INDONESIA'S SOCIAL PROTECTION POLICY: ASSESSMENT OF MANDATORY SOCIAL INSURANCE PROPOSAL

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1. **Background**

The outbreak of East Asian crisis in mid-1997, in the words of one author, brought Indonesia into a “phase of social regression” (Goddemet 2000). Due to the crisis, the GDP contracted by -13.1% in 1998, causing the consumption based poverty level to jump from 11.3 % of the population in 1996 to 24.2 % of the population in December 1998, back to the level of early 1980’s, and eliminating almost two decades of achievement in poverty reduction (Irawan et.al 2001). This constitutes a “dramatic reversal of fortune” for a country which just a few years before was praised by the World Bank as one of the “high performing East Asian economies”. These countries’ developmental successes were seen as exemplifying the virtue of the development model which put the primacy of economic growth, and market-friendly economic policies as its core strategy.

Many critics argue that the crisis and its impact have exposed many flaws in several aspects of Indonesian social and economic policy. In the field of social policy, notably absent is an attempt to establish a more robust social protection system. (e.g. Goddemet 2000, Dhanani and Islam 2002). Indonesian policymakers have in the past voiced their hostility to “western-style” social security provision which is supposed to destroy entrepreneurial initiative and lead to a culture of welfare dependency. Hence, it was considered as an obstacle to economic growth and employment. (Scholz, 1999, Booth 2002)

In the past, Indonesia was adhering to what Gough (2000) classified as “productivist” welfare regime, together with other East and South East Asian countries. In this type of welfare regime, social policy is subordinated to economic policy and the pursuit of economic growth.

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1 Quoted from Jean Michael Severino, Vice President of the World Bank in Ramesh and Asher (2000).
2 This paper defines social protection as “Actions through public or collective arrangements, to protect against low or declining living standards arising from a number of basic risks and needs”. Following ILO’s distinction, social security here is defined as publicly provided social protection, therefore it is considered as a part of social protection system. More discussion on conceptual delineation of social protection will be dealt in chapter 2.
Strong state provision exists within a circumscribed area of social investment, notably primary education and basic health social services. Most social protection was done through informal arrangements, while formal social protection programs are limited.

Hence, when economic crisis broke out, millions of people who were plunged back into poverty were left to their own devices. Informal social protection arrangements, if existed, were limited in scale, regularity and substance, while formal social protection system hardly existed. Many of them have to resort to coping mechanisms which have long term negative consequences, such as, selling assets, reducing the intake of micro-nutrient rich food, and pulling children out of school (see e.g. Poppele, et.al 1999, Breman and Wiradi 2002:306-308).

One of the lessons that emerged from the crisis is about the recognition of poor people’s vulnerability to risks of fluctuations in their living standards and their need of assistance in reducing and mitigating these risks. Hence, the need for social protection system emerged. The lack of well-functioning social protection systems in the period preceding the crisis has caused millions of people to live on the verge of destitution during the crisis, relying on coping mechanism with long term negative consequences which could easily turn temporary misfortunes into more persistent forms of deprivation (e.g. Islam 2000:17-18).

2. Problem Statement

As described above, the economic crisis has exposed the need to establish a well-functioning social protection system in Indonesia. The imperative to establish such a system gained legal foundation when the recent constitutional amendment, ratified in August 2002, made explicit the obligation for the government to develop a system of social security for all population3 (Article 34, sub section 2, Constitution of the Republic of Indonesia).

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3 The Indonesian terminology used by the constitution and the government task force is “jaminan sosial”. In Indonesian literature on social security, “jaminan sosial” is often used as a translation for “social security” (e.g. Purwanto 1999a). As will be argued in chapter 2, this paper viewed the term “social protection” as encompassing “social security” as one of its instruments along with other instruments (see also footnote no. 2).
Meanwhile, the executive branch of the government itself has taken some initiatives to develop a national social security system. A “national social security task force (Tim Jaminan Sosial Nasional-TJSN)” has been established in 2000, under the coordination of the then vice president Megawati Sukarnoputri. The task force was given the task of studying the possibility of developing a national social security system. The expected product of this task force will be the drafting of national social security bill in December 2002 at the latest (Kontan, 23/8/2002).

Recently, the task force started to expose their concept of social security system to the public. The concept consists of mandatory contribution-based social insurance system. This option will make it obligatory for all citizens within the work force to participate in national social insurance scheme (Kontan, 23/8/2002). Conspicuously absent in the proposal, at least up to this point, is the reference to other possible options for social protection. Therefore, it appears that the option proposed for national social security system in Indonesia will rely on statutory social insurance as its main instrument.

On the contrary, The World Bank in their report “Poverty Reduction in Indonesia: Constructing a New Strategy” (World Bank, 2001b: 84-88) advised the government against establishing a universal social insurance system at the current phase of Indonesia’s development. It cautioned that such a system would entail transfer from the poor to the non-poor, if it involves government financing originating from indirect taxes (which are also paid by the poor). Further, the report questions the feasibility of implementing universal social insurance scheme due to the absence of economic apparatus and political mechanisms necessary to implement such a system in Indonesia.

Unfortunately, the report only discusses the prospect for universal social insurance without providing alternative, in passing in relation to other aspects of poverty reduction strategies. Therefore, more detailed analysis on the prospect for the implementation of a universal social insurance scheme as a policy option for social protection in Indonesia is needed.

3. Research Objectives and Questions

This paper attempts to attain two objectives. First, it attempts to identify the policy problems in the field of social protection in Indonesia. Second, it seeks to assess the mandatory
universalization of statutory social insurance as a policy option for social protection in Indonesia against theoretical concepts and experiences of other developing countries. The assessment will be conducted through the framework of six normative criteria, i.e. effectiveness, efficiency, responsiveness, innovativeness, political feasibility and administrative feasibility.

To attain the above objectives, the research will deal with the following main research questions:
1. What is the policy problem with regard to social protection in Indonesia?
2. How is the prospect for mandatory universal social insurance as an option for social protection in Indonesia, assessed against theoretical literature and country experiences using the framework of six normative criteria, namely, effectiveness, efficiency, responsiveness, innovativeness, political feasibility and administrative feasibility?

4. Methodology

This paper will have the characteristic of prospective policy analysis, i.e. analysis that focuses upon the possible outcome of the proposed policy. In order to adequately assess the proposed policy, the rationale for and the impact of past policies must be understood. Hence, the research will also incorporate descriptive analysis of past policies⁴. (Patton and Sawicki 1993:22-23).

To tackle the prospective part of the paper, the analysis will be based on the experiences of the other developing countries that have implemented similar policy options as well as Indonesian experience in implementing past policies.

The source of the data will largely be originated from available literature including unpublished documents. Description of informal social protection arrangements will utilize several ethnographical⁵ studies conducted by various researchers.

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⁴ Descriptive policy analysis refers to either the historical analysis of past policies or the evaluation of a new policy as it is implemented (Patton and Sawicki 1993:23).

⁵ Ethnography defined in Oxford Dictionary of Sociology as, "the act of both observing directly the behaviour of social group and producing a written description thereof." (p.202).
The analysis will be *qualitative* in nature, even though a handful of quantitative data will be provided to support the analysis.

5. Limitation of the Study

Several limitations will be set for this research. First, the description of pre-crisis social protection policy will mostly cover policies started in the 1990’s. The choice of the period is reflecting the objective of the section, i.e. to portray existing condition before the crisis; as well as reflecting the constraint of time, space, and data availability. Second, the assessment of the proposal will largely be based on qualitative judgement since lack of data hampered rigorous quantitative analysis. Third, the paper will not recommend any particular policy option for social protection instead it will limit itself to assessment of the current proposal.

6. Organisation of the Paper

The paper starts with the background, statement of the problem, research questions and methodology in chapter 1. Chapter 2 outlines the conceptual framework of the paper. It consists of clarifications on the key concepts used throughout the paper and review of the literature regarding social protection in developing countries. Chapter 3 contains description of existing social protection system in Indonesia. The objective of this chapter is to identify the shortcomings, if any, of the existing system and identify the policy problems in the field of social protection. Chapter 4 describes the proposal of mandatory, universal social insurance policy as an option for social protection that emerged after economic crisis of 1997 broke out. The prospective analysis will be based on experiences of other developing countries as well as Indonesia’s past experience in implementing more limited social insurance scheme. Chapter 5 summarizes the discussion in the previous chapters and assess the proposal through the framework of six normative criteria.
CHAPTER 2
LITERATURE REVIEW OF THEORETICAL CONCEPTS ON
SOCIAL PROTECTION

1. Introduction

This chapter attempts to establish conceptual framework upon which subsequent analyses are
developed; provide theoretical overview regarding the role of public policy in social
protection field; and develop analytical framework to approach the research problem as
described in chapter 1. The purpose of conceptualizing a model is to guide “where to look”
and “what to look for” (Bjorkman 2001). The chapter will be divided into four sections. The
first section will discuss the conceptual definition of social protection. The objective of this
section is to obtain clarity regarding its scope and boundaries; this section could be viewed as
answering the question of “what” is social protection?. The second section discusses the issue
of social protection in developing countries context. The third section outlines the typology of
policy intervention in the field of social protection in developing countries (“How”). The
fourth section discusses the analytical framework of this chapter.

2. Definition of Social Protection

The term social protection only recently gained increasing usage in the academic literature
and policy documents. Sometimes the term is confused with other alternative terms in
circulation, i.e. social security, social policy, and social safety net. Therefore, the first issue
that needs to be addressed is the distinction, if any, between social protection and other terms.

Social protection and Social security.

According to Lund and Srinivasan (2000 in Norton, et.al 2001:14) the distinction between
these two terms is only over where (in which category of countries) they are applied.
“(The term of Social Protection) has the same encompassing tenor or umbrella sense as
social security...(but also) the advantage over ‘social security’, of being extensively used in
both ‘more developed’ and ‘less developed’ parts of the world”.

Several authors, among whom Norton, et.al 2001, UN-ESCAP 2002, are in agreement with
the above distinction; they refer to “social security” as primarily associated with the
comprehensive and sophisticated social insurance and social assistance machinery of the developed world, such as unemployment insurance, old age benefits, and invalidity benefits.

However, some literature, such as Ahmad, et.al (1991), Burges and Stern (1991), Van Ginneken (1999), Guhan (1994) use the term “social security” but broaden its scope to include instruments that are relevant to developing country context, including, employment generation, and food subsidies, among others. This approach views social security as “an objective to be pursued through public means rather than as a narrowly defined set of particular strategies” (Dreze and Sen, in Prabhu 2001:4).

The paper is in agreement with the earlier view. The use of the term “social protection” allows the inclusion of more policy options than what is commonly associated with “social security”. Hence, it is more appropriate as a conceptual framework for the developing world. To differentiate between the two terms (social security and social protection), the paper will use ILO’s distinction, i.e. “social security” as public measures which society provides to protect its members from various contingencies, whereas “social protection” includes private measures, provided that the contributions to these schemes are not wholly determined by market forces, such as, mutual benefit societies. (ILO 2000:29-30)

**Social safety nets**

The term implies a more limited range of interventions-notably targeted social assistance-which have often been originally conceived as short term and compensatory measures during structural adjustments or national crises (Norton 2001, UN-ESCAP 2002, Subarao, et.al 1995). It is therefore more limited than “social protection” which operates in a longer time frame, and includes more institutionalised instruments, such as, social insurance.

**Social policy**

The scope of the term social policy is a contentious issue. In its broadest sense, social policy concerns all policies toward life-enhancing and life-sustaining resources (Gill 1973 in Lavalette and Pratt 1997:2). More traditionally, “social policy” covers complex area of social life which lies outside or on the fringes of the so called free market, the mechanisms of price and tests of profitability, hence it covers social provision of goods and services and social welfare system (Titmus in Lavalette and Pratt 1997:2). Different from the two previous terms which are more restrictive than social protection, social policy implies broader scope of
policy. As the above description implies, its usage could include any socially provided goods and services, from education to crime prevention. Since the paper does not intend to discuss that field of policy, it is more appropriate that the paper employs the term “social protection” as its conceptual framework.

There have been quite a number of attempts to formally define “social protection”. Much of it was performed by international agencies that work on social protection issues. In many cases, these definitions are heavily influenced by the characteristics of different institutions concerned, as could be seen in the following table:

Table 1. Definitions of Social Protection from different agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Definition of Social Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>The set of policies and programs designed to: i) promote efficient and effective labour markets;</td>
</tr>
<tr>
<td></td>
<td>ii) protect individuals from the risks inherent in earning a living either from small scale</td>
</tr>
<tr>
<td></td>
<td>agriculture or the labour market; iii) and provide a floor of support to individuals when market-</td>
</tr>
<tr>
<td></td>
<td>based approaches for supporting themselves fail.</td>
</tr>
<tr>
<td>BMZ/GTZ</td>
<td>Support system to help manage the risks faced in life and help cushion their consequences.</td>
</tr>
<tr>
<td>DFID</td>
<td>Public action taken in response to the level of vulnerability, risk, and deprivation which are</td>
</tr>
<tr>
<td></td>
<td>deemed socially unacceptable within a given polity or society</td>
</tr>
<tr>
<td>ILO</td>
<td>a) The provision of benefits to households and individuals; b) through public or collective</td>
</tr>
<tr>
<td></td>
<td>arrangements; c) to protect against low or declining living standards; d) arising from a number</td>
</tr>
<tr>
<td></td>
<td>of basic risks and needs.</td>
</tr>
<tr>
<td>UN-ESCAP</td>
<td>The mix of policies and programmes aimed at: i) reducing poverty and vulnerability for</td>
</tr>
<tr>
<td></td>
<td>individuals unable to work owing to chronic illness, permanent disability, or old age; ii)</td>
</tr>
<tr>
<td></td>
<td>protecting the majority of the population against some of the unexpected downturns in life</td>
</tr>
<tr>
<td></td>
<td>(illness, unemployment, death of breadwinner, etc).</td>
</tr>
<tr>
<td>World Bank</td>
<td>Human capital oriented public intervention a) to assist individuals, households and communities</td>
</tr>
<tr>
<td></td>
<td>better manage risk, and ii) to provide support to the incapacitated poor.</td>
</tr>
</tbody>
</table>


Norton, et.al (2001:21-22) argue that despite their difference, almost all definitions, include the following dimensions: i) they address vulnerability and risk; ii) and levels of absolute deprivation deemed unacceptable; iii) through a form of response which is both social and public in character. Therefore, a satisfactory definition of social protection should include those dimensions. I found that ILO’s definition of social protection satisfactorily covers those dimensions, and has the advantage of clarity. However, I found that the first elements of the
definition only cover provision of benefit whereas as can be seen from the subsequent sections, social protection could be provided through a number of other measures. Therefore, in view of the need to establish working definition of social protection, I will use ILO’s definition with slight modification, as follows:

“Actions, through public or collective arrangements; to protect against low or declining living standards; arising from a number of basic risks and needs” (Norton 2001:40)

According to this understanding, social protection deals with protection from both low, i.e. unacceptable level of absolute deprivation and declining living standards, i.e. adverse changes in living standard, encompassing vulnerability of the poor and the non-poor to shocks and other particular demands of different stages of the life cycle, such as old age, and sickness. The approach of this paper will follow Dreze and Sen’s above assertion, i.e. to treat social protection as “an objective to be pursued through public means rather than as a narrowly defined set of particular strategies”

3. Social Protection in Developing Countries

In much of developed countries social protection has been predominantly provided by the state through the framework of formal social security system. Historically, it is a product of centuries of efforts to provide people with a means of support in the face of individual and economic distress, from the introduction of poor law in England through the introduction of social insurance by Bismarck in Germany to the development of “cradle to grave” welfare system pioneered by Lord Beveridge in Great Britain (e.g. Dixon 1995). Despite its differences in terms of its combinations of programs (or often referred to as welfare mix), typically it constitutes of a universal, compulsory public system covering nine branches of social security according to ILO convention no. 102 (1952), namely: medical care; and benefits addressed to sickness, unemployment, old age, employment injury, family size, maternity, invalidity, and widowhood (e.g. De Macedo 1997).

Some authors argue that simply transferring this framework to developing countries would be inappropriate for various reasons stemming from their levels of economic development, structure of the economies, and state capacity to carry out the programs.
The current level of economic development of developing countries implies level of poverty is higher, has been persistent over time and is rooted in several structural features of their economies. Osmani (1991) illustrates this situation in South Asian countries. On account of the pervasive poverty in such countries, the scale on which social assistance benefit is to be provided is enormous. As against a magnitude of 10 to 15 per cent of population requiring social security benefits in developed countries, the proportion in developing countries could typically be in the neighbourhood of 50 per cent. The low level of income also implies that a large proportion of the most vulnerable groups in developing countries are unable to meet the insurance premiums (Pak, et.al 1997).

The structure of the economy is characterized by large proportion of informal and rural sector. Rural populations are spatially scattered, occupationally diffused and difficult to reach administratively, high occupational diversity and income instability occur in the urban informal sector as well. Nor are unemployment and poverty congruent; in many cases, only the rich can afford to be openly unemployed (“luxury” unemployment thesis of Gunnar Myrdal). The poor in developing countries are poor not because they lack employment but because they are employed irregularly at low wages or derive low incomes from self-employment based on low assets (Guhan 1994:37). In this kind of situation, a social insurance scheme will encounter difficulties in covering the majority of the work force who work in the informal sector, and who receive only low and irregular wages which do not support regular social insurance contributions. For their part, the poor find that social protection services offered by statutory coverage (e.g. pensions or unemployment benefit) do not match their priorities (Norton, et.al 2001).

The capacity of the states in the developing countries presents another constraint for the development of formal social protection system. Many of the states in developing countries have weak capacity to perform the tasks of taxing the populations, enforce regulations, and make authoritative decisions about the allocation of public resources (Kaber and Cook 2000).

Other context that have to be taken into account in developing social protection policy in developing countries is the fact that in majority of cases in developing countries, social protection is provided outside of the public policy framework. Majority of people obtain their social security protection through multiplicity of relations, institutions, and arrangements, wherein state only provides negligible portion, at best. (e.g. Lont 2002:8). These arrangements
outside of the state policy are often called as informal social protection to distinguish it from formal social protection (see, e.g. Norton, et.al 2001, Ahmad 1991). Categorization by Midgley (1997:70) on informal social welfare could also be used to categorize informal social protection. The first and most common category consists of all culturally determined obligations and practices that operate through family, kin, friendship, neighbourhood, and community support networks. Second, culturally determined obligations emanating from wider religious and cultural norms. It involves assistance to “anonymous strangers”. Assistance to strangers is most frequently expressed in the form of almsgiving. The third category is protection through membership in cooperative associations. Examples include funeral societies, rotating credit and saving institutions, and informal saving societies that exist in many communities.

The existence of these specific contexts in developing countries necessitates policy responses which are broader than formal social protection system as implemented in developed countries. The next section will outline this typology of policy responses seen as appropriate for developing countries.

5. Typology of Policy Intervention in Social Protection

In general, there are two main broad fields of public policy intervention in social protection, namely social assistance and social insurance. Social Assistance is defined as benefits in cash or in-kinds that are financed by the state (national or local) and that are mostly provided on the basis of a means or income test. Social Insurance is social security that is financed by contributions and is based on the insurance principle. The essence of insurance is the elimination of uncertain risk of loss for the individual or household by combining a larger number of similarly exposed individuals or households into a common fund that makes good the loss caused to any one member. The salient social characteristics of a social insurance scheme is that it is operated through public or collective arrangement, even though it could be administered by the private insurance companies. Pak, et.al (1997) mentioned two other differences between social and private insurance. First, the guiding principle for the pooling of fund, whereas private insurance are guided by the principle of “equal value for equal

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1 It is also called, indigenous (e.g Midgley 1994), traditional (e.g. Zacher 1988), and unconventional (Getubig 1992 in Midgley 1994).
contribution”, social insurance is guided by a notion of solidarity among various groups facing common risks. Second, social insurance scheme involves the third party (employer and/or the state) contribution in the build up of the insurance fund.

Social insurance fund could be financed by individual contributions, but it may also be replenished by the state. (Van Ginneken, 1999:6). In general there are two approaches to financing social insurance. First, funded approach; in this kind of approach, sizable reserve funds are created from the accumulation of contributions. These funds would be invested and used in actuarially sound ways to meet future obligations. Second, Pay-as-you-go approach. In this kind of approach, the contributions of those in employment are used to meet current obligations (Midgley 1996, Pak et al 1997).

Norton, et.al (2001: 12) added the other category of policy responses other than the two described above. This category might be called as residual category that is neither contribution funded insurance nor tax-funded assistance. Included in this category are: labor market policies that facilitate fuller and more rewarding employment through labor standards; price support for the goods produced by the poor; micro-finance services; and employment support in the form of public works projects.

Another, less commonly mentioned and systematically analyzed, category of policy response, is the policies that seek to integrate traditional form of social protection with state social protection system. Midgley (1994:224-226) mentions two categories of policy which seek to achieve that purpose. First, policies to strengthen traditional familial obligations, the example of this type of policy is the policy by the state government of Sabah in Malaysia to provide the payment of benefits to relatives who maintained elderly persons. Second, policies to enhance indigenous community responses. The example of this type of policy is the policy of Government of Saudi Arabia to require the payment of 50% of Islamic alms of zakat to the state programs and the distribution of the remaining 50% according to individual preference under Islamic law.
6. Analytical Framework: Normative Policy Analysis

As mentioned in the first chapter, this paper will have the characteristic of prospective analysis, i.e. analysis that focuses upon the possible outcome of the proposed policy. In order to be useful for the future policy decision, the outcome of prospective analysis should be put within some framework of policy analysis. Policy analysis is normally done on two dimensions, one the analysis of the specific contents of the policy and two, the analysis of the process of policymaking on the issue. As regards the contents, we will look at the policy proposals in Indonesia, keeping view the literature on theoretical concepts of social security and social protection and the experiences of different developing countries on them. As regards analysis of the process, there are many approaches for this, such as the policy argumentation approach (Apthorpe and Gasper 1996), policy design approach (Bobrow and Dryzek 1987), Policy Logic Approach (Dunn 1994), Cost-Benefit Analysis Approach (Bridger and Winipenny 1991) and criteria approach. (T.B. Smith 1989, Moharir 2002). We think the criteria approach is most suitable for our purpose.

Evaluation of a policy proposal or past policy performance requires criteria on the basis of which the reality is to be examined. It is difficult to agree upon specific criteria which can be used universally for measuring the success of a policy. Different stakeholders generally have different criteria of success in their mind. Some policies may be considered successful by the clients if they are pleased with the service they get but the cost of such a service to the society may be very high. A policy like compulsory sterilization to check population growth may be "effective" but it may not be "responsive" to different religious or social groups in the society. Similarly a policy, like reducing the number of post offices to reduce public expenditure may be "efficient" but it may not be "responsive", as the clients may have to walk long distances to obtain postal services. Thus for a public policy to be "good" a number of criteria may have to be fulfilled simultaneously.

Most policies which are considered good in the long run would tend to fulfil the following criteria in some measure (Moharir 1991, 2002):

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2 This section draws heavily from Moharir (1991, 2002)
- **Effectiveness**, this criteria assesses the policy in terms of its achievement of the stated objectives of the policy. Smith (1989) stated that effectiveness concerns with the question of, "Has the valued outcome been achieved?". In terms of prospective policy analysis this question should be re-phrased to, "Can the valued outcome be achieved?"

- **Efficiency**, this criteria assesses the policy in terms of the resources (financial, manpower) required to realize the objectives and the amount of time and cost to be incurred in the achievement of the objective(s). Efficiency measures, "How much effort will be required to achieve a valued result" (Smith 1989).

- **Responsiveness**, refers to the extent that a policy satisfies the needs, preferences, or values of different groups affected by the policy. A policy can satisfy the two previous criteria yet still fail to respond to the actual needs of a group that is supposed to benefit from a policy. (Dunn 1994:288)

Apart from the three criteria above, **Innovativeness**, i.e. the degree to which there is innovation and creativity in problem analysis and problem solving, can be added as additional instrumental criterion since the achievement of the three primary criteria simultaneously will require an extreme degree of innovation and creativity (Moharir 2002). This is very relevant for the social security policy in a developing country context like Indonesia with acute resource constraint and explosion of new policies.

The other criteria of good policy which should be incorporated in prospective policy analysis, are **Political Feasibility** and **Administrative Feasibility**. Political Feasibility deals with the probability (or range of probabilities) that within a given time a particular policy alternative will receive sufficient political push and support to be approved and politically implemented. "Politically Implemented" means that all necessary political steps for implementation are taken and that during implementation no political problems like protests, opposition from powerful groups, etc take place. Also, for economic, technological, and administrative reasons, the policy may, nevertheless remain unimplemented (Dror 1971:87). The incorporation of political feasibility into selection criteria for good policy refers to the fact that policy making takes place in a political environment and as such options chosen should be acceptable to concerned political decision makers (Moharir 1991). **Administrative Feasibility** refers to the issue of institutional and organizational capacity to use certain type of policy instruments effectively (Moharir 1991).
It is against this set of criteria that the outcome of prospective analysis in this paper will be assessed. Using these criteria and the background of the theoretical literature and country experiences on social security/social protection, a judgement will be made on the viability of the proposals by the National Task Force on Social Security in Indonesia.
CHAPTER 3
EXISTING SOCIAL PROTECTION SYSTEM

1. Introduction

This chapter attempts to describe the existing social protection system in Indonesia. The description will start with the description of government provided social protection, including formal social insurance system. It is followed by the description of informal social protection system, this description is considered necessary because it is often assumed, by policymakers and analysts alike, that the existence of well functioned informal social protection arrangement can fill the gap caused by the shortcomings of social protection system (e.g. Esmara and Tjiptoherjanto 1986).

2. Formal Social Protection System

Following the classification described in the conceptual framework chapter, in general, social protection system in Indonesia comprised of: (i) social assistance, this type of social protection in the period before the crisis was largely operated through Ministry of Social Affairs (DEPSOS), however with the introduction of social safety net programs during the crisis, a large number of government ministries becomes involved in the provision of social assistance type of intervention; (ii) social insurance, operated through four state owned companies, i.e. TASPEN and ASKES for public sector employee, ASABRI for members of the armed forces, and JAMSOSTEK for private sector employees. (iii) residual category, the main program in this category is public works program operated by Ministry of Manpower (DEPNAKER). The following section will elaborate on each of these categories and assess its effectiveness in providing social protection, the discussion on social safety net as social protection during the crisis will be dealt in its own section.

Social Assistance

In the period before the crisis, social assistance programs in Indonesia are mostly operated through the machinery of Ministry of Social Affairs (DEPSOS) (Esmara and Tjiptoherjanto 1996:56). The approach of DEPSOS is providing assistance to a socially disadvantaged group, including street children, the physically disabled, the elderly and vulnerable women.
Most of the assistance was provided in the form of financial support for care institutions, such as orphanage and home for the elderly. DEPSOS also provided counselling, training, and long term guidance for these groups (Wiebe 1996, DEPSOS 1999). Unfortunately, no recent data on the coverage of DEPSOS assistance programs to these groups is available. In 1978, the then Director-General of Social Assistance, estimated that DEPSOS coverage is only 0.75 % of the target group population (Harun Alrasjid 1978). Probably most of the care institutions are located in urban areas therefore leaving rural areas without the benefit of DEPSOS assistance. One indicator can show the coverage of DEPSOS assistance for the elderly. Since more than 75% of the aged live with the family (Hugo 1992) while DEPSOS is only providing the assistance through the care institutions, it can safely be concluded that the vast majority of the elderly are beyond the reach of DEPSOS assistance. Apart from providing regular assistance to the vulnerable groups, DEPSOS activity includes providing assistance-in the form of rice hand out and living allowance-to the victims of natural disasters (including floods, droughts, and earthquakes) and man-made disasters (refugees, internally displaced people fleeing away from conflict area).

The other type of social assistance can be found in the field of health care. In this field, social assistance arrangement was performed through the exemption of the very poor from medical fees altogether, provided they produce a certificate of indigence (Ramesh and Asher 2000). This policy together with the system of public provision through provision of low cost medical treatment in public health centre (PUSKESMAS) and requirement for provision of low cost beds in public hospitals constitute the main elements of the government policy to provide all citizens with the access to health services (health for all). One of the indications as to whether the policies provide adequate social protection function can be seen from the indicator of the health services use. A 1987 national household survey (SUSENAS) shows that, 39.3 % of the poor sought no professional help when sick, while this could also reflect the issue of cultural preference or poor education, it also reflects to some degree the issue of limited access to the health services. The contemporary trends also threaten this system of public health provision. The increasing orientation toward market-led provision led to a declining share of the public sector role. Its share of hospitals declined from just under two thirds of all hospitals in 1985, to less than one half in 1990. In 1990, the government imposed a moratorium on the construction of new public hospitals. In 1991, the government declared the policy that turned some public hospitals into “unit Swadana” (self-financing unit). By 1995, 13 central and 26 district public hospitals had been converted into Swadana hospitals;
shortly after they imposed new user charges of various kind and increased existing charges (Ramesh and Asher 2000:87-90).

**Social Insurance**

The first post-independence social insurance programme was created in 1963. It covers old age and survivor benefit of the civil servants. The compulsory social security insurance was known as *Tabungan dan Asuransi Pegawai Negeri (TASPEN-Civil Servant’s saving and insurance programme)* managed by state owned company called PT. TASPEN. The health component was added at a later stage in 1968, the program was called *Asuransi Kesehatan Pegawai Negeri/Penerima Pensiun (ASKES-Civil servants and pensioners’ health insurance)*. In 1971 a separate entity was developed to manage program for members of the Armed Forces called ASABRI.

The social insurance program for the industrial workers started to kick off in 1964, unlike the TASPEN program for civil servants, these programs called *Dana Jaminan Sosial (Social Security Fund)* were voluntary either to the workers or the employer. The scheme began with modest voluntary health-related benefits for the workers, such as medical care, maternity, and death insurance. In 1977, the concept was changed into a compulsory social security program covering old age and survivors benefits and workers compensation or disability insurance, managed by state owned company called ASTEK (Esmara and Tjiptoheryanto 1986:54-56). In 1992, ASTEK was replaced by a more comprehensive scheme called JAMSOSTEK. It provides employment accident insurance, provident fund¹, death and health insurance. According to law no. 3/1992, participation in JAMSOSTEK is compulsory for firms with at least ten employees or a minimum monthly payroll of Rp. 1 million. Its health insurance scheme allows exemption for companies with superior health plan (Ramesh and Asher 2000). JAMSOSTEK is a fully funded social insurance, financed by contribution from the employer and the employee, levied as some kind of payroll tax and does not involve government

¹ Provident funds are a form of social insurance run by the state on principles of defined contribution, that is, each individual has an account wherein deposits and earnings accumulate on an individual basis. Typically deposits come from a combination of employer and employee with a state subsidy in the form of tax benefits. Provident funds have been used primarily for retirement security but some countries have used it for other purposes as well (Sherraden 1997:35).
subsidy. The rate of contribution varies from 5.7% of the salary for provident fund, divided as 3.7% employer contribution and 2% employee contribution to 0.3% of the salary for death benefit insurance. Because it is fully funded scheme, the issue of government financing does not matter much, the issue is more whether the benefit provided is adequate for the participant. World Bank's study shows that the retirement benefits provided under the Provident Fund scheme are small and entirely inadequate, an average retiree under the plan will receive only 10% salary replacement, based on current rate of contribution and past investment performance. The low benefits are not only a function of low contribution rates, but also high administration costs and poor return on investment. It would appear that members would do better by simply depositing their contributions in a normal savings account with a bank (Ramesh and Asher 2000:41).

On the contrary, government financing is an important issue for public sector employees scheme. Before 1994, pension for public sector employees is solely financed from government revenue. Starting from 1994, employees were required to contribute 4.75% of the salary. However since the value of the benefit has been pre-determined, i.e. between 75% to 100% of final monthly salary, the government has to subsidize the unfunded liability. In 1994, the pension plan had assets worth Rp.6.3 trillion whereas its accrued liabilities amounting to Rp. 21.4 trillion, leaving the government with huge unfunded liabilities. This government subsidy amounted to 22% of the total government wage bill in 1995, and projected to increase to 66% by 2020 (Ramesh and Asher:45).

The coverage of JAMSOSTEK program showed significant improvement during the period between 1994 to 1998 from 9.1% of the labor force in 1994 to 16.1% of the labor force in 1998. As of 1998, it has covered more than half of the formal sector employees (see table 1 below). Yet, this is still comparably small with coverage in neighbouring ASEAN countries. The combined private and public sector social insurance schemes in Indonesia covered 20% of the labor force during the period of 1992-1995. The highest rate of coverage in ASEAN countries can be found in Singapore with 81% of labor force coverage, whereas the lowest before Indonesia is Thailand with 32% of labor force coverage. Perhaps the realistic benchmark for Indonesia is Thailand which has the similar structure of labour force, the percentage of workers in non-wage employment in Thailand is 74.9% higher than 69.2% for Indonesia. Singapore is an unrealistic benchmark because its population is small, and it only has 13.4% of work-force in non-wage employment (Ramesh and Asher 2000:69).
Table 2. Coverage of JAMSOSTEK Program, 1994-1998
(as percentage of)

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor Force</th>
<th>Formal Sector Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>9.1</td>
<td>30.3</td>
</tr>
<tr>
<td>1995</td>
<td>10.6</td>
<td>35.4</td>
</tr>
<tr>
<td>1996</td>
<td>12.9</td>
<td>43.0</td>
</tr>
<tr>
<td>1997</td>
<td>14.9</td>
<td>49.4</td>
</tr>
<tr>
<td>1998</td>
<td>16.1</td>
<td>56.7</td>
</tr>
</tbody>
</table>

Source: calculated from Purwoko (1999b).

JAMSOSTEK also has limited protection regarding the type of risk that it covers. Contrary to popular perceptions, it is not designed to protect against the risk of unemployment (Purwoko 1999b:16). The only way that it could provide some assistance during unemployment is through the disbursement of the provident fund for the participants who have participated for more than 5 years. Therefore, ability of JAMSOSTEK to cushion the impact of the economic crisis to its participants is limited. Finance wise, the cost of establishing unemployment insurance component in JAMSOSTEK scheme is actually not prohibitive. Islam (1999:19) cited a study by ILO which estimated that an average contribution rate of 0.44% of the salary levied between 1991 to 2000 would have been sufficient to provide participants in the scheme who lost their job during this period, including during the crisis, with 12 months of benefit.

Residual Category

In this section, I will concentrate on the description of residual category of social protection in the field of protection against joblessness, since it will be enormously difficult to exhaustively describe all policies which have social protection function given the constraint of time, space and availability of the data.

In many developing countries public works programs constitute an important pillar for provision of income security. The most notable example of this kind of program is Employment Guarantee Scheme in the state of Maharasthra, India. This program provides a “guarantee” of employment in the public works projects to all who need it in the area within a 5 km radius from the project location.
Beginning in 1970s, the Government of Indonesia implemented a public works project called *Padat Karya (PK)* administered by the Ministry of Manpower (DEPNAKER). It is designed as one of the instruments of poverty alleviation through employment creation and where possible as a means of building up public infrastructure. The PK program was gradually replaced by other poverty alleviation initiatives, until in 1994 it was formally terminated (Islam 1999). The emphasis on poverty alleviation aspect is evident from the main reason of its termination, namely because the program was seen as having severely limited developmental impacts because of their short duration (mostly lasting only a few weeks or months) (Wiebe 1996). Unlike Public Works Schemes such as Employment Guarantee Scheme which is explicitly designed to provide employment to the temporary unemployed, *Padat Karya* program seeks to achieve longer term developmental objective. The program was rotated on a yearly basis across districts and sub-districts, as a result it may leave behind a needy area if its turn was already over. For example, drought stricken areas which were hit for two successive years, would have a very hard time requesting a *Padat Karya* project in the second year, if it had already received such assistance in the previous year. Such design features limited its ability to provide social protection function. But since 1994 up to the crisis period of 1997, even this limited protection against unemployment was absent. PK was revived in 1997 when the economic crisis began to take its toll. Description of the effectiveness of this program in providing social protection during the crisis will be discussed together with other types of Social Safety Net programs in the next section.

*Social Safety Net*

The government did not immediately respond to the social impact of the crisis. Social Safety Net (hereafter referred to as SSN) programs were not launched until a year after the start of the crisis in mid-1997. Its launching was preceded by food riots and surging food prices in the first half of 1998 (Dhanani and Islam 2002). SSN’s main objective is to mitigate crisis impact among the chronically poor (already poor before the crisis) and those who fall into poverty because of the crisis (Irawan, et.al 2000). The SSN programme is co-ordinated by National Planning Agency and implemented by 13 government ministries, ranging from Ministry of Food and Horticulture/ National Logistic Agency to Ministry of Sea Exploration and Fishery. Public works programs, for example, were implemented by three ministries Ministry of Manpower; Forestry; and Public works/Human settlement and regional infrastructure. Table 3
recapitulates the areas and programs of the Social Safety Net. Most of these programs can be classified into social assistance and residual types of social protection.

Table 3. Areas and Programs of Social Safety Net

<table>
<thead>
<tr>
<th>Safety Net Area</th>
<th>Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food security</td>
<td>Sale of subsidized rice to targeted poor households.</td>
</tr>
</tbody>
</table>
| Employment Creation | - *Padat Karya*: a loose collection of several public works programs in various government ministries.  
                      - *PDM-DKE*: a “community fund” program that provides block grants directly to villages for either public works or revolving fund for credit |
| Education       | - Scholarship for students of primary and secondary students from poor families  
                      - Block grants to cover operational costs for school in poor area. |
| Health          | - Provision of free health services for targeted poor households.  
                      - Nutrition program |

Source: adapted from Suryahadi and Sumarto (2000) and Irawan, et.al (2000)

The adequacy of SSN intervention in mitigating the impact of the crisis for the poor has been subject to various evaluations. Dhanani and Islam (2002:1224-1225) demonstrated that, theoretically the value of income transfer from two SSN programs, subsidized rice and scholarship may have contributed to up to 15% in the total income of the poor households. Depending on their participation in either one or both programs, this is equivalent to preventing 7 to 12% of households from falling below the poverty line. However, this adequacy at the design level was undermined by poor implementation. The programs have been criticized for their undercoverage, i.e. large number of poor people were not reached; as well as their leakage, i.e. the benefits had gone to the non poor due to their inadequate design and implementation, waste and corruption. A study by Sumarto et.al (2001:20) concluded that, based on the analysis of the February 1999 national household survey (SUSENAS) data, SSN had near random targeting, resulting in almost proportionate distribution of benefits between the poor and the non-poor households. Except for rice subsidy program which covered 53% of poor households, and the nutrition program, that covered 16% of poor households, the SSN program coverage reached just 5-10 % of the poor household (p.54).

Because of its source of financing from the government budget, the sustainability of SSN program depends on the government budgeting process. The allocation of government expenditure for SSN has to compete with other priorities of the government. Table 4 shows
that SSN budget allocation in fiscal year 2000 suffered a sharp decline both in the absolute amount and as a percentage of total government budget. Whereas its source of financing increasingly depends on foreign loan, reflecting to some extent the lowering of its rank in government priorities. Irawan, et.al (2001) argue that the increase in financing by external loan reflects more of the time lag between the loan commitment and disbursement than financing by new loan.

Table 4. Some Indicators of SSN Financing

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SSN budget (Billion Rp)</td>
<td>15,023</td>
</tr>
<tr>
<td>SSN Budget/Total Govt. Expenditure (%)</td>
<td>6.51</td>
</tr>
<tr>
<td>Proportion of financing by external loan (%)</td>
<td>5.57</td>
</tr>
</tbody>
</table>

Source: adapted from Irawan, et.al (2001:31-32)

In the fiscal year 2001, SSN as a “stand alone” group of programs was officially terminated. Most of its program components were phased out. Only a small number of it, mainly sale of subsidized rice (OPK program) and scholarship for children from poor households, continue to operate, except for the OPK program which continues its existence as a separate targeted food subsidy program. The other programs were operated under the “umbrella” of PKPS BBM (Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak-Compensation Program for Reduction in Fuel Subsidy). As implied from its name, the programs in this category are directly financed by a portion of the savings realized from the reduction in fuel subsidy. The budget for these programs are small compared to SSN budget (see table 5).

Table 5. Budget for Compensation Programs for Reduction in Fuel Subsidy (PKPS-BBM)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Total PKPS-BBM budget (Billion Rp)</td>
<td>2,200</td>
</tr>
<tr>
<td>PKPS-BBM/Total Govt. Expenditure (%)</td>
<td>0.65</td>
</tr>
</tbody>
</table>


^2 Starting from 2000, Indonesian fiscal year begin from January, previously it begin in April.

^3 Only includes direct project financing. The figure might be higher if we consider that some of the domestic financing component of the project might have originated from external loan.
While some of its program components evidently have social protection function, such as income transfer through scholarships for children from poor households, PKPS-BBM can not be classified as purely social protection program, because it also includes programs that do not have social protection function, such as subsidy for public transportation and support for small and medium enterprise development (Sawit 2001, Indonesiamu.com 3/9/2002). Because of the unavailability of the data, it is difficult to ascertain the portion that goes to "pure" social protection programs, therefore the magnitude of post social safety net social protection programs is hard to measure. However, it is evident that after the crisis has bottomed out, the government has lowered its expenditure for social protection programs. It remains to be seen, however, whether this recent trend implies the return to pre-crisis formal social protection system.

3. Informal Social Protection System

As mentioned in the conceptual framework of this paper, informal social protection system can be operated through: (i) family, kin, friendship, neighbourhood, community support networks; (ii) religious and cultural norms that provide assistance to "anonymous strangers"; and (iii) co-operative associations such as funeral societies, rotating credit and saving association, etc. According to Midgley (1970) the first two categories are culturally determined. Therefore, in a country as culturally diverse as Indonesia\(^4\) the discussion of these categories of social protection should attempt to represent this diversity. This will be approached in this paper by using several ethnographical studies conducted in different regions representing different cultural contexts.

Before describing social protection arrangements based on the findings from the ethnographical studies, it is worth to mention findings from the very limited number of studies which provide macro perspective. A study by Esmara in 1982 found that about 70% of the unemployed in Indonesia were supported by family (including friends) over a period of 7 to 12 months (Esmara and Tjiptoherijanto 1986:53). With regard to old age protection, Hugo

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\(4\) Indonesia is a country with enormous social, economic, religious, and ethnic complexity, with more than 300 distinct ethno-linguistic groups being identified, and all of the world’s major religions being significantly represented (Hugo 1992).
(1992:220) cited finding from the ASEAN ageing survey which found that among the old people, 22% of males and 47% of females indicated that their major source of support was their children and grand children, while 50 to 70% respectively relied upon them for at least some income. This data together with the data that showing more than 75% of the aged living with other family members (Hugo 1992:219), indicates a strong family orientation in the informal system of old age protection.

Other types of macro-studies which could provide some indications of the existence of informal social protection arrangements are studies on inter-household transfers. World Development Report 1995 (p.87-88) cited the study by Cox and Jimenez (1990) which shows that 72% of the rural households and 45% of the urban households in Java gave private transfers to other households. Being unemployed significantly increases both the probability of receiving a transfer and its amount. A study of urban poverty in Jakarta by Breinholt (1992 cited in Wiebe 1996) found that almost all poor households, including those living in extremely destitute conditions, transfer some portions of their urban incomes to family members remaining in the rural area. While the information on the purpose of these transfers is not mentioned, this finding roughly indicates the existence of mechanisms of re-distribution of resources between households which could include social protection among its objectives.

A picture of family and kinship network as important provider of social protection also emerged in several ethnographical studies conducted in different regions in Indonesia with different socio-cultural characteristics. Biezeveld (2002:222-268) found during her field study in Sungai Kamuyang rural village, West Sumatra that the most important source of support that the villager received during the time of adversity comes from one’s own household or direct kin. For example, the most important source of finance for medical care, apart from own income, is aid from family (p.246). She also acknowledges the existence of non-kin networks consisting of informal neighbourhood networks and a more institutionalised networks, such as the “arisans” (rotating saving-credit associations), “kongsi ibu” (women’s association), and “kelompok yasinan” (prayer groups). Another source of support comes from patrons, such as land-owners. Real charity exists also in the form of religious obligations like zakat but the scope of these arrangements is limited (p.268). In Java, some findings from Lont’s studies of Bujung, an urban village near Yogyakarta, Central Java (Lont 2002) illustrates the typical social protection arrangement found in the Javanese society. One of his interesting findings concerned the sources of finance for paying hospital bills (p.208); he
found that apart from own saving, the three most often cited sources of finance are: (1) contribution from relatives, neighbours and friends; (2) social fund; (3) contribution of parents or children. Lont’s study itself focuses on the role of financial self-help organizations, such as arisan (Rotating Saving and Credit Association-ROSCA) in providing social security protection, which he found to be widely existing but having limited social security protection function (p.245-248). Dwiyanto’s study in the three villages of Java (Dwiyanto 1999) concludes that the family and some more institutionalized arrangements, such as saving-loan associations and ROSCA, provide a role to assist a person in urgent need, however their functions are limited. World Bank’s “Voice of the Poor” study (1999, 2002) also mentions the existence of these types of community support. Researches conducted in eight villages in Java and four villages in Nusa Tenggara found that at times of sickness, death or disaster striking, community members generally take the initiative and offer cash contributions to the family concerned, to cushion the shock.

The conclusion that could be drawn from these ethnographic researches confirm that Midgley’s three categories of informal social protection arrangement are existing within Indonesian society. However, these researches also show that the ability of these informal arrangements to provide social protection is limited. Biezeveld (2002) mentions that material assistance from direct kin is limited since in many case relatives themselves are not affluent enough to help out in times of trouble. In the case of protection against illness, for example, people depend very much on their own provisions for medical expenses. People who are not able to make savings find it very difficult to finance specialist medical treatment. They might take recourse to selling their assets, such as land and cattle, obtain loans or even defer medical treatment or use traditional medicine. Contributions from the collective arrangements are only small, whereas support through religious obligations, such as, zakat happen only during lebaran. The assistance that people get during this festivity is normally spent within a few days. Breman and Wiradi (2002) findings from their field study in two villages of West Java show that although it is very common for close family and friends to support each other, this does not extend to include a much wider circle, let alone the entire village population and the

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5 Nusa Tenggara (The South-Eastern Islands) is a set of islands in the south east part of Indonesia. It consists of two provinces, the predominantly Muslim West-Nusa Tenggara (NTB) and pre-dominantly Christian East-Nusa Tenggara (NTT).

6 Indonesian term for Idul Fitri, a once a year Islamic feast celebrated after a month of fasting.
most vulnerable household typically lack the network through which the assistance can be claimed and provided. They also found that zakat on rice yield are no longer levied (p.279) except for zakat fitrah which is only collected and distributed once a year during lebaran festivities\(^7\) (p.155). Lont (2002) concludes after studying the social security function of financial self help organization that it has limited social security function. Disbursement from emergency funds, if they are available, are relatively small. All other lump sums are so inaccessible that it is difficult to activate them when adversities and deficiencies occurred (p.245).

A real test of the functioning of the informal social protection arrangement came when the economic crisis broke out in mid-1997 which represents the most significant covariant shock\(^8\) in recent years. A vivid illustration of how family based social protection got overwhelmed during the economic crisis can be seen from the story of Ibu Warnaen as told in Box 1. This story adapted from one of the case study in World Bank’s consultation with the poor study, demonstrates that while it is true that extended family provides protection to its members who were experiencing unfortunate event, but its ability to provide protection is limited. It has caused them to rely on coping mechanisms, such as reducing food intake, or delay medical treatment, Ibu Warnaen’s family are fortunate enough to have an access to interest free loan as one of their coping mechanisms. Securing a loan emerged as one of the important coping mechanisms that mentioned in various ethnographical studies cited above. Lont’s study (2002:245-248) shows that the most important function of financial self help organization in providing social security is that without the participation in it, many of the most used coping mechanisms, such as securing a loan, would be unavailable. For some, the price for this coping mechanisms is a cycle of indebtedness, as expressed in the popular expression of gali lobang tutup lobang, literally means “dig a hole, fill a hole” referring to the practice of taking out new debts in order to repay old debts. A loan from a neighbour is repaid with a loan from a brother, which in turn is repaid with a loan from money lender, and so forth (Lont

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\(^7\) There are different types of alms in Islam. Two of them are *wajib* (obligatory) according to Islamic teaching, namely, *zakat mal* which is levied as percentage of income or property, a kind of religious tax; and *zakat fitrah* which everyone from the new born baby to the oldest person, rich and poor has to pay at the end of Ramadhan, it can be paid in staple food (2.5 litre of rice in the case of Indonesia) or its money equivalent.

\(^8\) “Covariant shock” or generalised shock is a shock that affects a large number groups of households and individuals within a society, in contrast with the “idiosyncratic” shock which affect only certain individuals or households, e.g. illness, accident, frictional unemployment, etc. (Norton 2001:31, Moser 2001:362).
2002:230). In the most extreme case it leads to destitution, illustrated in the following quotation from Pak Kasar, describing his attempt to cope with impact of the crisis.

"I have already pawned a lot of clothes, four shirts and a few trousers. The government pawnshop does not want to give money for that, and that is why we took them to a private pawnshop, ...they gave Rp. 6,000 (less than one dollar, ed). Maybe its going to be difficult to repay those loans, and then we can only start crying. My debts are mounting now, and I own only my clothes and our bed." (Lont 2002:258).

Box 1. The Story of Ibu Warnaen: An overwhelmed family-based social protection arrangement.

Ibu Warnaen and her husband lived in Galih Pakuwon, a rural village near the city of Garut, around 200 km from Jakarta, Indonesian capital. They own a small plot of land and also work as farm labourers. They also raise duck and chicken. Ibu Warnaen’s family is not well off but also not poor. Their daily income comes from the rice field, tree crops, their ducks and chicken eggs and from working as farm laborers. From these, Ibu Warnaen used to be able to meet her daily necessities adequately, built a modest permanent house, and educated her children up to high school.

A very drastic change occurred when the economic crisis hit the country in mid-1997. Ibu Warnaen’s two sons were retrenched and they returned home to stay with their parents. Son-in-law Markum suffered the same fate, he and his family has to move out of the city and return to Galih Pakuwon. Since Markum’s parents and brothers were all much poorer than Ibu Warnaen, Markum’s family decided to join Ibu Warnaen’s household. Now the household has expanded to 9 persons. At the time of the research, Ibu Warnaen’s husband was unable to walk because of rheumatism, and one of the sons contracted Hepatitis (A) requiring expensive medical treatment. One medical consultation cost between Rp.20,000 to Rp.30,000. It often happened that there was no money in the family for treatment and it had to wait until Ibu Warnaen secured a loan.

Although they are still able to eat three times a day, the side dish is only vegetables, tiny dried salted fish or just salt. Fortunately they do not have to buy rice, and they grow vegetables for their own consumption. For emergency needs Ibu Warnaen sells her duck or chicken (she has 12 ducks and 3 chicken still). She also obtained an interest-free loan from a program run by Muhammadiyah (a large national Islamic organization).

To sum it up, we can conclude from these researches that although informal social arrangements do exist in many communities in Indonesia, their functions are limited and they got overwhelmed when large shocks occurred, because the relatives and neighbours themselves are poor; they are not accessible by the most vulnerable households who typically lack the network for claiming the assistance; whereas the magnitude of the more institutionalised support, such as zakat is small, its frequency irregular, and its coverage limited.
CHAPTER 4
PROPOSAL FOR SOCIAL PROTECTION BEYOND THE CRISIS:
SOCIAL INSURANCE BASED SOCIAL PROTECTION

1. Introduction

The previous chapter has outlined the existing formal and informal social protection system in Indonesia. The summary in table 6 below shows that in the period before the economic crisis of 1997, formal social protection programs were limited. Formal social insurance schemes are only enjoyed by civil servants, members of the armed forces and formal sector workers, while social assistance schemes are limited. Many policymakers and analysts believe that the gap can be filled by informal social protection arrangements. However, as also shown in the previous chapter, informal social protection arrangements are limited in scale, regularity and substance and got overwhelmed during the major crisis, such as the economic crisis that happened in Indonesia in mid-1997. This chapter will first describe the developments after the economic crisis that have brought social protection issues on the policy agenda of the government. It will be followed by the description of the policy proposals from the National Social Security Task Force to develop a social insurance based social security system. The final section will demonstrate the potential problems of social insurance based social protection system based on experiences of some developing countries.

Table 6. List of Formal Social Protection Schemes in Indonesia

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<tr>
<th>Name of the Scheme</th>
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<th>Source of Financing</th>
<th>Beneficiaries</th>
<th>Nature of Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>TASPEN</td>
<td>1963-now</td>
<td>- Employee contribution</td>
<td>- Civil servants</td>
<td>- Pension</td>
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<td></td>
<td></td>
<td>- Government budget</td>
<td></td>
<td>- Death &amp; survivor benefit</td>
</tr>
<tr>
<td>ASKES</td>
<td>1968-now</td>
<td>- Employee contribution</td>
<td>- Civil Servants</td>
<td>- Medical care</td>
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<td></td>
<td></td>
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<tr>
<td>ASABRI</td>
<td>1971-now</td>
<td>- Employee contribution - Government budget</td>
<td>- Members of the Armed Forces</td>
<td>- Pension - Death &amp; survivor benefit - Medical care</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>Social Assistance</td>
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<tr>
<td></td>
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<td></td>
<td>DEPSOS 1950-now¹</td>
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<td></td>
<td>DEPKES Existing</td>
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<td></td>
<td>Padat Karya Up to 1994</td>
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<td></td>
<td></td>
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<td></td>
<td>Social Safety Net</td>
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</tbody>
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¹ 1950 is the year when DEPSOS was founded for the first time. No information is available on the year when DEPSOS's assistance evolves into the current format.
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<tr>
<td>Scholarship</td>
<td>1998-now</td>
<td>Government budget</td>
<td>Children from targeted poor households</td>
<td>Income transfer through scholarship</td>
</tr>
<tr>
<td>Padat Karya</td>
<td>1998-2000</td>
<td>Government budget</td>
<td>People who were laid off because of the economic crisis</td>
<td>Temporary employment</td>
</tr>
<tr>
<td>JPS-BK</td>
<td>1998-now</td>
<td>Government budget</td>
<td>Targeted poor households</td>
<td>Free health services</td>
</tr>
</tbody>
</table>

2. Beyond The Crisis: Bringing Social Protection Back on the Policy Agenda

The outbreak of economic crisis of 1997 with its grave social impact has brought the issue of social protection onto the forefront of policy debate. The rise of social protection as a policy issue after the crisis has been evident in the policy discourse of the international donors. Prompted by the East Asian crises, the G7 had requested the World Bank to formulate “Social Principles” and “Good Practice of Social Policy” to guide policy makers in their attempts to improve the minimum social conditions of individuals, which include social protection in normal times and in episodes of crisis and stress (Holzmann and Jorgensen 2000:2). In one of his speeches, The President of the World Bank admits the key role of social policy in the effort to achieve economic recovery in East Asia: “...In the end the issue of social security and the issue of the impact on the people are the only issues which matter. You can fix the relationship of some of the financiers but if you do not follow through and think of the implications on the social sector you have nothing – save perhaps revolution and social unrest.”

Domestic political situation in Indonesia also helps in bringing social protection issues onto policy agenda. In the past, the “New Order” government under the leadership of President

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2 Address to the Overseas Development Council Conference on “Asia’s Coming Explosion”, Washington DC, 19 March 1998. (Ramesh and Asher 2000). To avoid confusion, it is necessarily to state here that the rise of social protection in international donor policy agenda does not mean they endorse the social protection based on social insurance as a policy option. Most of the donor interests is only in meeting the short term adverse consequences of structural adjustment policy.
Suharto which was in power from 1967 to 1998 chose to put economic development as its prime concern and the use of market-friendly economic policies as its core strategy. Social policy was subordinated to economic policy and the pursuit of economic growth. Given the combination of rapid economic growth, rapid growth of employment opportunities, and a favourable dependency ratio, policy-makers were not under pressure from any powerful constituency to concern themselves with the comprehensive social protection provision. The weak and conservative political opposition in Indonesia at that time exerted no pressure on the government to undertake social policy reforms. (Ramesh and Asher 2000:150-153, Booth 2002).

The situation has changed since the political liberalization which took place after the collapse of The “New Order” regime in 1998. On the one hand, several conditions which had enabled the previous government to defer the development of robust social protection policy, i.e. rapid economic growth, rapid growth of employment opportunities, and a favourable dependency ratio, have now been weakened. The crisis episode has demonstrated the possibility of slower economic growth and higher economic uncertainty due to greater exposure to international economic environment in the future. These issues together with the problem of demographic inevitability of a higher proportion of the population moving into the older age groups, have brought social protection/social security issues to the attention of the academics/analysts and also policy makers within the government. For example, these issues were highlighted in the report on the research commissioned by the office of the Coordinating Minister for Economic, Finance and Industrial Affairs (hereafter to be referred by its Indonesian abbreviation, MENKO EKUIN) in 2000.

On the other hand, political liberalisation led to a greater political competition wherein political parties attempt to attract voters through competing programs and policies. At least three of the five biggest parties in Indonesia, i.e. PPP and PAN which currently have ministers in the cabinet and the PDI-P, the party of the incumbent president, Megawati Sukarnoputri ³, mentioned the establishment of social security in their policy manifesto, even though their

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³ Indonesia adheres to the presidential cabinet system, in which ministers supposedly do not represent their political parties, however in reality most ministers were proposed by their respective parties. In the current cabinet, of the five biggest political parties in Indonesia, only one which does not have a minister in the cabinet, i.e. PKB the party of the former president Abdurrahman Wahid.
proposals do not go beyond vague generalities. Hence, exerting more pressure for the government to launch its social security initiatives. Moreover, the politically astute governments will not wait to be pressured by the public and will tactically launch policy initiatives on their own to scuttle opposition and thus reinforce their position in office (Rames and Asher 2000:191).

The “State Policy Guideline” (GBHN-Garis-Garis Besar Haluan Negara) document for the period of 1999-2004 resulted from the deliberations within the People’s Consultative Assembly in 1999 which supposedly provides guidance for the government in determining their policy, mentions the development of national security system as one of the policy priorities. In turn, the development of national security system is mentioned as one of the government priorities in the five yearly “National Development Programs” (PROPENAS-Program Pembangunan Nasional) for the period of 1999-2004 which functioned as a policy framework for the realisation of the guidance set by the “State Policy Guideline”.

It is against this background that the Government of the then President Abdurrahman Wahid formed a National Social Security Task Force in the year of 2001. Achir (2002) mentions that the formation of this task force is intended as an attempt towards the realisation of the guidance set out by the People’s Consultative Assembly. The task force consist of 23 members from variety of backgrounds representing various government departments, NGOs and individual experts. The names and backgrounds of the Task Force member are described in the following table.

Table 7. Name and Background of National Social Security Task Force Member

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<td>Professor of Psychology, Head of National Family Planning Agency</td>
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1 People’s Consultative Assembly is the highest political institution in the Indonesian political system (before the fourth amendment to 1945 constitution in 2002). Its members consists of member of the house of representative together with representatives of the provinces and functional groups. Among its main duties are to elect the president and vice president and produce the five yearly state policy guidelines.
This task force reports directly to the then Vice President and now President Megawati. Automatically, after Megawati became the President in August 2001 the task force gained more status because it reports directly to the President. The main duty of the task force is to draft the national social security bill which is expected to be finalized and submitted by the task force to the government in December 2002. The government through the state secretariat will then present the bill to the parliament, no time frame is known as yet regarding when this will take place. The next section will describe the main points of the social protection system proposed by this task force.


Before proceeding further, it has to be noted here that due to the inaccessibility to the exact text of the official draft of the bill, the description of the task force’s proposal is based on the published documents comprising of: newspaper and journal articles. In my opinion, these sources are valid enough to be used as an authentic although still an unofficial description of
the substance of the proposal. The following are the main points of the proposal summarized from Kontan (23/8/02), Sulastomo (2002) and Achir (2002).

The main consideration for the establishment of the national social security system is stated as based on the requirement to implement the 1945 constitution, particularly article 27 subsection 2; and article 34 subsection 2; article 22 and 25 of Universal Declaration of Human Rights which has been ratified by the Government of Indonesia. Also cited as consideration is the fact that Indonesia is lagging behind its ASEAN neighbours in its social security coverage.

The crux of the proposal is stated by Achir (2002) as: “...a national security system which will be based on social insurance system”. While recognizing that social security system could consist of social insurance and social assistance, the task force emphasizes the virtue of social insurance because of the following factors:

- Social assistance will require a large amount of fund and does not encourage people to plan their own welfare.
- The fund that is accumulated from social insurance contributions can enhance national savings which in turn can be used for economic development.
- Many developed welfare states have shifted their approach from social assistance to (contribution based) social insurance. (Achir 2002).

As a statutory (required/authorized by law) scheme, the scheme will be mandatory for all work force (around 96 million people according to the latest population census). However, its implementation will be gradual depending on national economic capability, and capability to enhance participation and collect the contributions regularly.

This social insurance scheme will cover health care, employment accident insurance, unemployment benefit, old age pension, and death and survivor benefit. The benefit will depend on the contribution. The amount of the contribution levied will be calculated based on actuarial analysis in accordance with the benefit provided; demographic trend and structure; level of risk faced; and will vary with the level of income. The contribution for the formal sector workers will be paid both by the employer and the employee. Whereas, the contribution

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5 For distinction between these two types of social protection. see chapter 2.
for the poor population will be subsidized or fully paid by the government. Management of the fund collected will be performed by a trust fund operated on a non-profit basis.

There are several notable differences between this proposal with the existing social security law. First, the proposal requires mandatory participation of all workforce in the social insurance scheme, although the proposal also states that its implementation will be gradual. This would include workers in informal sector, self-employed and the rural sector. Whereas in the previous law, participation in social insurance scheme is only mandatory for workers in a firm with at least ten employees or a minimum monthly payroll of Rp. 1 million. Second, the proposal mentions the possibility of the government subsidizing or bearing the contribution of the poor population. Third, the type of benefit provided is more comprehensive, including unemployment benefit which is not provided under the current social insurance scheme (see chapter 3). And fourth, management of the fund will be centralized under a single authority operated on a non-profit basis, unlike the current schemes which are managed by several state-owned companies. The proposal as yet does not indicate the financial implications of implementing it.

The next section will outline the potential problems with the implementation of mandatory social insurance as the main policy instrument for social protection based on Indonesia’s past experiences as well as experiences of other developing countries.

4. Potential Problems of Mandatory Social Insurance Scheme

4.1 Difficulties in Extension of the Coverage

As mentioned above, the proposal requires mandatory participation of all workforce through gradual expansion of the scheme. Experience from the existing JAMSOSTEK social insurance scheme shows that achievement of full coverage of the legally obliged category, i.e. workers in a firm with at least ten employees or a minimum monthly payroll of Rp. 1 million took a long time. The law making it mandatory was passed in 1992. Six years after this in 1998, JAMSOSTEK rate of coverage of formal sector workers was only slightly higher than 50%, i.e. 56.7% (see table 2 in chapter 3). Findings from research commissioned by the office of MENKO EKUIN (2000) mentioned the following factors as inhibiting the expansion of the coverage for the formal sector workers:
1. Low rate of law enforcement because of lengthy process from the detection of violation of the law to the court proceedings.

2. Insignificant amount of benefit

3. Insufficient number of supervision officers to supervise firms which did not comply with the regulation.

4. Low trust in fund management by the social insurance institutions.

The complexities will increase further when we consider that the proposed scheme will try to cover informal and rural sector workers. Also experience from other developing countries shows that there are structural barriers to extending the coverage to informal and formal sectors as follows:

- Informal sector workers often have irregular earning patterns, since their employment is unpredictable and irregular. Self-employed people are often dependent on the business cycle and the state of various products and services market. Hence their source of income to pay the contribution to social insurance is unreliable.

- Whereas formal sector workers shared the payment of their contribution with their employer, the self-employed which constitutes one of the major components of the informal and rural sectors have to pay the contribution by themselves, resulted in heavy contribution rate borne by the worker. Evidence from Tanzania shows that high contribution rate is an important deterrent against informal sector workers joining the social insurance scheme (Van Ginneken 1999:11). Data from nine Latin American Countries up to 1987 shows that the highest coverage rate of the self employed workers that can be achieved is less than 50%, i.e in Barbados, while in majority of the countries where data is available coverage rate is mostly less than 5% (see table 8 below). Mandatory legal coverage does not result in any significant increase in actual protection, as illustrated in the case of Jamaica, where although the law makes it mandatory for the self employed to participate in social insurance scheme, only 4% of them were actually covered during the period of 1980-1987 (Mesa-Lago 1994).

- High cost of detecting, inspecting, and collecting the contribution from large numbers of informal sector workers.

- From the point of view of beneficiaries, social insurance benefits for informal sector are usually very poor and reduce incentives for affiliation even more. Mesa-Lago (1994) mentioned that in Jamaica, the average pension for the self employed in 1986 was one fifth of the national income per capita, and the process for requesting the benefit was so complex and prolonged that only half of those eligible actually applied. In Lima, Peru, informal workers
interviewed in 1988 said that they were not interested in affiliation with social insurance scheme because of the low level of pension benefit provided, the poor quality of health care, and the time they lost waiting in line for the services.

- Lack of employment registration, payroll, and making it difficult to evaluate the contributory capacity, collect contributions, and assess the proper amount of monetary benefits.


<table>
<thead>
<tr>
<th>Countries</th>
<th>% Coverage of Self-Employed Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>48.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>24.8</td>
</tr>
<tr>
<td>Chile</td>
<td>11.9-17.5</td>
</tr>
<tr>
<td>Columbia</td>
<td>0.6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2.0/93.0(^a)</td>
</tr>
<tr>
<td>Jamaica</td>
<td>4.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.8</td>
</tr>
<tr>
<td>Panama</td>
<td>1.5</td>
</tr>
<tr>
<td>Peru</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Adapted from Mesa-Lago (1994)

Notes: a. the lower figure relates to pensions and the higher to health care; the latter includes non-contributory coverage to indigents.

As for the rural sector several additional structural factors can further inhibit the extension of social insurance coverage, among others:

- Physical and demographic factors include dispersion and low density of the population, physical isolation from urban centers, resulting in higher administrative cost.

- Special labor features in rural areas because majority of the labor force is usually non-salaried and works under multiple arrangements (e.g. self employment, sharecropping, and seasonal work). A person could gain their income both from a personal subsistence plot and salaried job during the harvest. Salary payment is often given in kind (e.g. a share of the crop).
It is not surprising therefore that in six Latin American countries where effort has been made to extend the coverage of social insurance to all population since at least 1970s, at the beginning of the 1980s, the agricultural population had the lowest social insurance coverage among the other population groups, as low as 4.6 % in Columbia and 5.5 % in Peru (Mesa-Lago 1994).

The above cases have shown that although social insurance can be made mandatory, extension of coverage to the legally obliged category does not automatically follow because of non compliance, evasion, and poor capacity to contribute, leaving a larger proportion of population still without adequate social protection instruments.

4.2 Financial Sustainability Aspect

Despite some members having an economic and financial management background in the task force, the proposal of the task force has not spell out in detail how the new social insurance scheme will be financed beyond some generalities. It was mentioned that benefit will be dependent on contribution; rate of contribution will vary according to income, and there is a probability for the government to partly subsidize or fully pay the contribution of the poor people. Limitations of large sections of population to contribute to social insurance are noted above. It is doubtful if the state will have the possibility of subsidizing fully or partially, the cost of covering all groups.

The current JAMSOSTEK scheme for formal sector employee is fully funded by the contributions from the participant’s employer and employee. With the four types of benefits it provides, i.e. old age, employment accident, death benefit, and health care, it requires the rate of contribution between 15.25% to 16.65 % of the salary, divided as 6.7% contribution of the employee and 8.55-9.95% borne by the employer (Ramesh 2000:40). An ILO study mentioned that it would require an additional 0.44% contribution, if the scheme wished to provide one year unemployment benefit (Islam 1999:19). However, this rate of contribution, especially for pension, is barely adequate. With the current contribution rate and current rate of return of investment, the average retiree will only receive pension at a replacement rate of 10% of their final salary. Considering the small benefits it offers, the public regards JAMSOSTEK as a tax rather than a contribution (Leechor 1996:iv). In the mature social insurance schemes, like in Europe, Japan and several Latin American countries, a
A comprehensive social insurance package requires contribution of around 22 to 56% of the total salary (Mesa-Lago 1994:39). It is questionable whether such a high rate can be implemented in Indonesia without some unintended consequences, such as rising prices because the companies will pass on its rise in labor cost to the consumers.

It has been shown in the previous section that it is difficult for the workers in the informal and rural sectors to pay the full contribution by themselves because most of them do not have an employer to pay part of their contribution. This will imply that the financing should be obtained from other sources or the government provides financing from its own budget. Experience from other developing countries shows that this mode of financing is costly because it sometimes requires the creation of a new special tax. The Brazil’s experience with rural social insurance scheme FUNRURAL provides interesting illustration for the scheme is financed by special taxes. FUNRURAL is a social insurance scheme established in 1971 granting pension assistance and health care to the rural population and towns with less than 20,000 inhabitants. It was financed by three taxes: 2.4 % on the payroll of urban enterprises; 2.5 % tax on rural production, collected by the producer and paid by the buyer; and 0.036 % paid by rural employers based on the value of agricultural production or the value of non cultivated farms. From 1978 through the 1980s the program operated at deficit that resulted from tax evasion estimated to amount from around one-third to one-half of the potential revenues. To finance the deficit in 1982, another financing scheme FINSOCIAL was created with a contribution of 0.5 % of the revenue of all enterprises in the nation. By the end of 1980’s these special programs had disappeared. The provision of health and pension programs were taken over by the federal ministry (Mesa-Lago 1994:27-28).

Experience in Latin American countries also shows that when the government experienced financial difficulties, it incurred high state debt to social security institution. It stems from: (i) non payment of their contribution as employer and third parties (in some countries including non transferring of employee’s contribution); (ii) retaining tax payments collected for social insurance; (iii) and failure to reimburse the cost of services provided by social insurance institution on behalf of the state to state employees. This state debt is a major factor behind the liquidity crisis of social security in Latin American countries in 1980s. The state debt reached as high as $ 602 million in Ecuador. The combined state and private debt to Guatemala’s social security in 1988 was twice the size of the actual revenue collected. (Mesa-Lago 1994:45).
5. Conclusion

The previous sections have shown that the post-economic crises developments in Indonesia, both internationally and domestically have brought social protection onto the forefront of policy agenda. The government responded by launching initiatives toward the development of national social security system through the formation of national social security task force. The task force has come out with an ambitious proposal to develop social security system based on national social insurance scheme. It has been shown that previous experiences both in Indonesia and other countries demonstrated that extension of the coverage beyond the urban and formal sector will be difficult and hence, although the social insurance could be made mandatory, it still fails to provide to the most who need it, i.e. the poor, with sufficient social protection instruments. Social protection systems which rely on social insurance will also experience the problem of financial sustainability. To provide adequate benefit, the scheme requires a high percentage of contribution from the payroll and requires high amount of government subsidy to pay the contribution for those who can not afford to pay it themselves, including majority of the people in informal and rural sectors. At some point in time, this will jeopardize the sustainability of the schemes themselves.
CHAPTER 4
PROPOSAL FOR SOCIAL PROTECTION BEYOND THE CRISIS:
SOCIAL INSURANCE BASED SOCIAL PROTECTION

1. Introduction

The previous chapter has outlined the existing formal and informal social protection system in Indonesia. The summary in table 6 below shows that in the period before the economic crisis of 1997, formal social protection programs were limited. Formal social insurance schemes are only enjoyed by civil servants, members of the armed forces and formal sector workers, while social assistance schemes are limited. Many policymakers and analysts believe that the gap can be filled by informal social protection arrangements. However, as also shown in the previous chapter, informal social protection arrangements are limited in scale, regularity and substance and got overwhelmed during the major crisis, such as the economic crisis that happened in Indonesia in mid-1997. This chapter will first describe the developments after the economic crisis that have brought social protection issues on the policy agenda of the government. It will be followed by the description of the policy proposals from the National Social Security Task Force to develop a social insurance based social security system. The final section will demonstrate the potential problems of social insurance based social protection system based on experiences of some developing countries.

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<td>Employee contribution - Government budget</td>
<td>Civil servants</td>
<td>- Pension - Death &amp; survivor benefit</td>
</tr>
<tr>
<td>ASKES</td>
<td>1968-now</td>
<td>Employee contribution - Government budget</td>
<td>Civil Servants</td>
<td>Medical care</td>
<td></td>
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<td>Pension, Death &amp; survivor benefit, Medical care</td>
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</tr>
<tr>
<td>JAMSOSTEK</td>
<td>1992-now</td>
<td>Employee contribution, Employer contribution</td>
<td>Formal Sector Workers</td>
<td>Pension, Death &amp; survivor benefit, Employment Accident, Medical care</td>
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<tr>
<td><strong>Social Assistance</strong></td>
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<tr>
<td>DEPSOS</td>
<td>1950-now¹</td>
<td>Government budget</td>
<td>The elderly &amp; orphan in care institution, Victims of natural and man-made disaster</td>
<td>Living allowances, Rice Handout, Living allowances</td>
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<tr>
<td>DEPKES</td>
<td>Existing</td>
<td>Government budget</td>
<td>Poor households subject to mean testing</td>
<td>Waiver for payment of medical services</td>
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<td><strong>Residual Category</strong></td>
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</tr>
<tr>
<td>Padat Karya</td>
<td>Up to 1994</td>
<td>Government budget</td>
<td>Job seekers in the project area</td>
<td>Temporary employment</td>
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</tr>
<tr>
<td>OPK</td>
<td>1998-now</td>
<td>Government budget</td>
<td>Targeted poor households</td>
<td>Income transfer through the sale of subsidized rice</td>
</tr>
</tbody>
</table>

¹ 1950 is the year when DEPSOS was founded for the first time. No information is available on the year when DEPSOS's assistance evolves into the current format.
<table>
<thead>
<tr>
<th>Name of the Scheme</th>
<th>Applicable Period</th>
<th>Source of Financing</th>
<th>Beneficiaries</th>
<th>Nature of Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarship</td>
<td>1998-now</td>
<td>Government budget</td>
<td>Children from targeted poor households</td>
<td>Income transfer through scholarship</td>
</tr>
<tr>
<td>Padat Karya</td>
<td>1998-2000</td>
<td>Government budget</td>
<td>People who were laid off because of the economic crisis</td>
<td>Temporary employment</td>
</tr>
<tr>
<td>JPS-BK</td>
<td>1998-now</td>
<td>Government budget</td>
<td>Targeted poor households</td>
<td>Free health services</td>
</tr>
</tbody>
</table>

2. Beyond The Crisis: Bringing Social Protection Back on the Policy Agenda

The outbreak of economic crisis of 1997 with its grave social impact has brought the issue of social protection onto the forefront of policy debate. The rise of social protection as a policy issue after the crisis has been evident in the policy discourse of the international donors. Prompted by the East Asian crises, the G7 had requested the World Bank to formulate “Social Principles” and “Good Practice of Social Policy” to guide policy makers in their attempts to improve the minimum social conditions of individuals, which include social protection in normal times and in episodes of crisis and stress (Holzmann and Jorgensen 2000:2). In one of his speeches, The President of the World Bank admits the key role of social policy in the effort to achieve economic recovery in East Asia: “…In the end the issue of social security and the issue of the impact on the people are the only issues which matter. You can fix the relationship of some of the financiers but if you do not follow through and think of the implications on the social sector you have nothing – save perhaps revolution and social unrest”.

Domestic political situation in Indonesia also helps in bringing social protection issues onto policy agenda. In the past, the “New Order” government under the leadership of President

[2 Address to the Overseas Development Council Conference on “Asia’s Coming Explosion”, Washington DC, 19 March 1998. (Ramesh and Asher 2000). To avoid confusion, it is necessarily to state here that the rise of social protection in international donor policy agenda does not mean they endorse the social protection based on social insurance as a policy option. Most of the donor interests is only in meeting the short term adverse consequences of structural adjustment policy.]
Suharto which was in power from 1967 to 1998 chose to put economic development as its prime concern and the use of market-friendly economic policies as its core strategy. Social policy was subordinated to economic policy and the pursuit of economic growth. Given the combination of rapid economic growth, rapid growth of employment opportunities, and a favourable dependency ratio, policy-makers were not under pressure from any powerful constituency to concern themselves with the comprehensive social protection provision. The weak and conservative political opposition in Indonesia at that time exerted no pressure on the government to undertake social policy reforms. (Ramesh and Asher 2000:150-153, Booth 2002).

The situation has changed since the political liberalization which took place after the collapse of The “New Order” regime in 1998. On the one hand, several conditions which had enabled the previous government to defer the development of robust social protection policy, i.e. rapid economic growth, rapid growth of employment opportunities, and a favourable dependency ratio, have now been weakened. The crisis episode has demonstrated the possibility of slower economic growth and higher economic uncertainty due to greater exposure to international economic environment in the future. These issues together with the problem of demographic inevitability of a higher proportion of the population moving into the older age groups, have brought social protection/social security issues to the attention of the academics/analysts and also policy makers within the government. For example, these issues were highlighted in the report on the research commissioned by the office of the Coordinating Minister for Economic, Finance and Industrial Affairs (hereafter to be referred by its Indonesian abbreviation, MENKO EKUIN) in 2000.

On the other hand, political liberalisation led to a greater political competition wherein political parties attempt to attract voters through competing programs and policies. At least three of the five biggest parties in Indonesia, i.e. PPP and PAN which currently have ministers in the cabinet and the PDI-P, the party of the incumbent president, Megawati Sukarnoputri ³, mentioned the establishment of social security in their policy manifesto, even though their

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³ Indonesia adheres to the presidential cabinet system, in which ministers supposedly do not represent their political parties, however in reality most ministers were proposed by their respective parties. In the current cabinet, of the five biggest political parties in Indonesia, only one which does not have a minister in the cabinet, i.e. PKB the party of the former president Abdurrahman Wahid.
proposals do not go beyond vague generalities. Hence, exerting more pressure for the government to launch its social security initiatives. Moreover, the politically astute governments will not wait to be pressured by the public and will tactically launch policy initiatives on their own to scuttle opposition and thus reinforce their position in office (Rames and Asher 2000:191).

The "State Policy Guideline" (GBHN-Garis-Garis Besar Haluan Negara) document for the period of 1999-2004 resulted from the deliberations within the People's Consultative Assembly in 1999⁴ which supposedly provides guidance for the government in determining their policy, mentions the development of national security system as one of the policy priorities. In turn, the development of national security system is mentioned as one of the government priorities in the five yearly "National Development Programs" (PROPENAS-Program Pembangunan Nasional) for the period of 1999-2004 which functioned as a policy framework for the realisation of the guidance set by the "State Policy Guideline".

It is against this background that the Government of the then President Abdurrahman Wahid formed a National Social Security Task Force in the year of 2001. Achir (2002) mentions that the formation of this task force is intended as an attempt towards the realisation of the guidance set out by the People's Consultative Assembly. The task force consist of 23 members from variety of backgrounds representing various government departments, NGOs and individual experts. The names and backgrounds of the Task Force member are describe in the following table.

<table>
<thead>
<tr>
<th>Name</th>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yaumil.A. Achir (chairwoman)</td>
<td>Professor of Psychology, Head of National Family Planning Agency</td>
</tr>
<tr>
<td>Erman Rajagukguk (vice chairman)</td>
<td>Professor of Law</td>
</tr>
<tr>
<td>Atifah Thaha (Secretary)</td>
<td>Economist, Civil Servant in National Family Planning Agency</td>
</tr>
<tr>
<td>Martiono Hadianto</td>
<td>Mining Engineer, Former President Director of State Owned Oil Company</td>
</tr>
</tbody>
</table>

⁴ People's Consultative Assembly is the highest political institution in the Indonesian political system (before the fourth amendment to 1945 constitution in 2002). Its members consists of member of the house of representative together with representatives of the provinces and functional groups. Among its main duties are to elect the president and vice president and produce the five yearly state policy guidelines.
This task force reports directly to the then Vice President and now President Megawati. Automatically, after Megawati became the President in August 2001 the task force gained more status because it reports directly to the President. The main duty of the task force is to draft the national social security bill which is expected to be finalized and submitted by the task force to the government in December 2002. The government through the state secretariat will then present the bill to the parliament, no time frame is known as yet regarding when this will take place. The next section will describe the main points of the social protection system proposed by this task force.


Before proceeding further, it has to be noted here that due to the inaccessibility to the exact text of the official draft of the bill, the description of the task force's proposal is based on the published documents comprising of: newspaper and journal articles. In my opinion, these sources are valid enough to be used as an authentic although still an unofficial description of
the substance of the proposal. The following are the main points of the proposal summarized from Kontan (23/8/02), Sulastomo (2002) and Achir (2002).

The main consideration for the establishment of the national social security system is stated as based on the requirement to implement the 1945 constitution, particularly article 27 subsection 2; and article 34 subsection 2; article 22 and 25 of Universal Declaration of Human Rights which has been ratified by the Government of Indonesia. Also cited as consideration is the fact that Indonesia is lagging behind its ASEAN neighbours in its social security coverage.

The crux of the proposal is stated by Achir (2002) as: “...a national security system which will be based on social insurance system”. While recognizing that social security system could consist of social insurance and social assistance, the task force emphasizes the virtue of social insurance because of the following factors:
- Social assistance will require a large amount of fund and does not encourage people to plan their own welfare.
- The fund that is accumulated from social insurance contributions can enhance national savings which in turn can be used for economic development.
- Many developed welfare states have shifted their approach from social assistance to (contribution based) social insurance. (Achir 2002).

As a statutory (required/authorized by law) scheme, the scheme will be mandatory for all workforce (around 96 million people according to the latest population census). However, its implementation will be gradual depending on national economic capability, and capability to enhance participation and collect the contributions regularly.

This social insurance scheme will cover health care, employment accident insurance, unemployment benefit, old age pension, and death and survivor benefit. The benefit will depend on the contribution. The amount of the contribution levied will be calculated based on actuarial analysis in accordance with the benefit provided; demographic trend and structure; level of risk faced; and will vary with the level of income. The contribution for the formal sector workers will be paid both by the employer and the employee. Whereas, the contribution

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5 For distinction between these two types of social protection, see chapter 2.
for the poor population will be subsidized or fully paid by the government. Management of the fund collected will be performed by a trust fund operated on a non profit basis.

There are several notable differences between this proposal with the existing social security law. First, the proposal requires mandatory participation of all work force in the social insurance scheme, although the proposal also states that its implementation will be gradual. This would include workers in informal sector, self-employed and the rural sector. Whereas in the previous law, participation in social insurance scheme is only mandatory for workers in a firm with at least ten employees or a minimum monthly payroll of Rp. 1 million. Second, the proposal mentions the possibility of the government subsidizing or bearing the contribution of the poor population. Third, the type of benefit provided is more comprehensive, including unemployment benefit which is not provided under the current social insurance scheme (see chapter 3). And fourth, management of the fund will be centralized under a single authority operated on a non-profit basis, unlike the current schemes which are managed by several state owned companies. The proposal as yet does not indicate the financial implications of implementing it.

The next section will outline the potential problems with the implementation of mandatory social insurance as the main policy instrument for social protection based on Indonesia’s past experiences as well as experiences of other developing countries.

4. Potential Problems of Mandatory Social Insurance Scheme

4.1 Difficulties in Extension of the Coverage

As mentioned above, the proposal requires mandatory participation of all work force through gradual expansion of the scheme. Experience from the existing JAMSOSTEK social insurance scheme shows that achievement of full coverage of the legally obliged category, i.e. workers in a firm with at least ten employees or a minimum monthly payroll of Rp. 1 million took a long time. The law making it mandatory was passed in 1992. Six years after this in 1998, JAMSOSTEK rate of coverage of formal sector workers was only slightly higher than 50%, i.e. 56.7% (see table 2 in chapter 3). Findings from research commissioned by the office of MENKO EKUIN (2000) mentioned the following factors as inhibiting the expansion of the coverage for the formal sector workers:
1. Low rate of law enforcement because of lengthy process from the detection of violation of the law to the court proceedings.
2. Insignificant amount of benefit
3. Insufficient number of supervision officers to supervise firms which did not comply with the regulation.
4. Low trust in fund management by the social insurance institutions.

The complexities will increase further when we consider that the proposed scheme will try to cover informal and rural sector workers. Also experience from other developing countries shows that there are structural barriers to extending the coverage to informal and formal sectors as follows:

- Informal sector workers often have irregular earning patterns, since their employment is unpredictable and irregular. Self-employed people are often dependent on the business cycle and the state of various products and services market. Hence their source of income to pay the contribution to social insurance is unreliable.

- Whereas formal sector workers shared the payment of their contribution with their employer, the self-employed which constitutes one of the major components of the informal and rural sectors have to pay the contribution by themselves, resulted in heavy contribution rate borne by the worker. Evidence from Tanzania shows that high contribution rate is an important deterrent against informal sector workers joining the social insurance scheme (Van Ginneken 1999:11). Data from nine Latin American Countries up to 1987 shows that the highest coverage rate of the self employed workers that can be achieved is less than 50%, i.e in Barbados, while in majority of the countries where data is available coverage rate is mostly less than 5% (see table 8 below). Mandatory legal coverage does not result in any significant increase in actual protection, as illustrated in the case of Jamaica, where although the law makes it mandatory for the self employed to participate in social insurance scheme, only 4% of them were actually covered during the period of 1980-1987 (Mesa-Lago 1994).

- High cost of detecting, inspecting, and collecting the contribution from large numbers of informal sector workers.

- From the point of view of beneficiaries, social insurance benefits for informal sector are usually very poor and reduce incentives for affiliation even more. Mesa-Lago (1994) mentioned that in Jamaica, the average pension for the self employed in 1986 was one fifth of the national income per capita, and the process for requesting the benefit was so complex and prolonged that only half of those eligible actually applied. In Lima, Peru, informal workers
interviewed in 1988 said that they were not interested in affiliation with social insurance scheme because of the low level of pension benefit provided, the poor quality of health care, and the time they lost waiting in line for the services.

- Lack of employment registration, payroll, and making it difficult to evaluate the contributory capacity, collect contributions, and assess the proper amount of monetary benefits.


<table>
<thead>
<tr>
<th>Countries</th>
<th>% Coverage of Self-Employed Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>48.4</td>
</tr>
<tr>
<td>Barbados</td>
<td>24.8</td>
</tr>
<tr>
<td>Chile</td>
<td>11.9-17.5</td>
</tr>
<tr>
<td>Columbia</td>
<td>0.6</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2.0/93.0*</td>
</tr>
<tr>
<td>Jamaica</td>
<td>4.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.8</td>
</tr>
<tr>
<td>Panama</td>
<td>1.5</td>
</tr>
<tr>
<td>Peru</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Adapted from Mesa-Lago (1994)

Notes: a. the lower figure relates to pensions and the higher to health care; the latter includes non-contributory coverage to indigents.

As for the rural sector several additional structural factors can further inhibit the extension of social insurance coverage, among others:

- Physical and demographic factors include dispersion and low density of the population, physical isolation from urban centers, resulting in higher administrative cost.
- Special labor features in rural areas because majority of the labor force is usually non-salaried and works under multiple arrangements (e.g. self employment, sharecropping, and seasonal work). A person could gain their income both from a personal subsistence plot and salaried job during the harvest. Salary payment is often given in kind (e.g. a share of the crop),
It is not surprising therefore that in six Latin American countries where effort has been made to extend the coverage of social insurance to all population since at least 1970s, at the beginning of the 1980s, the agricultural population had the lowest social insurance coverage among the other population groups, as low as 4.6% in Columbia and 5.5% in Peru (Mesa-Lago 1994).

The above cases have shown that although social insurance can be made mandatory, extension of coverage to the legally obliged category does not automatically follow because of non compliance, evasion, and poor capacity to contribute, leaving a larger proportion of population still without adequate social protection instruments.

4.2 Financial Sustainability Aspect

Despite some members having an economic and financial management background in the task force, the proposal of the task force has not spell out in detail how the new social insurance scheme will be financed beyond some generalities. It was mentioned that benefit will be dependent on contribution; rate of contribution will vary according to income, and there is a probability for the government to partly subsidize or fully pay the contribution of the poor people. Limitations of large sections of population to contribute to social insurance are noted above. It is doubtful if the state will have the possibility of subsidizing fully or partially, the cost of covering all groups.

The current JAMSOSTEK scheme for formal sector employee is fully funded by the contributions from the participant’s employer and employee. With the four types of benefits it provides, i.e. old age, employment accident, death benefit, and health care, it requires the rate of contribution between 15.25% to 16.65% of the salary, divided as 6.7% contribution of the employee and 8.55-9.95% borne by the employer (Ramesh 2000:40). An ILO study mentioned that it would require an additional 0.44% contribution, if the scheme wished to provide one year unemployment benefit (Islam 1999:19). However, this rate of contribution, especially for pension, is barely adequate. With the current contribution rate and current rate of return of investment, the average retiree will only receive pension at a replacement rate of 10% of their final salary. Considering the small benefits it offers, the public regards JAMSOSTEK as a tax rather than a contribution (Leechor 1996:iv). In the mature social insurance schemes, like in Europe, Japan and several Latin American countries, a
comprehensive social insurance package requires contribution of around 22 to 56% of the total salary (Mesa-Lago 1994:39). It is questionable whether such a high rate can be implemented in Indonesia without some unintended consequences, such as rising prices because the companies will pass on its rise in labor cost to the consumers.

It has been shown in the previous section that it is difficult for the workers in the informal and rural sectors to pay the full contribution by themselves because most of them do not have an employer to pay part of their contribution. This will imply that the financing should be obtained from other sources or the government provides financing from its own budget. Experience from other developing countries shows that this mode of financing is costly because it sometimes requires the creation of a new special tax. The Brazil’s experience with rural social insurance scheme FUNRURAL provides interesting illustration for the scheme is financed by special taxes. FUNRURAL is a social insurance scheme established in 1971 granting pension assistance and health care to the rural population and towns with less than 20,000 inhabitants. It was financed by three taxes: 2.4 % on the payroll of urban enterprises; 2.5 % tax on rural production, collected by the producer and paid by the buyer; and 0.036 % paid by rural employers based on the value of agricultural production or the value of non cultivated farms. From 1978 through the 1980s the program operated at deficit that resulted from tax evasion estimated to amount from around one-third to one-half of the potential revenues. To finance the deficit in 1982, another financing scheme FINSOCIAL was created with a contribution of 0.5 % of the revenue of all enterprises in the nation. By the end of 1980’s these special programs had disappeared. The provision of health and pension programs were taken over by the federal ministry (Mesa-Lago 1994:27-28).

Experience in Latin American countries also shows that when the government experienced financial difficulties, it incurred high state debt to social security institution. It stems from: (i) non payment of their contribution as employer and third parties (in some countries including non transferring of employee’s contribution); (ii) retaining tax payments collected for social insurance; (iii) and failure to reimburse the cost of services provided by social insurance institution on behalf of the state to state employees. This state debt is a major factor behind the liquidity crisis of social security in Latin American countries in 1980s. The state debt reached as high as $ 602 million in Ecuador. The combined state and private debt to Guatemala’s social security in 1988 was twice the size of the actual revenue collected. (Mesa-Lago 1994:45).
5. Conclusion

The previous sections have shown that the post-economic crises developments in Indonesia, both internationally and domestically have brought social protection onto the forefront of policy agenda. The government responded by launching initiatives toward the development of national social security system through the formation of national social security task force. The task force has come out with an ambitious proposal to develop social security system based on national social insurance scheme. It has been shown that previous experiences both in Indonesia and other countries demonstrated that extension of the coverage beyond the urban and formal sector will be difficult and hence, although the social insurance could be made mandatory, it still fails to provide to the most who need it, i.e. the poor, with sufficient social protection instruments. Social protection systems which rely on social insurance will also experience the problem of financial sustainability. To provide adequate benefit, the scheme requires a high percentage of contribution from the payroll and requires high amount of government subsidy to pay the contribution for those who can not afford to pay it themselves, including majority of the people in informal and rural sectors. At some point in time, this will jeopardize the sustainability of the schemes themselves.
CHAPTER V
CONCLUSION

1. Introduction

This final chapter will revisit research questions and objectives outlined in chapter 1 and attempt to summarise the answers obtained from the discussions in the previous chapters. It will begin with summarising the discussion on the identification of policy problem(s) with regard to social protection in Indonesia, followed by assessment on the policy option proposed by the National Social Security Task Force, i.e. mandatory universal social insurance, through the framework of six normative criteria as outlined in chapter 2, i.e. effectiveness, efficiency, responsiveness, innovativeness, political feasibility and administrative feasibility. It will build on the prospective analysis on potential constraint of implementing the scheme as discussed in chapter 4. The outcome of this assessment will be synthesised in a table format.

2. The Quest for Policy Problem

The first research objective addressed through this paper, is to identify policy problems with regard to social protection in Indonesia. The following section will summarise the discussion in the attempt to achieve this objective.

The discussions in chapter 3 have shown that in the period before the economic crisis, the government had only limited instruments to address the need for social protection (see table 6 of chapter 3). A rapidly growing economy made the need for social protection less observable and weak political opposition had created the condition where the government was not under pressure from any powerful constituency to concern themselves with the comprehensive social protection provision. Many policymakers and academics believed that the existence of well-functioned informal social protection arrangement could fill the gap caused by the limited instruments of social protection. Discussion of informal social arrangements in chapter 3 based on several ethnographical studies conclude that family/kin based social protection arrangements are limited; they got overwhelmed when large shocks occurred.
because relatives and neighbours themselves are poor; and they are not accessible by the most vulnerable households who typically lack the network for claiming the assistance. Whereas the magnitude of the more institutionalised support, such as, zakat are small, its frequency irregular, and its coverage limited. In this respect, the conclusion reached by Hirtz (1992 quoted in Ramesh and Asher 2000) after studying the system of family-provided assistance in The Philippines is also applicable for the Indonesian situation:

"The potential support that they (the poor) can receive from their own kin is limited by the fact that many poor families are members of wider kin systems which are themselves poor and which have a limited ability to help their needy relatives even though they may wish to do so".

There is, thus, only limited merit to the notion that informal arrangement can replace the need for state provided social protection. Informal arrangement also will be weakened by contemporary trends such as modernisation, urbanisation, migration, trend towards nuclear families, and the breakdown of traditional social norms, though the process is still at an incipient stage in Indonesia. (Ramesh and Asher 2000:31)

The impact of the absence of adequate social protection instruments has been evidently demonstrated during the beginning of the economic crisis in 1997. The absence of government-provided social protection resulted in the use of costly informal coping mechanisms such as youngsters being taken out of secondary school and sent to work, hence neglecting capital accumulation; health care is delayed or forgone, with increased risks of epidemics of communicable diseases; malnutrition is spreading; and productive assets are being sold.\(^1\) The discussion in chapter 3 also revealed that the cost of using a loan as a coping mechanism when dealing with vicissitudes of life of the poor is a cycle of indebtedness, which in turn could prevent the escape from poverty or in the extreme case lead to destitution (see the story of Pak Kasar in chapter 3).

Thus, the outbreak of the crisis demonstrated the existence of a policy problem, i.e. the need of the poor for assistance to cushion the impact of adverse changes in living standard, in the face of particular demands of different stages of the life cycle, such as old age, and sickness and external crisis, such as, macroeconomic shocks and natural disaster. Hence, there is a need for systematic treatment of social protection for the poor as a robust field of policy.

\(^1\)For evidence of the social impact of the crisis, see e.g. Poppele, et.al 1999, Breman and Wiradi 2002:306-308.
The introduction of Social Safety Net programs during the economic crisis has to some extent addressed the policy problem. The lesson learned from poor implementation of the Social Safety Net programs (see chapter 4 for a brief assessment) reinforces, not weaken the case for establishing adequate social protection during normal times. It has proved that it is difficult to set up effective safety nets during a crisis. Governments are unprepared, ill informed and slow to take action; financial resources are not available, and human resources stretched. Building up the infrastructure and the capacity to manage a program take time.

Although driven partly by the development after economic crisis broke out, the proposal to establish national social security system from the government-sponsored National Social Security Task Force, was based on different conceptualisation of policy problem. Its point of departure is the citizen’s right to a minimum acceptable living standard (article 27 of the 1945 constitution and article 22 and 25 of Universal Declaration of Human Rights). Its problem definition is framed by the perception of Indonesia as a laggard in formal social insurance provision compared to the neighbouring countries, and the virtue of social insurance as an instrument for mobilizing national saving which could be harnessed for long term economic development. There is an apparent suspicion toward the use of social assistance in providing social security because “it does not encourage people to plan for their welfare” whatever does the sentence mean (see chapter 4). This framing of problem definition led to the proposal for mandatory social insurance as the main instrument for social security/social protection with government partially or fully subsidise the poor.

3. Assessment of Mandatory Universal Social Insurance as a Policy Option

The second research objective to be achieved through this paper is to assess the mandatory universal social insurance as a policy option for social protection in Indonesia, through the framework of six normative criteria, i.e. effectiveness, efficiency, responsiveness, innovativeness, political feasibility, and administrative feasibility. This assessment will build on the discussion in the previous chapters. In the
3.1. Effectiveness

As mentioned in chapter 2, effectiveness criteria in prospective analysis concerns the question of “can the valued outcome be achieved?” In terms of the policy of mandatory universal social insurance, the valued outcome can be defined as: (i) coverage of all work force, in formal, informal and rural sectors, by social insurance scheme; and (ii) provision of adequate benefit to the participant of the scheme in the face of five “contingencies” i.e. sickness, unemployment, old age, employment injury, and death of the breadwinner.

With regard to the first objective, past experiences in implementing mandatory social insurance for formal sector workers in Indonesia and experiences of several other developing countries Latin America and in Tanzania have shown that the mandatory policy tends to have low effectiveness in extending the coverage. Six years after its inception, Indonesia’s JAMSOSTEK scheme for formal sector workers is only able to cover slightly higher than 50% of the formal sector workers. While the data of the coverage rate of the self employed workers in nine Latin American Countries in 1987 (see table 8 in chapter 4) shows that in majority of the countries coverage rate for the self employed is less than 5% to as low as 0.6% in Columbia. Despite of the mandatory nature of the scheme, coverage rate for the self employed in Jamaica was only 4%. In the formal sector, the extension of coverage is facing the problem of non-compliance exacerbated by low rate of law enforcement. As for the informal and rural sector, extension of the coverage faced structural constraints, such as:

- The low contribution capacity of workers in these sectors due to low and irregular earnings;
- Higher administrative cost in detecting, inspecting, and collecting the contribution
- Administrative complexity due to the lack of employment registration, particularly in the rural sector, salary payment is often given in kind (e.g. a share of the crop), making it difficult to evaluate the contributory capacity, collect contributions, and assess the proper amount of monetary benefits. These problems will be more in Indonesia which has much bigger population scattered in many islands.

Effectiveness in extending the coverage to informal and rural workers is also hindered by the unavailability of government resources to subsidize their contribution. The current fiscal situation is fragile and will remain fragile in the coming decade because of high debt, domestic and international, incurred by the government. In 2001, debt exceeded 90% of the
GDP and debt service payments siphoned about 40% of the fiscal revenues. The World Bank estimates that to achieve the debt to GDP ratio of less than 60% in 2010, the government needs to maintain primary fiscal surplus of 3% of the GDP, the reduction of primary fiscal surplus by 1% will lead to 10 percentage points increase in debt to GDP ratio by 2010 (World Bank 2001a). Hence, the fiscal situation will not enable the government to expand its spending in a large number for at least the end of the decade.

Past experience in achievement of the second objective, provision of adequate benefit in the face of contingencies also shows the low level of present effectiveness. In the current JAMSOSTEK scheme, the average retiree only receives pension at a replacement rate of 10% of their final salary. The low benefits are not only a function of low contribution rates, but also high administration costs and poor return on investment. It would appear that participants would do better by simply depositing their contributions in a normal savings account with a bank. Considering the small benefits it offers, the public regards JAMSOSTEK as a tax rather than a contribution (Ramesh and Asher 2000:41).

3.2. Efficiency

Efficiency criteria measure, “How much effort is required to achieve a valued result”. The proposed scheme will involve additional cost because it will add more benefits, i.e. unemployment benefit and extend the coverage to the category that need partial or full financing by the government.

The current scheme for formal sector workers require contribution of 15.25% to 16.65% of the salary. As mentioned above, this rate of contribution, especially for pension, is barely adequate. In the mature social insurance schemes, like in Europe, Japan and several Latin American countries, such as Argentina and Brazil, a comprehensive social insurance package require contribution of around 22 to 56% of the total salary. In the economy where competitiveness is originating from low cost of labour such as in Indonesia, it is questionable whether this additional labour cost will not affect Indonesia’s export performance and investment attractiveness. Also, one has to keep in mind the possibility that companies pass on the increase in labour cost to consumer which in turn will create accelerating rate of inflation. Additional indirect taxation to finance subsidy will also have the same effect.
The cost of subsidising contribution of the informal and rural sectors will be very high, even possibly prohibitive in the current fiscal situation as described in the above section. Mesa-Lago (1994) estimated that for Latin American countries the cost of reaching universal coverage would range between 11 to 39% of the GDP.

3.3. Responsiveness

Responsiveness refers to the extent that a policy satisfies the needs, preferences, or values of particular groups. On paper, the present proposals plan to extend the benefits to a larger group of population, particularly to those which have not benefited in the past, and as such it is more responsive to a larger group of population than the existing scheme. However, the discussions in the previous section have shown that in reality the extension of benefit will face serious constraint stemming from structural constraints and the restrain on fiscal expenditure. Hence it raises the question whether the policy can satisfy the needs of the groups that most need it, the poor. Further, the proposal contains a clause which states that the extension on the coverage will be gradual depending on national economic capability, and capability to enhance participation and collect the contribution regularly. This clause signals the possibility that even if the policy is adopted, it will not be implemented immediately to cover the poor population, giving the impression of being a “symbolic” policy or in the words of one author “a cosmetic”, giving the appearance that the needs of the poor people are now catered, when actually it is not (Von Benda-Beckmann 1994).

3.4 Innovativeness

The proposal suggest a national social security system build around mandatory universal social insurance scheme. This model of social security has its roots in Bismarckian social insurance model which was first established by Chancellor Otto van Bismarck of Germany in 1880, the basic tenet of which is the principle of third party (employer and/or state) contribution in the build up of social insurance fund. The application of this model in developing countries has been widely criticized, because it is ill-suited for countries with large informal sectors (see, Ramesh and Asher 2000:192). The dissatisfaction with the application of the social insurance model in developing countries leads to a proposal for alternative types of social protection instruments which were seen as more appropriate for developing countries, as widely discussed in chapter 2. The need to search elsewhere than the
conventional model of social security provision for developing countries is underlined by Macpherson and Midgley (1987:6):

"If Social Security is to make any significant contribution to fighting poverty in developing countries it must change its nature....The emphasis must be on the production of relevant programmes, locally administered and controlled, financed from progressive national taxation and embodying rights to benefits”.

However, the proposal does not produce alternative relevant programmes, instead it relies mainly on the social insurance model which has been widely criticized. Therefore, it is reasonable enough to conclude that the proposal is lacking in innovativeness, if viewed from the broader context of its objective, namely, to develop a national social security system.

3.5. Political Feasibility

Discussions in chapter four have shown that post-crisis domestic political development has created a condition where support for the development of national security system is high. The consensus reached in the deliberation of the amendment of article 34 section 2 of 1945 constitution which made it obligatory for the government to develop national social security system, provides a good indication of the degree of political support from the parliament. Therefore, at the formulation stage, support from the parliament for adoption of the law which realises the constitutional obligation will most likely be high. However, as Sulastomo (2002) pointed out, the current parliament has a very tight agenda. It is as yet to finish the deliberation on many laws that have to be changed because of the recent constitutional amendment, such as the law regarding direct presidential election, and election of bi-cameral parliament. Therefore it is still questionable whether the current parliament can ratify the law before the 2004 election.

Within the government, covert, if not overt opposition will probably come from the Finance Ministry which will have to raise considerable resources to subsidise expansion of the scheme, either through new taxation or reallocation of public expenditure. Ministry of Trade and Industry whose traditional constituency includes export oriented companies will also probably raise an objection, if the scheme is seen as jeopardizing Indonesia’s export competitiveness. The international financial institutions, i.e. World Bank and IMF, despite their support, particularly the World Bank, for more systematic treatment of social protection
issues, will object to the scheme which will reduce Indonesia's primary fiscal surplus since it will increase Indonesia's Debt to GDP ratio, and hence increase the risk of their loan being defaulted (see the discussion in the effectiveness section). The World Bank in their report "Poverty Reduction in Indonesia: Constructing a New Strategy" (World Bank, 2001b:84-88) has advised the government against establishing a universal social insurance system at the current phase of Indonesia's development (see chapter 1).

During the implementation of the policy, the groups which are newly added as targeted beneficiaries will bring considerable pressure on the political leadership to hasten the pace of extending the coverage to them. The government argument of extending the coverage gradually will not satisfy those demanding. It is possible then that the government will face a dilemma, succumbing to their pressures will probably annoy tax payers and international donors while not obliging to them could result in political instability.

3.6. Administrative Feasibility

The proposal involves centralization of all existing schemes under one big organization. This will potentially create opposition from existing organization which will lose their autonomy. The transition period will potentially create administrative inertia in the short term as re-organization and re-structuring of tasks will take place, possibly with some retrenchment.

The extension of the coverage to self employed, rural and informal sector will face high administrative complexity in detecting, inspecting, and collecting the contribution because of the lack of employment registration, making it difficult to evaluate the contributory capacity, collect contributions, and assess the proper amount of monetary benefits.

With the present level of bureaucratic efficiency in Indonesia, which probably will not improve much in the foreseeable future, the complex task of: detecting, inspecting and collecting the contributions; the examination of payments; the payment of benefits and settlement of disputes for large number of participants will create enormous difficulties.
3.7. Synthesis

The following table attempt to synthesises the assessment of the proposal for mandatory social insurance based on the above analysis.

Table 9. Assessment of Proposal for Mandatory Universal Social Insurance Scheme

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>Low due to low actual coverage rate, and small quantity of benefit.</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Low due to high cost and low affordability. Also long time to realise objectives</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>In theory high for informal and rural sector workers, but in reality potentially low, also low to tax payers.</td>
</tr>
<tr>
<td>Innovation</td>
<td>Low (copying the model which has been criticised as ill suited for countries with large informal sector).</td>
</tr>
<tr>
<td>Political Feasibility</td>
<td>High at the formulation stage, but low in implementation.</td>
</tr>
<tr>
<td>Administrative Feasibility</td>
<td>Low (involves high degree of administrative complexity in expansion to rural and informal sectors and requires high administrative resources to handle large number of scattered participants.)</td>
</tr>
</tbody>
</table>

On applying the above criteria for successful policy interventions, and looking at experiences of other countries which have developed similar schemes, the possibility of success of the proposal for mandatory universal social insurance scheme seems quite problematic. Policy making can not be based only on “desirability” but also on their feasibility. Politics and policy analysis is the art of feasible.
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