Sitorius Director Agency for Fiscal Analysis
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State Enterprise of Savings and Insurance For Government Employees (TASPEN)	Didi Achdijat Executive Director of Operations
Statistics Indonesia (BPS)	Toto Sastrasuanda Deputy Director General for Social Statistics
	Mr Kusmadi Saleh Deputy Director General for National Accounts and Statistical Analysis
National Development Planning Agency (Bappenas)	Max Pohan Director for Local Government Empowerment
	Ir Tatag Wiranto Director for Society and Rural Empowerment
Co-operating Ministry for Economic Affairs	Mr Eddy Purwanto Assistant
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	A Azis Riambo Chairman Federation of all Indonesian Democratic Unions
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	Fabil, M M Chairman Informal Sector Brotherhood of Indonesian Moslem Workers
	Sjantisal Chairman Federation of the Reform of the All-Indonesian Workers Unions
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	Mr Margono Djojosumatro Vice Preasident
	Dr Harjono Productivity and Occupational Safety Chairman
Indonesian Textile Association	Ir Indra Ibrahim Executive Director
Indonesian Furniture Industry and Handicraft Association	Mr. Sae Tanangga Karim Executive Director
Social Monitoring and Early Response Unit (SMERU)	Mr Sudarno Sumarto Executive Director
Centre for Health Economics Studies University of Indonesia	Mr Hasbullah Thabrany Vice Chairman
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German Institute for
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Gunter Felber
Senior Adviser

Marcus Lange
Governance Advisor

Muslimat Nahdatul Ulama
(Muslim Womens
Association)

HJ. Endang Larasati Z Pohan

Dra Ermelena

12.5. Annex 5 A draft short period unemployment benefit scheme

1. Type of scheme. Unemployment insurance fund of a contributory social insurance type, financed by levies set on the basis of insured wages.

2. Membership. Compulsory for those groups now required to be members of the Jamsostek old age benefit programme. Voluntary for other groups. Membership coverage to be reviewed with the intention of expanding coverage as economic conditions make this feasible.

3. Levy contribution rate. 2 per cent of insured wages up to a ceiling of 3 times the average wage of insured fund members. The ceiling would be set annually on the basis of the average of insured wages in the previous year. Levy rate to be reviewable once the fund has built up sufficiently to cover two years costs.

4. Qualifying period of contributions 12 months in the previous 24 months.

5. Qualifying event to receive benefit involuntary loss of insured employment other than for specified list of employee misbehaviours that merited dismissal. Would not include normal cessation of seasonal work.

6. Other qualifying criteria Willing to work
Able to work
Available for employment

7. Wait period One week from application date or date of cessation of employment, whichever is the later.

8. Benefit rate 50 per cent of insured wage of member, based on average payments in the last 12 qualifying months.

9. Other benefit entitlement Would retain right to death benefit, and health insurance (if covered by Jamsostek for health insurance) during period on unemployment insurance benefit.

10. Maximum period of coverage 13 weeks of unemployment (3 months).

11. Form of benefit payment Initial payment of one month's lump sum. Subsequent periodic payments of up to total of 2 further one month payment amounts subject to renewed application and evidence of continued unemployment plus participation in required Active labour Market Programmes and activities specified by the unemployment insurance fund. (Initially this may only be evidence of job search activity).

12. Future extension of active labour market programmes

Could include Job search assistance
Job placement
Job skill development

If pursued, these could be contracted out.

13. Administering agency Jamsostek

14. Form of unemployment insurance fund Trust Fund

15. Management oversight Tripartite Board representing employers, Unions and Government. This could be the same Board as that of Jamsostek.

12.6. Annex 6 Alternative projections of unemployment insurance outcomes

Projection 1. Low benefit duration case
 Premium rate: 2 per cent of insured wage
 Grant rate: 15 per cent of insured workers per year.
 Average benefit duration: 8 of the 13 weeks
 Average benefit in first year of grants: Rp. 280,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment Income	---	55	83	118	161	212	274
Total Income	685	843	989	1,160	1,359	1,590	1,858
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	395	454	522	600	691	794
Total Costs	140	556	639	845	845	973	1,118
Surplus or Deficit	545	287	350	425	514	617	740
Year End Funds	545	832	1,182	1,607	2,121	2,738	3,478
Accumulated Funds as % of Costs including Benefits	389	150	185	219	251	281	311

Projection II Optimistic case – low benefit duration and low claim rates
 Premium rate: 2 per cent of insured wages
 Claim rate 10 per cent of insured workers per year
 Average benefit duration: 8 of the 13 weeks
 Average benefit in first year of Grant: Rp. 280,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment income	685	55	96	148	211	287	379
Total income	685	843	1002	1,190	1,409	1,665	1,963
Administration	140	161	185	213	245	282	324
Benefits	----	263	303	348	400	460	524
Total costs	140	424	488	561	645	742	848
Surplus or deficit	545	419	514	629	764	923	1,115
Year end funds	545	964	1478	2107	2871	3794	4909
Accumulated funds as % of costs including benefits	389	230	303	376	445	511	579

Projection III. Higher claim rate, low benefit duration case

Premium rate: 2 per cent of insured wages

Claim rate: 20 per cent

Average benefit duration 8 of 13 weeks

Average benefit in first year of grant: Rp. 280,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment income	---	55	70	88	111	137	169
Total income	685	840	976	1,130	1,309	1,515	1,755
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	526	605	696	801	921	1,059
Total costs	140	687	790	903	1,046	1,203	1,383
Surplus or deficit	545	153	186	227	263	312	372
Year end funds	545	698	884	1,111	1,374	1,686	2,058
Accumulated funds as % of costs including benefits	389	102	112	123	131	140	144

Projection IV Standard claim rate, longer benefit duration case

Premium rate: 2 per cent of insured wages

Claim rate: 15 per cent of insured wage earners

Benefit duration: 12 of 13 weeks

Average benefit in first year of grant: Rp. 420,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment Income	---	55	64	75	87	101	117
Total Income	685	843	970	1,117	1,285	1,479	1,701
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	592	681	763	901	1,036	1,191
Total Costs	140	753	860	996	1,146	1,318	1,515
Surplus or Deficit	545	90	110	121	138	161	186
Year End Funds	545	635	745	886	1,005	1,116	1,352
Accumulated Funds as % of Costs including Benefits	389	84	87	87	88	88	89

Projection V Higher claim rate and longer benefit duration

Premium rate: 2 per cent of insured wages

Claim rate: 20 per cent of insured wage earners

Benefit duration: 12 of 13 weeks

Average benefit in first year; Rp. 420,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment income	---	55	44	29	11	15	45
Total income	685	843	950	1,071	1,209	1,363	1,538
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	790	908	1,044	1,201	1,381	1,588
Total costs	140	951	1,093	1,257	1,446	1,663	1,912
Surplus or deficit	545	-108	-143	-186	-257	-300	-374
Year end funds	545	437	294	108	-149	-449	-823
Accumulated funds as % of costs including benefits	389	46	27	9	-10	-27	-43

Projection VI. Standard claim rate, long benefit duration

Premium rate: 2 per cent of insured wages

Claim rates: year 2 is 10 per cent. Years 3 onwards is 15 per cent

Benefit duration: 12 of 13 weeks

Average benefit in first year: Rp. 420,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment Income	---	55	83	96	110	126	145
Total Income	685	843	989	1,138	1,308	1,504	1,729
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	395	681	783	900	1,036	1,191
Total costs	140	556	866	996	1,145	1,318	1,515
Surplus or deficit	545	287	123	142	163	186	214
Year end funds	545	832	955	1,097	1,260	1,446	1,660
Accumulated funds as % of costs including benefits	389	150	110	110	110	110	110

Projection VII. Composite case with 2-year recession in years 5 and 6

Premium rate: 2 per cent of insured wages

Claim rates; Year 2 is 10 per cent
 Years 3, 4, and 7 is 15 per cent
 Years 5 and 6 is 20 per cent

Benefit duration: 12 of 13 weeks

Average benefit in first year: Rp. 420,000.

Years	1	2	3	4	5	6	7
Revenue							
Premiums	685	788	906	1,042	1,198	1,378	1,584
Investment income	---	55	83	96	110	96	77
Total income	685	843	989	1,138	1,308	1,474	1,661
Costs							
Administration	140	161	185	213	245	282	324
Benefits	----	395	681	783	1201	1,381	1,191
Total costs	140	556	866	996	1,446	1,663	1,515
Surplus or deficit	545	287	123	142	-138	-189	146
Year end funds	545	832	955	1,097	959	770	916
Accumulated funds as % of costs including benefits	389	150	110	110	66	46	60

Annex 7 Comparison of schemes by accumulated funds as percentage of costs Including benefits

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Projection I	389	150	185	219	251	281	311
Projection II	389	230	303	376	445	511	579
Projection III	389	102	112	123	131	140	144
Projection IV	389	84	87	87	88	88	89
Projection V	389	46	27	9	-10	-27	-43
Projection VI	389	150	110	110	110	110	110
Projection VII	389	150	110	110	66	46	60

