

Social Protection in Indonesia

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Abstract

During the 'new order' period¹ up to mid-1997, the Indonesian economy had been performing very well. The annual growth rate of GDP and external investor confidence were high, overall inflation was low, and foreign direct investment was robust. However, by the end of 1997 and in 1998 Indonesia was in a deep financial crisis. In 1998, the country experienced a contraction of 13.6% in GDP and only a very small positive growth of 0.12% in 1999. In 2000, the growth rate of real GDP was 4.8% and 3.4% by the last quarter of 2001.

By mid-1997, the incidence of poverty was about 10.1% of the population, and in 1998, as a consequence of output decline, the incidence of poverty was estimated to have increased to 14.1% in 1999, or about 29 million people (World Bank, 1998). However, based on the National Social Economic Survey (SUSENAS) in 2000 from the Central Bureau of Statistics in Indonesia (BPS) and using different measurement methods, the poverty rate in 1998 was about 23.6% (BPS, 2000b).

Historically, the social security system in Indonesia was started in 1977 with the introduction of a social security program for workers known as ASTEK (Employees' Social Insurance/Asuransi Sosial Tenaga Kerja). In 1992, the government issued a Social Security Act for private employees, including state companies, and ASTEK was changed to JAMSOSTEK (Social Security for Private Employees/Jaminan Sosial Tenaga Kerja). JAMSOSTEK is a compulsory social protection scheme for employees against social hazards, such as employment injury, death, sickness, and old age.

The existing social security system in the country has several shortcomings. One of these is the JAMSOSTEK scheme's coverage of only employees in the formal sector. Also, not all JAMSOSTEK schemes comply fully with the law and government regulations on employee's social security or with international standards (as defined by the International Labor Organization, ILO).

In comparison with other Asian countries such as Singapore, Thailand and the Philippines, government spending on social security in Indonesia is relatively small. For instance, in 1996, spending on employment injuries, survivors, sickness and health, and old age on average was not higher than 5% of GDP.

¹ After the unsuccessful coup d'état by the Indonesian Communist Party in 1965, Soeharto took power from Soekarno and became the second president of Indonesia. Soeharto's period is known as the 'new order' era (*orde baru*), which lasted until May 1998 when the reform (*reformasi*) started.

Recently, several ministries in Indonesia, i.e. the Ministry of Health (DEPKES), the Ministry of Social Welfare (DEPSOS), the Ministry of Manpower and Transmigration (DEPNAKERTRANS), and the Ministry of Finance (MENKEU) have been working on the reform of the social security system, including the JAMSOSTEK scheme. For this purpose, the government has proposed a new law that will support the reform. Under that new law PT² JAMSOSTEK will become a Trust Fund. The proposed law is currently being processed.

* The exchange rate of the rupiah against the US dollar at the time of writing was US\$1 = Rp.10,500.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

General Background

The total population in Indonesia by mid-2000 was 203.5 million people, with a growth rate of 1.35% during 1990–2000, and a fertility rate of 2.7 in 1998 (see Table 1). The total population figure is the preliminary result of the year 2000 Population Census which encountered some obstacles, such as riots in some parts of Indonesia. The census for these regions could not be conducted completely or in some cases at all, so the total population in these regions must be estimated.

Table 1: Population and Growth Rate of Population in Indonesia, 1980–2000

	1980 ¹	1990 ¹	1995 ²	2000 ³	1980–1990	1990–1995	1990–2000
Population (thousand)	147,490	179,379	194,755	203,456			
Growth rate of population (%)					1.98	1.66	1.35

1 Population Censuses

2 1995 Inter-censal Population Survey (SUPAS)

3 Preliminary result of 2000 Population Census (SP)

Source: BPS (Central Bureau of Statistics in Indonesia/Biro Pusat Statistik).

In 1980, the number of migrants totaled 3.7 million people, and increased to 4.3 million in the period 1990–1995. Cumulatively, up until 1980, the total number of migrants was 11.4 million people, increasing to 17.8 million in 1990. The level of urbanization in 1995 was 32.53%, and it was expected to increase in 2000 to 36.46% (see Table 2).

The infant mortality rate has declined from 46‰ in 1995 to 43‰ live births in 1998 and the maternal mortality rate was 390 per 100,000 deliveries. Currently, life expectancy is more than 65 years.

2 PT stands for *perseroan terbatas*, which means a corporate legal entity whose ownership of property and financial assets is limited by the number of shareholders. In the case of JAMSOSTEK, it refers to a government corporate legal entity operating on a profit-oriented basis.

Table 2: Population and Projected Urbanization in Indonesia, 1990–2020

Year	Population (thousand persons)			Level of urbanization (%)
	Total	Urban	Rural	
1990	180,383	51,932	128,451	28.79
1995	195,755	63,679	132,076	32.53
2000	210,263	76,662	133,601	36.46
2005	223,183	90,344	132,838	40.48
2010	235,110	104,577	130,533	44.48
2015	245,388	118,782	126,595	48.41
2020	253,667	132,465	121,202	52.22

Sources: BPS, 1995; and Ananta and Arifin, 1994.

The illiteracy rate has declined over the period 1995 to 1999 for adult males from 10.3% to 8.5% and for adult females from 22.2% to 18.7%. In 1995, net school enrollment as a percentage of the population, for primary and secondary education respectively, was 98.8 and 52.9; the rate for females for primary and secondary levels was 97.9% and 50.5%, respectively. However, the figures for higher education are much lower; less than 1% of the population has university degrees. Overall, most of the country's economically active population has only primary education (see Table 3).

Table 3: Economically Active Population by Educational Attainment in Indonesia, 2000

Educational attainment	Persons
1. No schooling	7,128,964
2. Primary school not completed	14,622,078
3. Primary school	35,507,292
4. Junior high school	15,363,010
5. Senior high school (general)	13,737,140
6. Senior high school (vocational)	4,8143,989
7. Academy	2,143,989
8. University	2,294,699

Source: BPS, 2000a.

Macro-economic Framework

In Indonesia's economy the state plays an important role. The role of the state is stated explicitly in the Basic Guidelines to State Policy (GBHN, 1999), which underline the policy direction on national economic development for the period 1999–2004. It states that the economic system in Indonesia is the 'people's economic system', which is based upon the market mechanism with fair competition. At the same time it emphasizes economic growth, justice, and gives priority to quality of life, social, environmental and sustainable development.

In 1998, the country experienced negative growth of almost 14%, but GDP was positive in 1999 and reached 3.4% in 2001. The inflation rate was almost 78% in 1998, and de-

clined to 8.16% in 2001. The national income per capita in 1997 was over US\$ 1,000, dropped significantly in 1998, and since 1999 has started to improve again (Table 4). In the 1980s, the Indonesian economy was still dominated by agriculture, but in 2000, the GDP share of manufacturing was 26%, while that of agriculture was almost 17%.

The economy of Indonesia is dominated by small- and medium enterprises (SMEs). These enterprises are especially important in terms of employment creation, as they employed more people than large enterprises (LEs), including foreign multi-national companies operating in the country.

Table 4: Some Important Macroeconomic Indicators of Indonesia During and After the Crisis

Indicator	1997	1998	1999	2000	2001
Rate of growth of real GDP (%)	4.5	-13.6	0.12	4.8	3.4 ¹
Income per capita (US\$)	1088	449	768	800	—
Rate of inflation (%)	11.1	77.63	0.27	9.35	8.16 ²

1 First quarter

2 Jan-Sept (cumulative)

Source: BPS (Statistical Year Book of Indonesia), various years.

The percentage of informal employment to total employment in urban areas was about 46% in 1999 (Irawan *et al.*, 2000). The urban informal sector has been playing a pivotal role in both employment creation and income generation, especially for women (ILO, 1999a,b). The share has increased since the crisis, as many employees in the formal sector (e.g. banks, industries, and services) have lost their jobs (ILO, 1999a).

Labor Market Structure

In 2000, the working age population totaled 141.2 million males, while the labor force totaled 95,651,000 males, and the unemployment rate was 6.1%. The labor force participation rate has increased from 67.22% in 1999 to 67.76% in 2000. Out of 89.8 million working people, around 45.28% work in the agricultural sector. The other sectors with large employment include trade, hotel and restaurant (20.58%), manufacturing industry (12.96%) and services (10.66%) (see Table 5).

Table 5: Employment by Sectors, 2000

Sector	Persons
Agriculture, forestry, hunting, fisheries	40,676,713
Manufacturing industry	11,641,756
Construction	3,497,232
Trade, hotel & restaurant	18,489,005
Transportation, storage & communication	4,553,855
Financing, insurance, real estate & business services	882,600
Public services	9,574,009
Others	522,560
Total	89,837,730

Source: BPS, 2000a.

Poverty and Distribution of Income

Between 1980–1996, the number of individuals living below the official poverty line dropped dramatically from 42.3 million (28.6%) to 22.5 million people (11.3%). But as a result of the financial crisis, the number increased again to 24.2% in 1998, and dropped to 23.6% in 1999. During the period between 1996 and 1999, the poverty gap index increased from 1.6% to 3.8% in urban areas and from 1.8% to 4.8% in rural areas. In the same period, the poverty severity index increased from 0.4% to 1.1% in urban areas and from 0.4% to 1.4% in rural areas.

Based on expenditure data, inequality has increased during the period 1990–1996 and declined during 1997–1999. Accordingly, in 1993 and 1996, the Gini index was recorded as high as 34.0% and 35.6% respectively, and in 1998 and 1999 was 31.6% and 31.1% respectively.

Allocation of Budget

The state budget (APBN) consists of internal revenues, which are mainly tax revenues, and external resources, i.e. foreign aid and foreign loans, on the one hand, and routine and development expenditures on the other hand. For the year 2002, education is targeted to receive routine and development expenditures of Rp.4,511.5 and Rp.11,552.8 billion, respectively; both are higher than the realized budget for 2001. In social welfare, health care, and women's empowerment, the budgeted routine and development expenditures for the year 2002 are Rp.667.7 and Rp.4,304.1 billion respectively; both are higher than the realized budget for 2001. However, in percentage terms, it is only 0.3% and 9.0% respectively of the total national budget for 2002 for routine and development expenditures.

In Indonesia, social security contributions and benefits are kept outside the state budget; they are administered by state-owned institutions or companies outside governmental departments (INSSA, 1995). This is with the exception of social assistance, including social rehabilitation, of which the main aim is to alleviate poverty. Social assistance is the responsibility of DEPSOS with financing from the state budget.

Political System and Political Situation

Political reform in Indonesia in the form of freedom of political parties and general elections had actually begun with the resignation of President Soeharto. After Soeharto stepped down in May 1998 and was succeeded by B.J. Habibie, a general election was held and the People's Consultative Assembly (MPR), formed chiefly by newly-elected members, chose the president and vice-president by majority vote for the first time since the country's independence. During this general election, President Habibie failed to be re-elected; and Abdurrahman Wahid, alias Gus Dur was elected as Indonesia's fourth president, and Megawati Soekarnoputri, leader of the Indonesian Democratic Party of Struggle (PDI-P/Partai Demokrasi Indonesia-Perjuangan), was elected as vice-president.

But, after almost two years, conflict between Gus Dur, the MPR and the House of Representatives (DPR) has forced him to step down. With President Megawati Soekarnoputri, who succeeded Gus Dur, most Indonesians had hoped that the country could at last experience political and social stability and that Indonesia could proceed with recovery and further development.

As with Gus Dur in the first year of his presidential period, the new government of Megawati is also built on a strong majority. Her cabinet consists of ministries from several parties such as PDI-P, GOLKAR (Golkar Party/Partai Golongan Karya), PKB (National Awakening Party/Partai Kebangkitan Bangsa), and PAN (National Mandate Party/Partai Amanat Nasional). These major parties influence daily politics in Indonesia. However, the first hundred days of Megawati's presidency show that the conflict between the political elite seems to be never-ending. The new government is also acting to reduce social disturbances, especially those with nuances of disintegration and *sara* (matters pertaining to ethnicity, religion, race and relationships between different groups of society), and Islamic fundamentalists, as well as tackling the problem of economic recovery. However, the ability of the government to deliver the much-hoped-for turn around is still to be determined.

1.2 Availability and Quality of Data

To have a reliable social security system in Indonesia, comprehensive information on population, real income per capita, income distribution, poverty, labor market characteristics, the size of the informal sector and individual expenditure on social welfare, etc. is required. For some of these variables, data are available in Indonesia. For population, the main source of demographic data is obtained from the Population Census (SP). Compared to the previous censuses, the SP 2000 carried out the complete enumeration method and covered more variables. In addition to the SP, BPS also conducted the Inter-censal Population Survey (SUPAS), which is designed to process demographic data between two censuses.

The data collection on labor force is held by BPS through censuses and surveys. The National Labor Force Survey (SAKERNAS) is a survey specifically aimed at collecting information on manpower statistics. Formerly, labor statistics were collected through other surveys, such as the National Social-Economic Survey (SUSENAS), SP, and SUPAS. During 1986–1993, SAKERNAS was conducted quarterly in all provinces.

With respect to income (GDP), the method used to estimate national accounts statistics follows the standard guidelines set up by the United Nations known as the 'System of National Accounts'. The implementation of the method, however, has been adjusted according to Indonesian socio-economic conditions.

With respect to poverty and inequality, in the absence of income data, expenditure is commonly used as a proxy for income. This lack of data on income plus measurements used for the poverty line may not give the real picture of poverty and income distribution conditions in Indonesia.

Information for the informal sector is derived from data on the labor market. The distribution of the labor force by employment status may indicate the distinction between formal sector and informal sector. The status of the employer (i.e. entrepreneur with fixed employees) and employee indicates the formal sector. The status of the self-employed with or without assistance by family members (family workers) and temporary helpers indicates the informal sector. Although this distinction has a number of shortcomings, it does give an indication of the size and characteristics of the informal sector in Indonesia.

In summary, like all statistics generated in developing countries, measurement errors and arbitrary changes in definitions affect the indicators compiled here. Hence, a good deal of care and caution need to be exercised in interpreting the numbers.³

It would help if Indonesia had data on individual expenditure on social security protection under the different insurance categories. In the future, SUSENAS should also include questionnaires on the proportion of expenditure paid for different social protection schemes. With this data, one could get an idea of the participation rate of the population in existing social security schemes and determine where there is need for improvement.

1.3 Existing Institutional Framework

In 1979, the Indonesian Tripartite Body (ITB), which is a forum of communication and consultation, was established in order to achieve the objective of so-called *Pancasila* Industrial Relation,⁴ comprising representatives of the government, workers, and employers. The government is represented by DEPNAKERTRANS, the workers by SPSI (All Indonesian Workers' Union), while the employers are represented by APINDO (Indonesian Employers' Association).

Up to now, as a result of good cooperation between the three institutions, the ITB has already issued many joint decrees, some of them followed by government policies, such as presidential decrees and ministerial decisions. Both SPSI and APINDO have strong influence in the preparation or formulation of such decrees. One example of a joint decree that has been issued as a result of strong influence by the trade union (SPSI) is the issue of Law No.3, 1992 concerning the Workers' Social Security Program, in which the coverage for workers has been expanded and improved. As a result, the total number of workers being covered by the state-run employees' social insurance scheme (ASTEK) in 1993 increased significantly to 5,213,757 from 2,978,069 in the beginning of 1988.

The SPSI came into existence in 1973 when 21 industry-based trade unions merged to form the Indonesian Trade Union Federation (FBSI). In 1985, during the III FBSI

3 For a useful review of strengths and weaknesses of available labor market data in Indonesia, see Sigit (2000a, b).

4 *Pancasila* is the philosophical basis of the Indonesian state. It comprises five inseparable and interrelated principles: belief in the one and only God, just and civilized humanity, the unity of Indonesia, democracy guided by the inner wisdom in unanimity arising out of deliberations amongst representatives, and social justice for the whole population of Indonesia.

National Congress the federated structure of FBSI was changed to a unitary organization and renamed the SPSI. The 21 trade unions were reorganized into a departmental structure under the SPSI. At the second national congress of the SPSI in 1990, the existing departments of the SPSI were reorganized to provide for 13 sector-based trade unions, which were affiliated to the SPSI (Simanjuntak, 1995).

In 1994, a new Ministerial Regulation No. 1 provides for workers at plant level to establish their own union without necessarily affiliating it to the SPSI. This provision permits broader participation of workers in a union. The shop floor or the plant-level union and the SPSI have the same rights and protection to negotiate with an employer for a collective labor agreement (Simanjuntak, 1995). However, in reality, during the Soeharto period the right of workers to organize strikes or demonstrations was very limited.

In 1998, as the political reform had also affected the trade union movement in Indonesia, SPSI disintegrated into 30 trade union federations, and recently there were about 60 trade union federations and five confederations. Besides trade unions and APINDO, other important and influential pressure groups are the Indonesian Chamber of Commerce and Industry (KADIN), and some business (commodity-based) associations, non-governmental organizations (NGOs) and civil society organizations (CSOs). Especially since the crisis was followed by the reform (*Reformasi*), the influences of KADIN and business associations on government policies have become much stronger than before. Now, partly because of pressure from the World Bank, IMF (International Monetary Fund) and other international institutions with programs in Indonesia, NGOs and CSOs are more deeply involved in government decisions on poverty alleviation, environment, human rights, women's empowerment, protection of children, development of SMEs, regional autonomy, and political and social issues. Some multinational companies also have strong lobbying power with the Indonesian government such as PT Free Port in Irian Jaya and Caltex in Riau.

1.4 Government Support

Since the emergence of the economic crisis in 1997, the government has started to improve conditions of social security in the country. The willingness of the government to improve the existing system of social security into one complying with international standards is stated in the National Development Program 2002. In this respect, MENKEU is going to develop policy recommendations for changing existing laws and regulations to give better protection to users of social insurance services, for improving the performance of social insurance companies and providing employees in the informal sector with greater access to social insurance schemes. The government has also recently proposed a new law to change the legal status of PT JAMSOSTEK to a trust fund.

1.5 Traditional and Contemporary Perception of the Social Protection System

In Indonesia, social security is based on the noble values of *Pancasila*, especially those related to the principles of solidarity and mutual-help (*gotong royong*) both in

the sense of intra-generation as well as inter-generation relationships. Although individually the performance principle may dominate the urban community, solidarity, mutual assistance and justice are important values in Indonesian society. Even though insurance is not yet deeply rooted in the life of the Indonesian people, the spirit of mutual assistance prevailing in the community constitutes a solid basis for both horizontal (mutual help between members of different ages in the same income groups) and vertical cooperation (mutual help between different income groups), underpinning the basic philosophical requirements for an effective social security system (INSSA, 1995). The cultural values and social expectations of the people are thus likely to create a positive environment for the development of a good social protection system in Indonesia. The Indonesian social culture revering familial relationships can promote the operational mechanism of social protection.

In reality, however, the social security system in Indonesia is less established than in many other countries, even in comparison with many other developing countries. This is very likely due to the economic, political and social environment as well as the people's attitude towards the government. Some studies conclude that the political and social environment for the development of a social security system in Indonesia is not very conducive at this time.

Alkatiri *et al.* (2000) offer the following reasons for this: First, the general public's or even the policymakers' understanding of SHI (Social Health Insurance) is very limited. SHI is being understood as a program for the poor, based on charity or at the expense of the government budget.⁵ Second, social insurance involves mandatory enrollment. During the euphoria of democracy after the overthrow of the Soeharto regime, it was difficult to sell (politically) compulsory insurance. Compulsory insurance is being understood as too much control of the central government and restriction of freedom (understood as a key aspect of democracy) of the population. Finally, the existing SHI schemes (ASKES/Health Insurance Scheme for Public Servants and JAMSOSTEK), which will be discussed below, are being perceived as not providing good services.

Besides the above factors, the contrast between the low percentage of waged/salaried workers, the average low income of workers and the necessary premium to implement sustainable insurance schemes is an important economic factor that may also hinder the expansion of the social security system in Indonesia. Most of the population, especially those in low-income employment, expects that basic protection benefits should be fully provided by the government.⁶ However, as mentioned earlier, the people's negative attitude towards the government because of corruption

⁵ This perception was derived from interviews with several relevant government officials.

⁶ In contrast, among higher income employment there has been greater demand for health insurance as can be seen from the growth of the private health insurance market in the country (Alkatiri *et al.*, 2000). Currently, it is estimated that almost 90% of the population by the end of the 1990s did not have adequate health insurance (Thabrany and Pujianto, 2000). In 1990, the World Bank (1993) estimated that the proportion of the population with health insurance was 13%. In 2000, it is estimated that only about 15% of the population have some sort of health insurance (Alkatiri *et al.*, 2000).

may hinder many from participating in the scheme, even though the contribution requirement is reasonable for them.⁷

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

In Indonesia, politically as well as economically, more attention has always been paid to the formal sector. It generates export revenue and tax revenue for the state. This sector is generally considered to be more productive than the informal sector, as the GDP share of the former is always much higher than that of the latter.

2.1.1 Categorization of the Formal Sector

The formal sector in Indonesia can be categorized based on the following points.

First, it is dominated by medium and large firms (MLEs), including state-owned and foreign companies. Second, the largely well-qualified workers in the sector are remunerated in the form of regular wage payments and employees generally have the opportunity to join a trade union or to form an association of workers. In Indonesia, apart from sector-based trade unions and the employers' association APINDO, there are also numerous workers' unions at plant level in many industries. Moreover, wages are protected legally by the government through so-called regional minimum wages (UMR). Third, working conditions in this sector are generally legally protected; though in reality many companies/industries, especially the small ones, are found to have bad working conditions. Fourth, its market structure also exhibits specific characteristics, e.g. prices of some important commodities are often controlled and partially protected against foreign products by import duties or taxes, and the products are primarily purchased by those in the middle and upper income brackets. Fifth, this sector is more capital intensive than the informal sector, which leads to higher productivity and higher profits and income in the formal sector. Finally, the formal sector is clearly privileged by the state. This applies also to the area of social security. The employees do not only have a higher and regular income, but are also protected by social security measures.

Before the crisis, sectors with high growth rates of output were sectors such as the manufacturing industry, construction, banking, trade and tourism. In manufacturing, MLEs had higher productivity and a much larger contribution to GDP than micro and small enterprises (MSEs) but these sectors had practically collapsed during the crisis that led to increased unemployment. On the other hand, MSEs in the informal sector have proved themselves by demonstrating the ability to survive the crisis, and many were even able to grow amid the crisis.

Currently, the main problem of the formal sector in Indonesia is therefore how to recover quickly, at least back to its condition before the crisis, and to face the coming

⁷ This is especially the case for SHI. The economic factor may hinder initiatives to expand SHI.

era of AFTA as the competitiveness of the formal sector in Indonesia is still low (WEF, 2001).

2.1.2 Social Insurance and Savings Schemes

Indonesia's social security system has most of the types of benefits of social security systems around the world. It has a benefit payable upon old age, death, permanent disability, work accidents and occupational diseases, and it also has a health-care system. A compulsory health insurance scheme for public servants (ASKES) has existed since 1968. In the 1970s, three separate programs were introduced to provide income security to private sector workers and employees of state enterprises (ASTEK), public servants (TASPEN), and members of the armed forces (ASABRI). Indonesia also has social insurance programs for the general public, i.e. JASA RAHARJA.⁸ However, Indonesia does not have cash sickness allowances, maternity allowances, family allowances, and unemployment benefits, which are part of the social security system of many other countries.

Historically, the social security system in Indonesia was started in 1977 based on Law No.33 by introducing a social insurance for workers in the formal sector (i.e. private and state-owned companies), known as ASTEK (Employee's Social Insurance/Asuransi Sosial Tenaga Kerja). The aim was to provide employment accident insurance, a provident fund, death insurance and health insurance. The schemes were administered by PT ASTEK, a state-owned company (*persero*). In 1992, Indonesia enacted a major reform of its social security system, as a new social security law was adopted (Act No.3, Employees' Social Security of 1992).⁹

Figure 1: Indonesian Social Security System

Coverage	Schemes	Type of program	Employee	Government/ employer	Benefits	Institution
Government Employees Law No. 8 Year 1974. Basic Government Personnel Policy. Article 10: Government Employees are required to participate in joint social insurance	Civilian Presidential Decree No. 8 Year 1977	TASPEN Govt. Reg. No. 10 / 1963 revised into Government Regulation No. 25 Year 1981	3.25%	—	Lump sum cash benefits at retirement age, term insurance and cash surrender value before retirement	PT TASPEN Government Regulation No. 15 Year 1963 revised into Government Regulation No. 25 Year 1981

⁸ PT JASA RAHARJA is a state corporation administrating Law No.33, 1964 on the Mandatory Insurance Fund for Passenger Accidents and Law No.34, 1964 on the Fund for Road Traffic Accidents (see Figure 1).

⁹ Also in 1992, the Health Act was passed. JAMSOSTEK introduced the mandatory approach towards health-care insurance, but failed to actually enforce this mandatory system. Under this Act, the Ministry of Health has the responsibility to promote and develop JPKM (Jaminan Pemeliharaan Kesehatan Masyarakat), which literally means Community Health Maintenance Protection / Insurance.

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		HEALTH CARE Presidential Decree No. 230 Year 1968 revised into Government Regulation No. 69 Year 1991	2.00%	—	Comprehensive health care	PT ASKES Government Regulation No. 5 Year 1992
		PENSION Law No. 11 year 1969	4.75% Total 1–3: 10.00%	State Budget	Employee pension, widow pension, orphan pension (monthly)	PT TASPEN
	Armed Forces Presidential Decree No. 8 Year 1977	ASABRI Government Regulation No. 44 Year 1971 revised into Government Regulation No. 67 Year 1991	3.25%	—	Lump sum cash benefits at retirement age, term insurance and cash surrender value before retirement	PT ASABRI Government Regulation No. 45 Year 1971 revised into Government Regulation No. 68 Year 1991
		HEALTH CARE Ministry of Defense and Security Decree	2.00%	—	Medical expenses, hospitalization, maternity, medical equipment and eyeglasses	The Armed Forces Health Center and the Health Center and the Health Directorate of the Armed Forces Branch
		PENSION Law No. 5 year 1966	4.75% Total 1–3: 10.00%	State Budget	Member pension, widow pension, orphan pension (monthly)	PT ASABRI
Private Employees Law No. 14 Year 1969 Basic Manpower Regulation, Article 15: The Government is to provide social insurance in which all parties concerned participate.	JAMSOSTEK Gov. Reg. No. 33 Year 1977 enacted into Law No. 3 / 1992	WORK ACCIDENT BENEFIT	—	0.24–1.74%	Transportation, doctor, medicines, hospitalization, disability allowance and death benefits	PT ASTEK Government Regulation No. 35 year 1977 revised into Government Regulation No. 19 Year 1990
		OLD AGE BENEFITS	2.00%	3.70%	Accumulated savings of employee and employer with interest	
		DEATH BENEFITS	—	0.30%	Death benefit before retirement age	
		HEALTH-CARE BENEFITS	2.00%*	3% (single) 6% (family)	Ambulatory care, maternity and hospitalization	
General Public Law No. 33 Year 1974 Law No. 34 Year 1974 Mandatory traffic accident insurance	JASA RAHARJA Law No. 33 Year 1974 Law No. 34 Year 1974	PASSENGER ACCIDENT INSURANCE THIRD-PARTY LIABILITY INSURANCE			Hospitalization, disability and death benefits	PT JASA RAHARJA

* Private sector employees do not pay the contribution, while employees from state-owned companies (BUMN), who joined the JAMSOSTEK, pay 2%.

This law established a new security system known as JAMSOSTEK, effective from July 1, 1993. Under this revised law, the ASTEK scheme was changed to the JAMSOSTEK scheme (Social Security for Private Employees), and broadened with health-care benefits. Regulation No.36 of the Ministry of Finance formally changed the name PT ASTEK to PT JAMSOSTEK. This new program greatly improved the benefits for workers covered by the scheme. It provides basic protection in the formal sector for workers and their families. It provides savings for old age and certain other circumstances, death benefits, benefits for accidents occurring at work or occupational illnesses as well as health-care coverage.

The JAMSOSTEK law mandated all employers with ten or more employees or paying a monthly payroll of not less than one million rupiah for the whole company are obliged to register their employees in the scheme. However, if employers have in place better social protection for their employees from other providers then the employers are exempted from mandatory enrollment for the JAMSOSTEK insurance program.

The most important change under this new law was an increase in the contribution rate for the Provident Fund (the savings program for old age). It is a mandatory savings scheme, where the monthly contribution from the employer and the employee are credited into the account of the employee in which interest (market-based, not government supported) is added annually. The benefits of the scheme are provided for the employee when he reaches the age of 55, or the heirs, in the event the employee dies before that age.

Another important change under this new law was the introduction of health-care coverage for outpatient medical care and hospitalization. The health insurance program, called JPK (Jaminan Pemeliharaan Kesehatan) JAMSOSTEK, covers comprehensive (but limited) health services in kind for employees and their families: (i) ambulatory care through community health centers, general practitioners, and specialists; (ii) in-patient hospital care through general and private hospitals; (iii) maternity and delivery care; (iv) provision for medicines; (v) laboratory examination for diagnostic support; (vi) dental and eye care; (vii) emergency care (Dailey and Turner, 1997).

By law, health-care providers must be paid on a prepayment and capitation payment system (per person). The scheme is financed by contributions from employers, which are 6% of monthly wages for married employees and 3% for singles.¹⁰

The employment accident benefit provides for protection in cases of work accidents and work-related illnesses. The benefits constitute compensation to reimburse employers' expenditure for transportation costs of injured workers, wages during temporary disability, and medical and hospital care. Compensation is also provided for

¹⁰ For all of the presently existing health insurance schemes, co-payments of considerable size are necessary for many services and pharmaceuticals. This in turn makes it difficult even for insured persons to get access to all the services needed. The main obstacle in the development of social health insurance in Indonesia is that the majority of the Indonesian people is as yet uninsured.

invalidity and death due to the loss of income. The scheme is financed by employers' contributions.

The death benefit consists of funeral expenses and cash benefits which are provided for the heirs of an employee who dies before the age of 55. The scheme is financed entirely by the employer. The order of beneficiaries in the payment of death allowance and benefits is as follows: spouse, children, parents, grandchildren, grandparents, siblings, parents-in-law.

Table 6: Schemes and Contribution Rate, JAMSOSTEK

Scheme	Contribution rate (%)			
	Government	Employers	Employees	Total
1. Work injury	—	0.24–1.74	—	0.24–1.74
2. Death benefits	—	0.3	—	0.3
3. Health care	—	3–6	—	3–6
4. Provident Fund	—	3.7	2	5.7
Total	—	7.24–11.74	2	9.24–13.74

Source: Law No. 3/1992 PT JAMSOSTEK.

The distinctive features of JAMSOSTEK as a social security system set it apart from social security systems in the rest of the world in at least three aspects. First, JAMSOSTEK's Provident Fund (old-age benefit), as a defined-contribution compulsory savings scheme paying out lump sums on the occurrence of the first of the three contingencies of invalidity, survivorship and old age, is not only fundamentally incapable of providing adequate income support in retirement, but also allows members to withdraw their accrued balances when unemployed (ILO, 1999c). Second, PT JAMSOSTEK is a profit-making,¹¹ taxable state-owned company that has a monopoly on social security contributions. Finally, there are no tax concessions for Indonesia's social security system, except a deduction for employers' contributions.

Another important feature is that the benefits of the social security system in Indonesia provide only floor protection. Hence, the system provides opportunities for private insurance to cover any additional benefits as required. Due to the fact that the majority of the population in Indonesia is from low-income groups, basic protection benefits should be provided by the government.

2.1.3 Social Assistance and Services: Benefits and Transfers

In Indonesia social assistance, including social rehabilitation, is provided under Law No.6, 1974, on social welfare. This system covers various kinds of assistance: for those who fall victim to natural disasters like earthquakes, floods, riots, social unrest, as well as those who lack abilities to sustain a living, such as invalids, orphans, the aged, indigents, and drug addicts. Social assistance benefits are given in money or in

¹¹ The company makes a profit from the return on investment of the money from contributions.

kind. Social assistance is the responsibility of DEPSOS with financing from the state budget (APBN).

One important component of social assistance in Indonesia is the social safety net (JPS). The government has established the basis of a JPS through the social welfare activities of DEPSOS in coordination with other related departments and through the provision of subsidized health care. In 1998, in response to the crisis, new JPS programs were established, aiming to ensure a basic standard of living for those adversely affected by the crisis (Table 7). Total expenditure of the programs increased from about 1% of GDP in fiscal year 1999 to 1.25% in fiscal year 2000 (World Bank, 2000).

Table 7: Social Safety Net Programs in Indonesia During the Crisis

Program	Activity
Food security	New program of targeted cheap rice distribution (OPK)
Social funds	Community-based programs, including assistance to small-scale industry
Health and education	Back-to-school program launched (provides scholarships for the poorest students and school grants for schools in the poorest communities) Subsidies to maintain prices of essential drugs
Work-fare program	Existing programs expanded and redesigned

Although there is no unemployment insurance or assistance scheme in Indonesia and no system of social assistance under which income support through cash benefits is made to the poor, DEPSOS does have a small scheme to provide temporary cash payments to old persons who have no family or community support. This, however, is very exceptional and only 1,600 persons are currently covered. They receive only Rp.15,000 per month, but payment is made on a temporary basis with the understanding that the beneficiary will subsequently either be supported by his family or the community, and failing this, will be cared for in public residential accommodations (ILO, 1999d).

2.1.4 Others

The government has not yet implemented any other special, unique or innovative programs, apart from those already mentioned above. The only thing that the government has been doing in response to the economic crisis is reforming the social security system, including the JAMSOSTEK scheme. The main objectives of the reform are especially to enlarge the coverage (Table 8). To achieve this goal, the government has proposed a new law that is still being fine-tuned in an ongoing process. The main aims of this new law are to include companies with less than ten employees and to make law enforcement in the implementation of the system possible.

With respect to social health insurance (SHI), the Ministry of Health and Social Welfare is going to establish a new SHI agency at the regional level that provides a comprehensive benefit package on a mandatory basis by the year 2012. This insurance agency is built from human resources drawn from other existing agencies, which are merged into the new organization (Alkatiri *et al.*, 2000).

Table 8: Planned Coverage of Various Parts of the Population, at 2012

Group of the population	Percentage today (2000)	Percentage 2012
Civil servants	100	100
Formally employed	>10	50
Retirees	<10	20
Informally employed	<5	15

Source: Alkatiri *et al.*, 2000.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

There is still no generally accepted definition of the informal sector. However, the catalogue of criteria developed by the ILO may provide a good guideline. According to this catalogue, activities belong to the informal sector when either: (i) family members work in a business, or economic activities are conducted by non-paid workers (mainly family members); (ii) there are no legal regulations or existing regulations; (iii) there are no regular working times; (iv) most of the workers have low education levels; (v) the work is seasonal, depending of course on the kind of activity; (vi) no electricity is available in the workplace; and (vii) there is no dependency on regular loans.

Heterogeneous forms of employment and heterogeneous forms of income make it particularly difficult to categorize the informal sector. An alternative sub-classification of the sector which would make sense in the context of the social security system is: (i) persons with regular employment who do not enjoy the protection of social legislation or social security systems;¹² (ii) persons who do not have a regular income due to the casual or seasonal nature of the work and who do not fall under the protection of the social security systems; (iii) the unemployed.

In Indonesia, given the available data, the working definition of informal sector employment is defined by BPS to include those workers who are self-employed with or without the assistance of unpaid family members or paid temporary helpers.

2.2.2 Problems and Features of the Informal Sector

The informal sector faces a variety of problems that can be seen as common problems of this sector in developing countries. First, because activities in the informal sector are non-legal (not registered) and hence pay no taxes, they are therefore outside the scope of government policies/regulations as well as labor and social protection. Second, due to their lack of capital, technology and human resources, they often have long working hours to achieve a certain minimum target of production/income amidst poor working conditions. As a result, the productivity and hence income of labor in this sector are low. The low income is also due to the fact that the sector is

¹² This may include workers in the formal sector (companies) without any social protection, as there are still many employers who have not (yet) joined JAMSOSTEK.

characterized by low entry barriers and fierce competition. Therefore, the sector is often mentioned as a source of poverty. Third, probably because they are non-legal activities, they lack access to the formal finance market, education training programs, and information. Fourth, many activities have irregular workplaces and working hours, depending on the type of activities. Finally, as a rule, employees in the informal sector have no access to social protection provided by the government.

2.2.3 Social Assistance and Services: Benefits and Transfers

While JAMSOSTEK may not cover the workers in the informal sector, the Indonesian government has an impressive array of other income and welfare programs that, at least indirectly, may provide a safety net to some members of the informal sector. One of these programs is *Inpres Desa Tertinggal* (Presidential Decree Program for Least Developed Villages/IDT), which is renowned for generating new income-earning activities in backward areas. The program, implemented by BAPPENAS (National Planning Agency) has been designed (at least before the crisis) to channel roughly US\$200 million each year to the poorest households in the least developed villages.

Besides this, there are many other programs with less visibility that represent real safety nets, including efforts by DEPSOS and DEPNAKERTRANS. The most ambitious program implemented by DEPSOS may be the *Penyantunan dan Pengentasan Fakir Miskin* (Assistance for the Poor/PPFM, for poor families), designed to complement the IDT program. Another project also sponsored by DEPSOS focuses on Collective Economic Activity Groups (KUBE) and provides financial support and guidance to ten selected persons in poor villages to enable them to engage in an income-generating activity, the proceeds of which are shared amongst the most needy in the village, as determined by a committee (ILO, 1999d).

In addition to this program, DEPSOS is also active in providing assistance to victims of natural disasters (including floods, droughts, and earthquakes) through the program *Bantuan dan Rehabilitasi Korban Bencana* (Natural Disaster Relief and Rehabilitation/BRKB). In the case of drought, food assistance in the form of free rice is provided to affected households. In response to other emergencies, much of the assistance provided through this program goes towards rehabilitating damaged housing.

One of the most common forms of government security, especially for people in the informal sector, implemented by DEPNAKERTRANS is a public works scheme called *padat karya*. By providing work at low wages, employment can be targeted at those who really need income support. In 1994, the *padat karya* scheme was ended and replaced by training and self-reliance promotion programs for workers. But because of the unprecedented drought conditions and the economic and political crisis, this scheme was revised in 1997.

In addition, as discussed before, in response to the crisis the Indonesian government has established JPS programs. These programs are not exclusively for the informal sector, but given the fact that the majority of the poor is in the informal sector, they

are therefore the most important recipients of these programs. The benefits are provided in cash or in kind (see Table 7).¹³

All these social assistance and services are provided free of charge by the government to those who are really in need.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

The government programs as described earlier may not protect everyone in the informal sector from suffering the effects of income fluctuations. In this context, households and communities in the sector were forced to develop their own forms of income security. There are also many schemes that were established voluntarily for certain reasons, for example more flexibility, less or no bureaucracy or complicated administrative procedures, and were probably cheaper than the formal schemes.¹⁴ Two strategies that are still seen in Indonesia today involve households diversifying income sources and communities providing a minimal level of income security (Wiebe, 1996).

The poor household strategy of diversifying income sources can be seen as a social security mechanism in the sector. There is some evidence that this security mechanism is important in Indonesia. One study of urban poverty in Jakarta found that almost all poor households remit significant portions of their urban incomes to family members remaining in rural areas (Breinholt, 1992). This finding may indicate that the income stream of many workers in the urban informal sector may be closely connected with extended families that remain in the rural sector. These income transfers, moreover, flow not only from urban to rural areas: A World Bank report (World Bank, 1995) shows that nearly three-fourths of rural households in Java, for example, made money transfers to other households. Wiebe (Wiebe, 1996) argues that the important implication of these income transfers is that, even if income security for a given individual were to fail as that worker leaves agriculture for employment in the urban sector, overall income security for the household may improve through the diversification of income transfers to that household.

Private income protection in the informal sector may also be provided by employers. Although a written contract may not exist, the relationships between workers and their employers are governed by social customs and traditions (Wiebe, 1996). The World Bank report (World Bank, 1995) shows that the agreements between them often include some elements of risk sharing; employers might agree, for example, to pay a fixed wage regardless of seasonal or other fluctuations in demand.

Besides income security provided by households or individuals at the community level, many neighborhood associations (Rukun Tetangga/RT) collect an informal tax to provide welfare assistance in emergencies. Households contribute a cup of rice

13 More discussions on JPS in Indonesia are found in Abimanyu (1999), World Bank (2000), and Manning (2000).

14 This information is based on informal discussions between the author of this paper and some individuals who engage in income-generating activities in the informal sector like petty traders and small street shops.

(or its monetary equivalent) every week and these resources are used to help families who do not have adequate resources (Wiebe, 1992). These so-called community-based social insurance or saving schemes are not supported, sponsored or protected by the government. They are only privately organized and community-based.

In addition, there are many voluntary village-level organizations providing insurance against the cost of primary health care. In 1992, it was estimated that there were 4,000 villages in 18 provinces with these schemes, known as *Dana Sehat*. Coverage exceeded one million families and included communities in the urban areas as well as rural and fishing villages (ILO, 1999d). One pilot project described as a social welfare insurance scheme (ASKESOS) has targeted poor workers in the informal sector who are already being supported by an NGO or self-help association. With the administrative support of the NGO, these workers are encouraged to save Rp.5,000 per month for three years and while they are doing so, DEPSOS meets the cost of any hospitalization lasting at least five days (to the extent of Rp.1,000,000 per year) and provides a lump sum of up to Rp.600,000 in the event of their death (ILO, 1999d).

Cooperatives can also be seen as another form of a voluntary community-based scheme that provides a certain kind of security to members. However, the development of cooperatives in the country has not yet adequately addressed the need and aspiration of the people. Cooperatives are condemned to be small with a large membership but limited coverage of services.

Finally, there are various special credit schemes with low interest rates, which have been designed for micro-enterprises. These are formal schemes provided by the government and implemented by Bank Rakyat Indonesia (Indonesian People Bank/BRI). The funds are channeled either directly to individuals or through cooperatives. One of the schemes is a special credit scheme for farming (Kredit Usaha Tani/KUT) which has been implemented to address the crisis. However, not all of these credit schemes are really successful. Many producers, as good potential borrowers, are hardly informed about these schemes and so only a very low percentage have ever actually received loans from these schemes. Moreover, especially with respect to KUT, the program has ended with a corruption scandal involving a huge amount of money.

There are also diverse kinds of informal micro-finance institutions, mainly in rural areas, such as the village-based rotating savings and credit associations which function around neighborhood groups of ten to 40 members, mostly women. These savings and credit associations seem to be more successful for two main reasons. First, as they know each other, there are strong social/personal relationships among them. Second, there are no bureaucratic or complicated administrative procedures to follow.

2.2.5 Others

As explained earlier, family and community play an important role in the informal sector in securing social/income protection. Many traditional social security schemes

are established through neighborhood associations, cooperatives, civil society organizations, rotating savings and credit associations and family ties. However, there is no need to formalize these informal schemes of social security. Not only is it difficult to formalize these associations / schemes, but it is more feasible and probably highly cost effective to integrate them into the formal one. The integration can be in various forms. One of them is through an 'investment link', in which part of JAMSOSTEK's social security fund is used to co-finance existing programs/schemes in the informal sector such as health care and accident protection as well as low interest-based credit schemes for micro-enterprises.¹⁵

Though the government recognizes the role of civil society organizations, cooperatives and their networks in providing social protection, still it does not allocate money to support these organizations. One government official from DEPNAKERTRANS has commented that they have taken into consideration the possibility of supporting them financially but it may take some time.

2.3 Labor Market Policy

Indonesia achieved remarkable success in economic development during the era of Soeharto. The GDP growth rate during 1990–1996 was above 7% per annum. On the employment front, however, performance has been somewhat less impressive. The growth of employment has lagged behind that of the labor force. During the crisis period (1997–1999), the open unemployment rate increased as a result of contraction in economic activities, especially in manufacturing, construction, and services.¹⁶ As employment creation has been an important issue in Indonesia since the Soeharto period up to now, the government has introduced and implemented many measures to generate more employment, which will be briefly discussed here.

2.3.1 Active Labor Market Policy

Creating Job Opportunities (Labor Demand)

Many measures have been undertaken by the government to create job opportunities, both through supporting private sector development and creating public works schemes. In supporting the development of the private sector, special attention has been given to the development of SMEs. At the moment, there is a plethora of programs, including assistance with marketing and other business advice, manufacturing/processing, and assistance with linkages of firms.

Two implicit policies underpin most of these programs: (i) the provision of extension services and (ii) mandatory partnership programs. Extension services have been

¹⁵ The advantages of these various schemes are that they are informal, easily established and organized, the community can freely decide how the scheme should work, with no government intervention, and no complicated administrative procedures and regulations. When these schemes are formalized, the people face bureaucracy with many unwanted regulations. More importantly, the schemes become compulsory schemes. This perception is based on informal discussions between the author of this paper and some members of the schemes.

¹⁶ A comprehensive analysis of the effect of the crisis on employment is given in ILO (1998, 1999d).

provided in a variety of forms including Common Services Facilities (UPRT) and Industrial Estate Services (LIK)¹⁷ conducted by the Department of Industry and Trade (MoIT) as well as Small Business Consultant Clinics (KKB) conducted by the State Ministry of Cooperative and Small and Medium Enterprises (MENEKOP and PKM). The mandatory partnership program¹⁸ has been the approach of several ministries and government agencies and has been developed through a range of different laws and regulations (ILO, 1999d). Another important approach especially to create redeployment opportunities for those who were adversely affected by the unprecedented drought conditions, the economic crisis and political turmoil is the labor-intensive job creation program, *padat karya*, which was revised in 1997. This program is implemented by DEPNAKERTRANS in association with other relevant ministries. It is a program of wage employment through labor-intensive infrastructure development and other economic activities (ILO, 1999).

The government has also provided a number of credit schemes and facilitated access to micro-finance institutions. There are at least 24 micro- and SME credit programs currently operating. Within this group there are large differences in terms of orientation, operation and structure. Some of these programs are directed primarily at special groups, such as farmers or transmigrants. The most important credit schemes are: (i) KUK which is the requirement that commercial banks devote at least 20% of their outstanding loans to small borrowers, and some types of consumer credit; (ii) KUPEDDES, a program that serves MSEs throughout the country but with a large presence in rural areas; (iii) subsidized credit programs targeting cooperatives and their members; (iv) the BPR rural banks; and (v) a number of donor-sponsored SME programs. But, as explained before, not all of these credit schemes can be considered as very successful.

Human Capital Formation, Skills Development (Labor Supply)

Based on information in 1998, there were 19 government departments, which have established and regulated 815 vocational training programs. The most important department is DEPNAKERTRANS, which has several programs that were established to link training needs and market demand. The target groups of vocational training are mainly job seekers. The Ministry is a major contributor to the national training effort as it is responsible for training programs not only for job seekers but also for enhancing productivity, promoting self-employment, training overseas workers, and for the training of apprentices.

During the crisis, the government was obviously concerned with the problem of mass layoffs and instituted a program for laid-off workers. A major program implemented

17 LIK (Industrial Estate Services) or similar industry clusters or districts are found in almost all districts in the country which are specially created by MoIT where SMEs are (re)located and they are provided with common facilities like UPRT, BDS (business development services) and UPT (technical service units).

18 Partnership between SMEs and larger enterprises can be in various forms such as subcontracting in production processes or cooperation arrangements between SMEs and state-owned companies (BUMN) in marketing, research and development, and many others.

by DEPNAKERTRANS for retrenched workers is the P3T program (Program for Jobless Skilled Workers). While the main objective of this program is to assist skilled workers in paid employment or self-employment, one of the elements involve providing retraining to skilled retrenched workers (ILO, 1999d).

Incubator systems¹⁹ for new entrepreneurs are the focus of another important program implemented by MENEGKOP and PKM. The main aim of this program is to promote self-employment activities.

Others

In another effort to increase employment, computerized systems have been installed in many local provincial offices of DEPNAKERTRANS in order to match job seekers and job vacancies. However, from the ILO (ILO, 1999d) study it turns out that these pilot systems are as yet neither fully comprehensive nor fully operational and cannot therefore be considered as reliable labor exchange systems.

As employment creation is not only the government's responsibility but also that of the society as a whole, many existing programs such as vocational training are also undertaken by the private sector, e.g. education/training institutions and NGOs. There are estimated to be more than 20,000 private training providers catering to 4.5 million trainees/job seekers (ILO, 1999d).

In the past, the role of private stakeholders in the preparation and implementation of labor market policy programs was rather neglected. But, since the reform and implementation of decentralization in 2001, the role and function of the tripartite system has improved significantly. The influences of trade unions, NGOs, business associations and other private elements have become stronger than ever before in the preparation and implementation of almost any labor market policy program in Indonesia.

2.3.2 Passive Labor Market Policy

Education System

Indonesia has witnessed a rapid expansion of education in the recent past, which can be seen as a result of the development of education facilities, facilitated by increased income during the Soeharto period.²⁰ However, Indonesia still has the problem of unemployed postgraduate students and skilled workers, a situation which has worsened during the crisis. Since the early 1990s, the government has undertaken some concrete measures, including giving universities the freedom to determine their own curriculum and to reform the educational system in order to improve its effective-

¹⁹ These are systems in which a new potential entrepreneur or individual who wants to establish a new business is guided by a business consultant who provides him with information on all the necessary aspects that are related to his business.

²⁰ Jones and Manning (1992) suggest that one of the most dramatic changes in Indonesia since the first Five Year Development Plan (REPELITA I) in 1969/70 up to the 1990s has been in the educational attainment of its labor force.

ness in preparing people for the labor market. Especially since the crisis, the reform in the education system is also aimed at giving individuals from the poor section of the population more access to the educational system by providing various study grants (Manning, 2000).²¹

Occupational Health and Safety

The World Bank's study (1994) on labor legislation in several countries found that the Indonesian labor standards governing minimum work conditions such as hours of work, rest periods, overtime, annual leave with pay, minimum age of employment, menstrual leave, maternity leave, and bonus and profit sharing are at least as generous as those in the other five APEC countries (i.e. Malaysia, Korea, Chile, Mexico and the United States). The reason for the poor working conditions of industrial workers in Indonesia appears to lie in the difficulties associated with enforcing the centrally mandated standards. The main problems appear to be that Indonesian labor laws in that period (during the New Order) relied more on centralized enforcement systems rather than utilizing workplace delegates as the basis of self-regulation (Agrawal, 1995).²²

Minimum Wage

Minimum wage legislation was first passed in the mid-1970s but had never been seriously enforced. The new legislation demanded regular revision of regional minimum wages so that they kept track of individuals' minimum physical needs, cost of living, and labor market conditions. The minimum wage is set separately by region and sector. In 1989, the government introduced a regulation stating that minimum wages must be reviewed at least every two years. But, in 1990, a new decree was introduced which required that minimum wages be adjusted annually in proportion to the consumer price index (CPI). Attempts were also made to enforce this legislation for firms with 25 or more employees, initially around Jakarta and some of the other large cities. Recently, this legislation was enforced in all provinces.

Others

As already discussed, the government has also introduced many policy measures to support actions leading to steady, productive employment to guarantee stable sources of income and to increase diversification of income sources to reduce households' vulnerability to changes in income from any single source. Also, as discussed before

21 See ILO (1999) on the discussion of important measures taken by the Indonesian government since the crisis for developing human resources in the country.

22 Katjasungkana (1993) suggests that widespread absence of adherence to the minimum standards for working conditions and the resulting poor working conditions, especially in the industrial sector, and especially for women, was also related to the fact that workers during the Soeharto period did not own the right to organize and form independent unions (that was before the Ministerial Regulation No.1, 1994) They were therefore unable to legitimately participate in activities that monitor and regulate their working conditions. See also two reports from ILO (1993, 1996) on working conditions (especially of women), and existing government measures to improve the conditions in Indonesia.

in Sections 2.1.2, 2.1.3, Indonesia does not have unemployment benefits and re-trenchment payments, but it does have an early retirement scheme.

3. Assessment of the Effectiveness and Efficiency of the Existing System

Systems of social protection or social security are neither good nor bad per se. Initially, social security systems should be assessed neither positively nor negatively. Instead, each system of social protection should be evaluated as a comparison between objectives and what has been achieved. This section provides a generalized picture and overview of the overall system and schemes of social protection or social security in Indonesia.

3.1 Coverage

The social security system in Indonesia is still focused almost entirely on workers in the formal sector whereas the much larger proportion of workers who are found in low-income enterprises or in the informal sector do not have any access to the system. As shown in Table 8, less than 5% of the informally employed are covered by the system, as compared with more than 10% of the formally employed. Moreover, workers in the informal sector cannot afford to pay insurance provided by private companies or commercial banks. These informal workers face not only a much greater risk of income loss, but they are also more vulnerable to economic shocks due to their lower average incomes. Even in the formal sector there is a considerable disparity between the public sector and the small minority of private sector employees who are covered by good occupational benefits, the slightly larger minority covered by the modest JAMSOSTEK benefits and the majority who are dependent on the basic provisions of the labor law. Only 6% of the labor force can reasonably expect a pension on retirement. This existing degree of coverage may lead to unintended negative distribution effects of income/welfare, not only between workers in the formal sector and those in the informal sector, but also within the formal sector.

The government estimated that in the period 1996–1999 there were 183,000 companies (in the formal sector) with 26.3 million wage earning employees (in 1998), who were required to make social security contributions. However, until September 1999, 86,600 companies with 15.9 million employees in 1999 or 14.9 million workers in 1998 were participating in JAMSOSTEK. Thus, only 56.6% of those employees in 1998 who were entitled to participate actually are included, showing that apparently there is a widespread non-compliance (Table 9).

Recent data provided by Alkatiri *et al.* (Alkatri *et al.*, 2000) show that in 2000, there were about 17 million employees (of about 35.8 million wage earning and salaried workers)²³ enrolled in JAMSOSTEK. From that total, only 1.2 million people were enrolled in the SHI (i.e. JPK) component of JAMSOSTEK, whereas from the entire

23 Irawan *et al.*, (2000).

population²⁴ JPK JAMSOSTEK covered only 2.9 million people in the same year, less than 5% of eligible people. Considering that the JAMSOSTEK Law No.3 was enacted in 1992, the achievement of this social security scheme, especially for the SHI program, is relatively low (Alkatiri *et al.*, 2000; types of schemes are discussed in Section 2.1.2).

Table 9: Employment and JAMSOSTEK's members, 1994–1999

Description	1994	1995	1996	1997	1998	1999 ¹
1. Number of wage employees (million)	25.1	25.7	26.3	27.1	26.3	26.1
2. Number of formal employers (thousand)	182	182	183	183	183	183
3. Membership of JAMSOSTEK						
a. Wage employees (million) ²	7.6	9.1	11.3	13.4	14.95	16.0
b. Employers (thousand)	51.9	60.1	68.7	77.7	82.5	86.6
4. Potential members (million)						
a. Employees (1–3a)	17.5	16.6	15.0	13.7	11.4	10.1
b. Employers (2–3b)	130.4	121.9	114.3	105.3	100.5	96.4

1 Until September 1999

2 Salaried workers are not included.

Source: Ministry of Manpower, BPS, JAMSOSTEK's long-term plan 1996–2000; Abas, 1999; and for 1999: estimate by Purwoko, 1999.

The 1999 study by ILO shows that about 93% of the population of Indonesia has access to health services (though not to all services due to their financial constraints), although a much smaller percentage has adequate health insurance.²⁵ While this is commendable given the level of economic development, comparison figures from other countries such as Malaysia, Thailand and the Philippines indicate that the sector may be under-financed and that this is reflected in lower health standards. Indonesian expenditure on health care represents 2.7% of total public expenditure, and 0.7% of GDP (ILO, 1999d).

There are several reasons why relatively few workers are covered by the system (Dailey and Turner, 1997). The following are some of the problems.

First, JAMSOSTEK applies to workers in the formal sector only (both private and state companies), while the majority of workers is in the informal sector.²⁶ Second,

24 According to the Law No.3, 1992, not only the employees but also their spouse and children are entitled to health-care benefits.

25 The ILO's study reached this level because it also includes poor people that can access general health services with relatively low costs. These services are provided by the government through centers for public health services (PUSKESMAS) that are found everywhere.

26 This is different with some other developing countries. To give an example, in India the majority of its employed population work in the informal sector. This works differently in Indonesia under the social security law of 1992. Under the state system of social security in India, every person employed in the informal sector over a certain age is entitled to a basic pension. However, hardly anyone in the informal sector is informed about this entitlement and only a very low percentage actually claims the basic pension. See further studies on social security systems in other developing countries by van Ginneken (1998a, b, 1999), FES (1997), ILO (2000), and Fultz and Pieris (1999).

the law mandates employers to utilize the JAMSOSTEK scheme if they do not have a better scheme in place. Because of this optimal obligation, many employers choose to opt out by purchasing health insurance from private insurance companies.²⁷ Third, many employees who should be covered by their employers are not. There are cases showing that employers who pay contributions for their employees often avoid covering their contract or temporary workers. Employers often retain workers on contract status, sometimes for years, instead of making them permanent employees. Apparently, many employers believe that contract employees are exempt from JAMSOSTEK contributions. It is generally understandable that contract or other short-term workers are not supposed to be exempt from JAMSOSTEK contributions, at least for work-related accident and death benefits.²⁸ Fourth, in some industries, such as the cigarette industry, employees commonly subcontract to other employees for part of the work. The subcontracted employees legally do not benefit from JAMSOSTEK contributions. Fifth, employers with less than ten employees or with a monthly payroll of less than Rp.1 million are not required to cover their employees. Sixth, services provided by JAMSOSTEK are not satisfactory for many employers and employees.²⁹ Seventh, the widespread lack of confidence in the management of JAMSOSTEK contributes to the low coverage (Ahmed and Dhanani, 1999).

Another reason is corruption within the system. Since the political reform in 1998, corruption in the country has worsened, hence the people's trust in any public system (especially a system of great size) is almost non-existent.

Given the above facts, it is thus necessary to adapt and improve the programs, operation, administration, and services provided by the scheme. Increasing the satisfaction of the population with services provided and enlarging the coverage so workers in the informal sector can also be included must be the main objectives of the reform of the social security system in Indonesia. Programs more appropriate to the informal sector that the system should have are more short-term in nature, such as health care and accident protection. In a complimentary way, the need of micro and small enterprises for capital may be provided with bank credits supplied by part of the social security investment funds.

In fact, PT JAMSOSTEK has developed appropriate measures to deal with the informal sector or low-income households by:

27 The number of insured individuals in private insurance is now growing very rapidly (faster than the growth of JAMSOSTEK), especially after the financial crisis that hit Indonesia badly in 1997/98 (Alkatiri *et al.*, 2000).

28 Daily, casual and contractual workers are specifically mentioned as being covered by the scheme in the explanation in Article 4 of Act No.3. However, Regulation No.14, Article 3, states that membership of casual, daily, and contractual employees in the employers' social security program will be provided further by the Ministry of Manpower. The issue does seem to be unclear. There is an exemption for Provident Fund contributions during a probationary period of a maximum of three months.

29 Unfortunately, there are no empirical studies as yet about the degree of satisfaction in the population with the quality of the system. However, from evidence one gets the feeling that the degree of satisfaction of those who benefit from the JAMSOSTEK scheme is low. Based on their assessment, Alkatiri *et al.* (Alkatiri *et al.*, 2000) argue that there is a social stigma that government-sponsored programs always provide poor quality of services and high administrative costs. It is this perception that causes even a company without adequate health or other insurance coverage for its employees to opt out.

- (1) setting aside 5% of surplus funds for the purpose of providing soft loans to micro and small enterprises and cooperatives;
- (2) providing housing loans to members;
- (3) covering casual and daily wage workers in construction, cigarettes factories, and other undertakings; and
- (4) providing health care at very modest fees.

3.2 Feasibility

Since it is a state company, PT JAMSOSTEK comes under the general supervision of the Directorate-General of State-Owned Enterprise Development, MENKEU. However, as a financial institution, PT JAMSOSTEK is regulated by the Directorate-General of Financial Institutions, MENKEU, which supervises all financial institutions in the state and private sector, including banks, insurance companies and pension funds. The sole shareholder of PT JAMSOSTEK is MENKEU. As a government-owned corporation, PT JAMSOSTEK has a responsibility to pay dividends to its shareholders.³⁰

This positioning of JAMSOSTEK as a state-owned company has some deficiencies. PT JAMSOSTEK, as the institution implementing JAMSOSTEK's programs, does not have authority to inspect whether or not employers do an under-reporting on their employees and wages list.³¹ Also, apparently, there is lack of compliance with JAMSOSTEK, with many employers simply not joining the programs.³²

It is difficult to see how PT JAMSOSTEK can develop as the administrator of a comprehensive national social insurance scheme without being accorded the responsibility and the powers associated with enforcement. So, law enforcement under the direct control of the executive body of JAMSOSTEK is absolutely required. This is because compliance and law enforcement are part of JAMSOSTEK's operations, and this is not an easy task to do. Compliance and law enforcement are big problems to resolve for JAMSOSTEK, especially because of Legislation No.8 of 1981, which limits the authorization of state servants having an investigation certificate from the Ministry of Justice and Human Rights to conduct enforcement. JAMSOSTEK personnel are not authorized to do so, therefore, JAMSOSTEK's operations problem is a matter of the organizing board's legal entity as *Persero* or PT (Purwoko, 2001a).

JAMSOSTEK's schemes as provided in Article 3, Legislation No.3 of 1992, state that all employees are entitled to JAMSOSTEK, so the under-reporting of employees and wages is in violation of the law. For this reason, legal measures are taken by the executive body in cooperation with labor inspectors, as JAMSOSTEK cannot handle

30 The appointment of PT JAMSOSTEK as the organizing institution is based on the requirements of the 1945 Constitution. Under Article 33 of the 1945 Constitution, it states that any functional entity serving the whole population in the area of social security shall be managed by the state (Purwoko, 2001a).

31 A team of ILO personnel specially formed for the restructuring of JAMSOSTEK have conducted a field survey in many parts of Indonesia over the period 2000–2001. Their findings indicate that there is a tendency for many employers to submit under-reported wages lists and employees' records.

32 The findings of the ILO team show that the compliance rate with JAMSOSTEK was only 40% (Purwoko, 2001a).

the enforcement. For law-enforcement, JAMSOSTEK can cooperate with the national police and the Office of the Attorney General (AG). Furthermore, in order for the law enforcement to be effective, the executive body of JAMSOSTEK can apply for outsourcing staff from DEPNAKERTRANS' labor inspectors and the AG to be employed at any time (Purwoko, 2001a).

Besides the fact that the existing law on the social security system in Indonesia should be enforced, that its coverage should be enlarged, and the status of PT JAMSOSTEK should be changed, some schemes, e.g. pension and health insurance also need to be improved in order to better manage the system. In addition, consideration should also be given to the introduction of a maternity benefits scheme based on social insurance principles to replace the employer liability system, which leads to abuse and tends to prejudice the protection and employment of women.³³

Currently, the government is undertaking a reform of the existing system in its efforts to enlarge its coverage as well as to improve the programs and the quality of benefits, and also to improve its management.³⁴ For this purpose, the government has proposed a new law that will support the reform. Under this new law the legal status of PT JAMSOSTEK will be amended to a new legal entity as a fiduciary trust fund with a board of equal tripartite composition, which is responsible for supervision and control. The proposed law is still under discussion.³⁵

As a matter of fact, there is an ongoing public debate right now on the management of the social protection system in Indonesia. The main issue raised is whether the system is best managed by local authorities or a regional government. This question has become very important since the implementation of decentralization of power to very small district or municipal governments creates a euphoria of self-governing by district or municipal government. Compulsory insurance is being understood as too much control of the central government and a restriction of freedom (understood as a key aspect of democracy) of the population. Any idea of compulsory membership

33 These changes have been recommended by an ILO mission in Indonesia in 1999.

34 In relation to this, the Indonesian government had been recommended by a World Bank study to develop supplementary private pension schemes and for this purpose, among other things, the so-called monopoly of JAMSOSTEK (or the compulsory membership of its Jaminan Hari Tua (JHT scheme or old-age benefits) should be ended (Leechor, 1998).

35 The need to reform is also recommended by many studies that have been done on the legislated social security programs in Indonesia which show that the system has more disadvantages than advantages for the employees. Besides those already mentioned in the text, other studies are from World Bank (World Bank, 1994), McLeod (McLeod, 1993), and Agrawal (Agrawal, 1995). The World Bank's study, which compares the social security system in Indonesia with those in some other APEC countries, found that while the details of the programs for the components mentioned above vary from country to country, the social security system (JAMSOSTEK) in Indonesia is relatively ambitious in coverage and compares favorably to those in the more developed APEC countries. While it may be viewed as an important step towards improving workers' welfare, given the size and the cost of the program, too rapid and rigid implementation is almost certain to create problems. Both McLeod and Agrawal conclude that the cost implications of JAMSOSTEK, estimated at about 12% of the wage bill, are high and could have a major effect on limiting the growth of employment in Indonesia, especially in smaller firms whose capacity to make regular contributions is likely to be limited. According to McLeod, the JAMSOSTEK approach 'substitutes the coercive power of government for the bargaining power of trade unions in attempting to force employers to provide improved benefits (of a particular kind) to their employees' (McLeod, 1993, p. 89).

by the central government is being understood as against decentralization. But, on the other hand, decentralizing the social security system by giving freedom to district and municipal governments in designing their own social security systems may create uneven development of social security programs among regions. So, perhaps for the time being, the best way is to keep the system under the responsibility and management of the central government. This is also related to Article 33 of the 1945 Constitution stating branches of production that are needed for the benefit of the whole population shall be managed by or be under the control of the state, which means the central government.

The role of trade unions is very important not only for the implementation and the development of concepts and schemes but also in the process of improvement. This is because they know exactly what the workers need or what kind of schemes the workers wish to have. Trade unions can also function as an effective controller of whether the system is fully implemented by employers. CSOs can also play a role monitoring the implementation of the system.

With respect to the informal sector, it would make sense to have different management methods and means of enforcement for the formal and informal sectors. The informal sector consists of low-/unstable/seasonal income and self-employment activities, meaning that they have little earning power. Furthermore, they are unregistered and many of them, depending on the kind of activities (e.g. manufacturing, trading and services) do not have a permanent address. These important aspects are to be taken into consideration when designing a social security system for workers in the informal sector.

3.3 Financial Sustainability

From a long-term point of view, the financial sustainability of the social security system in Indonesia will depend very much on the growth rate of participants and on their income level. In turn, this depends on economic conditions. So, in a bad economic situation, as after the financial crisis in Indonesia, many employers face financial problems, which will hence discourage them from joining JAMSOSTEK. The high inflation rate will also put the system in great financial risk. For instance, the growth in premiums of the ASKES scheme, on average, has been lower than the growth of health service expenses. The government determines the salary levels of civil servants approximately every two to three years. Sometimes, such as during the recent financial crisis, the basic salary is not increased. As a result, the premiums received by PT ASKES do not increase (because they are based on the basic salary). Nevertheless, health service prices must be adjusted to offset high inflation rates due to more expensive medical supplies and medicines caused by the falling exchange rate of the rupiah. This trend threatens the sustainability of the ASKES scheme. Many autonomous hospitals are expressing their unwillingness to provide services for ASKES members if the reimbursement levels are not adjusted to their normal user charge rates (Alkatiri *et al.*, 2000).

The financial sustainability of the social security system is not only susceptible to economic changes, but also to demographic changes. If the percentage of the elderly is larger than the percentage of the working population (or labor force), or if the dependency ratio is high, there will be more demand for pensions and health care whereas, on the other hand, the supply of funds to the system will decrease as contribution fees decline due to the smaller working population.

With respect to the utilization of funds, they are normally invested in various forms such as time deposits, bonds, shares, bank certificates, equity, and investment in land and buildings. The composition of investment varies among different social security providers. For instance, TASPEN invested its funds mainly in time deposits and bank certificates; whereas approximately 80% of JAMSOSTEK's funds were invested in time deposits in banks. But, JAMSOSTEK was apparently subject to political pressure under the Soeharto regime as to how and where it invested its funds. This resulted in considerable sums being invested for political reasons in banks or other financial enterprises at rates of interest which were unfavourable to the scheme's members. This was particularly common in 1998 when the financial sector was very volatile (ILO, 1999c).³⁶

The government is not allowed to use JAMSOSTEK's funds directly, although in the past it has tried to intervene in this matter. The government does get, however, dividend payment as a stakeholder in PT JAMSOSTEK.

3.4 Gender Equity

Indonesia does not have policies that induce gender discrimination in the implementation of the social security system. There are no different standards or special treatment for women. However, women are less likely to be covered by the system as in the formal sector the number of female workers is traditionally smaller than the number of their male counterparts. In the informal sector, this gap is much smaller as the participation rate of females in this sector is much higher than in the formal sector. This structure is due to the fact that on average the educational level of female workers is lower in comparison with their male counterparts. Low education plus social and cultural factors are barriers for women to enter the formal sector. So, gender equity in the coverage of the system is linked to the gender structure of the labor force in the formal sector. If the system also covers workers in the informal sector, more women are likely to be covered in the system.

Social insurance benefits do not include maternity and pregnancy benefits, nor are there other special measures which cover gender specific risk. The payment of these benefits is the responsibility of employers who pay full wages for three months with the possibility of up to three months more on medical certifications. Despite the legislative requirements for these payments and prohibitions against dismissal during pregnancy and maternity leave, discrimination and evasion usually occur to some extent (ILO, 1999c).

³⁶ See Section 2.1.2 for who contributes to the funds and whether the contribution is voluntary or compulsory.

3.5 Costs of Administration

PT JAMSOSTEK's 1995 unaudited income and expense report shows total administrative expenses to be Rp.115.1 billion. With respect to its structure, this includes management, operations, personnel, administrative and general expenses, but excludes the expenses of subsidiaries. Based on 9.1 million participants in that period, this represents administrative costs of Rp.12,648 per participant for one year. Administrative expenses are 3.4% of the total assets of Rp.3.4 trillion as of December 31, 1995, excluding subsidiaries. Administrative expenses are 11.3% of the total 1995 contributions of Rp.1 trillion (Dailey and Turner, 1997). These figures may give some idea about efficiency in administering the social security system in Indonesia.

Although data from other countries are only for the mandatory Provident Fund and are dated, they can be used here for a comparison. The figures show that the administrative costs of the social security system in Indonesia are high (Table 10). In respect to the availability, coverage and performance of duties by the administration, it can be said that the administrative costs of the social security system in Indonesia are too high and not feasible. Therefore, there is a need to administer the schemes more effectively, efficiently, and economically with a strong emphasis on higher standards of services.³⁷

As already explained earlier (see Section 1.1), in Indonesia social security contributions and benefits are kept outside the state budget; a state-owned company outside governmental departments, that is PT JAMSOSTEK, administers them. So, the cost for the implementation of the system must be covered by revenues from the invested funds collected from contributions.

Table 10: Comparison of Administrative Expenses to Total Assets and Total Contributions

Countries	Administrative expenses as a percentage of	
	Total contributions	Total assets
Indonesia (1995)	11.32	3.41
Chile (1990)	15.40	2.30
Malaysia (1989)	1.99	0.18
Singapore (1990)	0.53	0.10
Zambia (1988-89)	51.70	6.80

Source: Dailey and Turner, 1997.

³⁷ The 1999 ILO study (1999c) found that PT JAMSOSTEK experienced considerable difficulty in carrying out administrative functions associated with registering members and employers, collecting and recording contributions and processing benefit claims accurately and speedily. Systems are computerized and decentralized but it has not succeeded in compiling a national database in order to keep track of the movement of registered members. The organization has been under considerable public scrutiny over the last two years partly because of the public's perception of its linkage with the previous administration and partly because of highly publicized incidents which have drawn attention to limitations in the management and the performance of the scheme.

3.6 Targeting

As already explained in Section 2.1.2, Indonesia has several social insurance programs administered by different institutions for private sector workers and employees of state enterprises, public servants, members of the armed forces, and the general public. Unfortunately, the intended target group of the system is only workers in the formal sector, at least for the time being. In JAMSOSTEK, for the Provident Fund, both employees and employers pay the contribution whereas for others, the employers pay the contribution.

As the premium is fixed (flat rate) based on the basic salary, part of the population may pay more, and hence get more benefits than others. This is one current problem that PT JAMSOSTEK is going to change.

3.7 Accountability and Transparency

Since the political reform in 1998, public demand has become very strong for transparency in any political decision and implementation and in government administration, especially in dealing with activities using public money. This also includes the activities of state-owned companies, including PT JAMSOSTEK. Many people believe that information on JAMSOSTEK is hard to obtain, leading to widespread mistrust of JAMSOSTEK. But, in fact as requested, PT JAMSOSTEK supplies financial data and also produces brochures, booklets, forms and magazines, most of which are published in both Indonesian and English. The annual fact book published by PT JAMSOSTEK is nicely produced and informative.

However, in general the process of change towards a 'clean government', including transparency, is not going as smoothly as publicly expected. There is still strong pressure from some political interest groups who want to keep the status quo as in the period before the reform. The country still has to face corruption; it has become even worse. This has created serious problems for Indonesia, especially concerning the financial situation, leading to a slow economic recovery. The government seems to have no idea how to handle the growing corruption effectively; also law enforcement does not work.

There is high affinity for corruption within certain sectors that yield financial revenues, including rich state-owned companies, including PT JAMSOSTEK. There is the belief that the government may be spending workers' retirement funds on luxuries for its own officials and on projects that are not related to social security benefits. In addition, PT JAMSOSTEK has committed itself to giving a significant annual contribution to SPSI for the operating expenses of SPSI's national headquarters. Using JAMSOSTEK funds to subsidize SPSI contributes to the perception that the government treats PT JAMSOSTEK as a slush fund, and not as a legitimate social security organization (Dailey and Turner, 1997).

But, currently some change is taking place. PT JAMSOSTEK has designed a system that can not only avoid the danger of misuse in the future, but can also monitor and supervise the financial management of the company on a regular basis. It is hoped

that this new system will lead to a more open and transparent process of allocating money and benefits.

However, no matter how well-designed the new system is, it will not work as long as strong pressure remains from certain groups within the government who continue to behave in their own interest and prevent law enforcement. Unfortunately, these two are the greatest problems of the ongoing political reform in Indonesia right now.

4. Development of Innovative Programs and Alternative Social Protection Schemes

As discussed before, Indonesia does not yet have public pension and maternity benefit schemes based on social insurance principles and unemployment insurance. With respect to the development of a public pension scheme, as suggested by the ILO based on its study in 1997 on the restructuring of the social security system in Indonesia, the Provident Fund of JAMSOSTEK can be converted to or replaced by a defined-benefit social insurance pension scheme covering private sector employees. This scheme should provide continual periodic payments upon retirement, invalidity, or on death to surviving dependents in return for contributions of employers and insured persons. The level of benefits provided by the pension scheme may be set to allow scope for supplementation by private initiative. This would be simple to administer.

With respect to the development of unemployment insurance, referred to in Article 6 of Legislation No.3, 1992, JAMSOSTEK can redevelop its programs with the approval of DEPNAKERTRANS and other relevant institutions that of the total contribution of 7.5% of the payroll, the employee contributes 2.5% and the remaining 5% will be borne by the employer.³⁸ The approval of this proposed plan will have financial consequences in the form of additional contributions at 7.5% to the current contributions, from between 9.24%–13.74% and 16.74%–21.24%. The additional contribution paid by employees will change from 2% to 4.5%.

With respect to the development of a maternity benefit scheme based on social insurance principles, the payment of benefits becomes the responsibility of the social insurance fund. With this new scheme, female employees can be protected from discrimination against pregnant women and evasion of the employers' obligation to pay maternity benefits as explained above. Additionally, with this new scheme uniform standards of maternity protection and reduction in discrimination against the employment of female workers can be ensured (ILO, 1999c).

Another important issue, the most significant feature of JAMSOSTEK, is the implementation of a national health insurance scheme. The implementation of the scheme should be linked with the introduction of full cost recovery for public health facilities, and part of the income generated in this way should remain with the unit that

³⁸ It is very risky to expand existing programs to include an unemployment insurance scheme during this crisis situation, because of numerous layoffs with regard to the moral hazard which probably appears both from the employer and the employee side.

provided the service in order to ensure continued improvement of facilities (ILO, 1997). Whilst JAMSOSTEK should be responsible for the management of the scheme and should directly operate the necessary membership and contribution record system, it would not be advisable for it to also seek to arrange for the provision of medical care or directly provide it. According to ILO recommendations, responsibility for arranging for the provision of medical care to insured persons and their families should be contracted, under conditions of managed competition, to licensed health-care purchasers in return for a fee based on the membership covered by each purchaser.³⁹ Each purchaser would have to satisfy prescribed conditions to be granted a license, which would be issued by the national supervisory authority in consultation with JAMSOSTEK. They could be other statutory bodies such as ASKES or commercial insurance companies (ILO, 1997).

There has been an on-going discussion about the government's responsibility in the development of the national security system in Indonesia. The legal basis for Indonesia's social security is provided implicitly in the 1945 Constitution, Articles 27 and 34.⁴⁰ Under these Articles, social security is the government's responsibility with the objectives of the welfare state. Also given the fact that the majority of the country's population is from low-income groups, the national security system should not be fully privatized. It does not mean, however, that the private sector cannot play a role. On the contrary, the private sector should be given a bigger role in providing alternative schemes, but basic security must come under the responsibility of the government.

With respect to the informal sector, there is no need to formalize the sector for three reasons.

First, as discussed before, there are various traditional financial support systems that can provide a certain security to many people in the informal sector. So, based on this fact, it is more feasible to integrate these traditional systems into the existing formal system of social security. Second, the informal sector itself acts as an alternative social security system for the involved persons as activities in the sector generate a certain income for them. For instance, during the crisis in 1998 many workers were dismissed from the formal sector; and because Indonesia does not have unemployment benefits, almost all of them were pushed to do any kind of income-generating activities. Third, when the informal sector is formalized, which means that enterprises must be registered, have a permanent address, and must pay taxes, many of them will face a financial problem and probably they will be pushed out of business as their income is not sufficient to pay taxes. The problem is more obvious for seasonal activities as the income is not permanent. Moreover, for the government the administrative burden of formalizing the sector is likely to be higher than its received benefits, as the number of activities / enterprises in the informal sector is huge.

39 There should be a clear distinction between purchasers of health services, who negotiate contracts on behalf of JAMSOSTEK members, and the latter as the users of health services (insured persons).

40 Article 27 states that every citizen is entitled to have an employment opportunity with a sufficient income provision for humanitarian reasons, whilst Article 34 states that the government shall take care of the poor and the needy, including neglected children and the homeless.

Alternatively, the existing social security system (JAMSOSTEK) should be improved so as to give more access to those in the informal sector. However, this is not an easy task because of the reasons already discussed. Another alternative is to develop and strengthen the existing traditional social security schemes in the informal sector in an integrated manner with the formal social security system. The integration between the formal and the informal social security systems can be enforced by using part of the social security investible fund to co-finance some traditional schemes or programs that are more appropriate to the informal sector such as health-care and accident protection, and low interest credit schemes for micro-enterprises.

5. Policy Recommendations

As explained in Section 4, the social security system in Indonesia needs to be improved. The improvement should be especially in four areas: (i) the coverage of the system; (ii) the compliance; (iii), the quality of the existing schemes; and (iv) new schemes i.e. unemployment benefits, pension scheme, and maternity and pregnancy benefits. But, for this purpose, three important pre-conditions must be met first.

First, in line with Indonesia's tripartite approach to industrial relations, there must be good cooperation between workers and trade unions, employers and employers' associations, and the government.⁴¹ Second, there must be good coordination amongst related ministries (e.g. DEPNAKERTRANS, MENKEU, DEPSOS and DEPKES) and government institutions. In other words, there should be an integrated policy framework on the development of social protection not only to avoid conflicting priorities and to create a consensus both on provisions and mechanisms, but also to facilitate the improvement of the quality of the existing programs. Third, there must be law enforcement. The third pre-condition is important for the increase of compliance or in order for minimization of any employers to do under-reporting both on their staff and wages to JAMSOSTEK. The first pre-condition is important to meet the second condition.

Efforts to improve the social security system in Indonesia should also include the development of public pension, maternity benefits and unemployment insurance schemes based on social insurance principles. With respect to the development of a public pension scheme, consideration should also be given to the restructuring of pension schemes in the public sector in order to regularize their financing and provide a greater measure of uniformity and consistency between schemes.⁴² Initially the reform should focus on establishing a fund for the public servants scheme that could be set up on a partially funded basis with payment for past liability met through in-

41 In this case, represented by DEPNAKERTRANS, MENKEU and PT JAMSOSTEK.

42 At the moment, TASPEN provides a pension scheme for civil servants and employees in the public sector. The problem is that the general pension scheme should be developed within JAMSOSTEK (from the Provident Fund), and it should be harmonized with the public sector pension scheme in TASPEN in order to have one national pension scheme.

stallments.⁴³ Both pension and unemployment benefits shall be provided first for those laid off from current employment and the amount of benefits shall be made on a flat-rate basis.

Meanwhile, a maternity benefits scheme based on social insurance principles should be developed to replace the employer's liability. The payment of benefits should become the responsibility of the social insurance fund, so female employees can be protected from discrimination against pregnant women and evasion of the employers' obligation to pay maternity benefits. Also with this new scheme, uniform standards of maternity protection and reduction in discrimination against the employment of female workers can be ensured.

JAMSOSTEK should also seize the opportunity to provide more effective social protection to private sector workers through the introduction of a system that provides periodic payment so especially temporary or seasonal workers can also be insured.

Further, as explained before, the implementation of a national health insurance scheme is the most significant feature of JAMSOSTEK, and it should be effected as soon as possible with due regard to the need to ensure both equity and access to treatment. As also recommended by ILO, to guarantee its effectiveness, the national health insurance scheme should be supervised by the national authority, not by the private sector. The existing health insurance scheme of JAMSOSTEK has been introduced without adequate preparation and without sufficient regard to other policy objectives relating to health-care delivery and financing. Therefore, to have a good national health insurance scheme, the existing health insurance scheme of JAMSOSTEK should be improved in coordination with other aspects of health-care delivery and financing.

The improvement of the social security system in Indonesia must also include a change of the legal status of PT JAMSOSTEK. As discussed before, the legal status of PT JAMSOSTEK is a profit-making taxable public limited liability company, which is inconsistent with its role as a trustee of members' social insurance contributions. JAMSOSTEK pays taxes to the government, instead of government revenue subsidizing some of the social security benefits, as is done in many other countries. The social security entity in the vast majority of other countries is a non-profit government organization, or 'trust fund', which has a mission to benefit the participants (Dailey and Turner, 1997). So, the government's plan to change the current legal status of PT JAMSOSTEK to become a Tripartite Board of Trustee should proceed.

With respect to the role of the private sector, based on the legal basis for Indonesia's social security as already explained in Section 4, and given the fact that the majority of the country's population is from the low-income group, the national social security system should remain the government's responsibility. However, while provid-

43 One part could be financed by the government and the other part by public servants (the insured persons). For the time being, this method is likely to be the best alternative of financing the pension scheme in the public sector due to the current public financial shortages (Purwoko, 2001b).

ing basic security, the government should give the private sector a bigger role in providing alternatives schemes.

The coverage of JAMSOSTEK should also be enlarged to give more access to those in the informal sector, or, as an alternative (as discussed in Section 4), part of the social security investible fund should be used to co-finance some of the existing traditional social security schemes or programs that are more appropriate to the informal sector such as health-care and accident protection, and low-interest credit schemes for micro-enterprises. However, there is no need to formalize the informal sector for reasons already given in Section 4.

Finally, in almost all types of insurance, the employer pays all or at least much more than the employee in terms of contribution. This contribution system should be redefined. In 'wealthy' companies the ratio of the proportion of the contribution paid by the employee and that by the employer should be higher than the ratio in 'less healthy' companies, as generally the average wage/salary of employees in the first group of companies is higher than that in the second group of companies.

Appendix

Table 1: Real Growth in Output in Indonesia before the Crisis (%)

	Share in 1995	1988–91	1991–94	1995	1996
GDP	100.0	9.0	7.3	8.2	7.8
Agriculture	16.1	3.6	2.8	4.2	1.9
Oil & gas	8.7	6.7	0.8	-1.4	0.9
Public administration	6.0	4.5	2.1	1.3	1.1
Others	69.2	12.0	10.3	11.3	10.7
of which:					
Manufacturing	21.3	12.0	12.6	13.0	12.0
Construction	7.6	15.0	13.9	12.9	12.4
Utilities	1.1	13.7	10.8	15.5	12.6

Source: World Bank, 1997a.

Table 2: East Asia's unprecedented Growth before the Crisis

Country	Average annual GDP growth (%)		
	1965–80	1980–90	1990–95
East Asia			
China	6.8	10.2	12.6
Hong Kong	8.6	6.9	5.6
Japan	6.4	4.0	1.0
Republic of Korea	9.9	9.4	7.2
South East Asia			
Indonesia	7.7	6.1	7.6
Malaysia	7.4	5.2	8.7
Philippines	5.7	1.0	2.3
Singapore	10.0	6.4	8.7
Thailand	7.3	7.6	8.4

Source: World Bank, 1997b.

Table 3: Percentage Distribution of Gross Domestic Product At Current Market Prices by Sector, 1997–2000 (%)

Sector	1997	1998	1999	2000
Agriculture, livestock, forestry & fishery	16.09	18.08	19.54	16.92
Mining & quarrying	8.85	12.59	9.91	12.91
Manufacturing industry	26.79	25.00	25.92	26.04
Electricity, gas & water supply	1.25	1.18	1.21	1.17
Construction	7.44	6.46	6.71	7.14
Trade, hotel & restaurant	15.86	15.35	15.92	15.19
Transport & communication	6.14	5.43	4.97	5.00
Financial, ownership & business services	8.66	7.31	6.36	6.20
Services	8.92	8.59	9.46	9.43
GDP	100.00	100.00	100.00	100.00
GDP without oil & gas	92.09	88.69	90.42	86.57

Source: BPS, 2001.

Table 4: Distribution of Working Population by Level of Education in Indonesia (%), 1998–2000

Level of education	1998	1999	2000
No schooling	8.44	8.02	7.50
Primary school not completed	18.22	16.98	15.16
Primary school	36.50	35.95	37.18
Junior high school	14.24	15.32	15.99
Senior high school	18.38	19.11	19.50
Diploma I/II	0.80	0.88	0.96
Academy/Diploma III	1.18	1.24	1.29
University	2.25	2.49	2.41
Total	100.00	100.00	100.00

Source: BPS, 2000a.

Table 5: State Budget Allocation for Social Welfare and Education, and Some Other Important Sectors, Routine Expenditure, 2000 and 2001 (billion Rp.)

Sector	Realized state budget 2001	Planned state budget 2002	% Change from state budget 2001
Industry	21.7	23.5	8.3
Agriculture	740.3	821.2	10.9
Manpower	118.2	153.5	29.9
Trade, business, finance & cooperatives	182,632.6	160,617.2	-12.1
Transportation	390.1	435.1	11.5
Mining & energy	276.0	313.0	13.4
Education, culture, youth & sport	4,095.0	4,511.5	10.2
Social welfare, health care & women Empowerment	553.3	667.7	20.7
Others	24,560.6	27,435.1	11.7
Total	213,387.8	194,977.8	-8.6

Source: Department of Finance, R.I. (Data Pokok Nota Keuangan dan RAPBN Tahun Anggaran 2002), September 2001, Jakarta.

Table 6: State Budget Allocation for Social Welfare and Education, and Some Other Important Sectors, Development Expenditure, 2000 and 2001 (billion Rp.)

Sector	Realized state budget 2001	Planned state budget 2002	% Change from state budget 2001
Industry	1,538.9	1,536.4	-0.2
Agriculture	3,156.3	3,231.9	2.4
Manpower	193.7	149.9	-22.6
Trade, business, finance & cooperatives	6,244.6	1,238.7	-80.2
Transportation	4,791.6	6,464.5	34.9
Mining & energy	2,490.7	3,507.1	40.8
Education, culture, youth & sport	9,707.4	11,552.8	19.0
Social welfare, health care & women Empowerment	3,774.8	4,304.1	14.0
Others	13,563.4	15,161.7	11.8
Total	45,461.4	47,147.1	3.7

Source: Department of Finance, R.I. (Data Pokok Nota Keuangan dan RAPBN Tahun Anggaran 2002), September 2001, Jakarta.

Table 7: Total Number of Small Enterprises (SEs) by Sector, 1997–2000

Sector	Year				Rate of growth (%), 1997–1998	Average growth rate (%), 1998–2000
	1997	1998	1999	2000		
Agriculture (31)	22,511,588 (56.61)*	23,097,871 (62.74)	23,174,579 (61.21)	23,516,865 (60.24)	2.6	0.9
Mining & quarrying (32)	204,413 (0.51)	137,284 (0.37)	155,988 (0.41)	155,504 (0.40)	-32.8	6.4
Manufacturing industry (33)	2,817,379 (7.09)	2,104,856 (5.72)	2,451,266 (6.48)	2,627,122 (6.73)	-25.3	11.7
Electricity, gas & water supply (34)	13,434 (0.034)	7,319 (0.02)	3,913 (0.01)	4,243 (0.01)	-45.5	-23.9
Construction (35)	199,253 (0.50)	122,945 (0.33)	120,787 (0.32)	136,423 (0.35)	-38.3	5.3
Trade, hotel & restaurant (36)	9,986,510 (25.11)	8,325,351 (22.61)	8,741,176 (23.09)	9,139,645 (23.41)	-16.6	4.8
Transportation & communication (37)	1,852,401 (4.66)	1,507,629 (4.10)	1,679,836 (4.44)	1,872,892 (4.80)	-18.6	11.5
Finance, rental & services (38)	71,334 (0.18)	18,519 (0.05)	18,437 (0.05)	19,440 (0.05)	-74.0	2.5
Other services (39)	2,048,349 (5.15)	1,439,915 (3.91)	1,458,554 (3.85)	1,512,938 (3.86)	-29.7	2.5
Total	39,704,661 (99.84)	36,761,689 (99.85)	37,804,536 (99.86)	38,985,072 (99.85)	-7.4	3.0
Total enterprises in Indonesia (incl. foreign companies)	39,767,207	36,815,409	37,858,166	39,042,079	-7.4	3.0

* As a percentage of total number of enterprises in Indonesia (SEs + MEs+ LEs, including foreign companies).

Source: State Minister of Cooperatives and Small and Medium Entrepreneurs, 2001, Jakarta.

Table 8: Total Number of Medium Enterprises (MEs) by Sector, 1997–2000

Sector	Year				Growth rate (%), 1997–1998	Average growth rate (%), 1998–2000
	1997	1998	1999	2000		
31	1,543 (0.004)*	1,562 (0.004)	1,741 (0.005)	1,751 (0.005)	1.2	5.9
32	504 (0.0013)	555 (0.002)	546 (0.0014)	544 (0.0014)	10.1	-1.0
33	10,495 (0.03)	9,545 (0.03)	9,760 (0.03)	10,460 (0.03)	-9.1	4.7
34	370 (0.001)	375 (0.001)	406 (0.001)	440 (0.001)	1.4	8.3
35	7,811 (0.02)	7,097 (0.02)	6,981 (0.02)	7,885 (0.02)	-9.1	5.4
36	26,944 (0.07)	22,081 (0.06)	21,986 (0.06)	22,988 (0.06)	-18.1	2.0
37	2,432 (0.006)	2,064 (0.006)	2,050 (0.005)	2,285 (0.006)	-15.1	5.2
38	6,023 (0.015)	4,419 (0.012)	4,063 (0.010)	4,284 (0.011)	-26.6	-1.5
39	4,327 (0.010)	4,191 (0.011)	4,265 (0.011)	4,424 (0.011)	-3.1	2.7
Total	60,449 (0.152)	51,889 (0.141)	51,798 (0.137)	55,061 (0.141)	-14.1	3.0
Total number of enterprises in Indonesia	39,767,207	36,815,409	37,858,166	39,042,079	-7.4	3.0

Note and source: see Table 7.

Table 9: Distribution of Workers in SMEs & LEs by Sector, 1997 and 2000

Sector	1997				2000				Average growth rate (%), 1997-2000		
	SEs	MEs	LEs	Total	SEs	MEs	LEs	Total	SEs	MEs	LEs
31	29,277,201 (98.0)	614,188 (2.0)	40,443 (0.13)	29,931,832 (100.0)	32,305,488 (97.7)	730,752 (2.2)	38,127 (0.1)	33,074,367 (100.0)	3.3	6.0	-1.9
32	352,280 (73.5)	115,662 (24.1)	11,617 (2.4)	479,559 (100.0)	433,403 (75.9)	124,764 (21.9)	12,531 (2.2)	570,698 (100.0)	7.2	2.6	2.5
33	6,390,888 (62.0)	3,676,277 (35.7)	242,973 (2.4)	10,310,138 (100.0)	10,527,811 (72.9)	3,664,110 (25.4)	242,169 (1.7)	14,434,090 (100.0)	18.1	-0.1	-0.1
34	64,204 (45.1)	70,411 (49.5)	7,716 (5.4)	142,331 (100.0)	91,149 (49.6)	83,579 (45.5)	9,159 (5.0)	183,887 (100.0)	12.4	5.9	6.1
35	673,308 (66.04)	338,907 (33.2)	7,366 (0.7)	1,019,581 (100.0)	643,742 (64.8)	342,118 (34.4)	7,435 (0.75)	993,295 (100.0)	-1.5	0.3	0.1
36	14,351,830 (89.2)	1,712,591 (10.6)	32,624 (0.2)	16,097,045 (100.0)	16,975,428 (91.9)	1,461,131 (7.9)	27,834 (0.2)	18,464,393 (100.0)	5.8	-5.2	-5.2
37	2,410,042 (90.1)	252,337 (9.4)	12,101 (0.5)	2,674,480 (100.0)	2,333,671 (90.4)	237,063 (9.2)	11,368 (0.4)	2,582,102 (100.0)	-1.1	-2.1	-2.0
38	447,579 (63.8)	242,408 (34.5)	11,852 (1.7)	701,839 (100.0)	241,194 (57.2)	172,397 (40.9)	8,429 (2.0)	422,02 (100.0)	-0.2	-10.7	-10.7
39	3,515,356 (82.8)	703,487 (16.6)	25,943 (0.6)	4,244,786 (100.0)	3,276,004 (81.5)	719,174 (17.9)	26,521 (0.7)	4,021,699 (100.0)	-2.3	0.7	0.8
Total	57,482,688	7,726,268	392,635	65,501,591	66,827,890	7,535,088	383,573	74,746,551			

Source: see Table 7.

Table 10: Estimated Urban Informal Sector Employment in Indonesia (%), 1980-1999 (using 10 years age limit)

Year	Male	Female	Male + Female
1980	39.2	51.2	42.7
1982	34.6	55.3	41.2
1985	38.2	51.8	42.6
1986	40.5	34.7	45.0
1987	40.5	53.1	44.9
1988	42.2	55.2	46.8
1989	41.8	53.8	45.9
1990	40.6	51.4	44.4
1991	41.0	49.3	43.9
1992	41.9	50.8	45.0
1993	41.0	49.2	43.9
1994	39.0	48.4	42.3
1995	36.7	44.8	39.5
1996	39.2	49.2	42.7
1997	39.5	49.2	43.0
1998	43.0	51.0	45.9
1999	42.4	52.0	45.9

Source: Irawan *et al.*, 2000, using series of data from the National Labor Force Survey (Sakernas) and population censuses.

Table 11: Labor Force, Unemployed and Unemployment Rate in Indonesia, 1982–2000

Year	Labor force (thousand)	Unemployed (thousand)	Unemployment rate (%)
1982	59,599	1,796	3.0
1983	58,993	1,182	2.0
1984	61,362	1,278	2.0
1985	63,826	1,368	2.1
1986	70,193	1,855	2.6
1987	72,245	1,842	2.5
1988	74,596	2,078	2.8
1989	75,508	2,083	2.8
1990	77,803	1,952	2.5
1991	78,455	2,032	2.6
1992	80,704	2,186	2.7
1993	81,446	2,246	2.8
1994	85,776	3,738	4.4
1995	86,361	6,251	7.2
1996	90,110	4,408	4.9
1997	91,325	4,275	4.7
1998	92,735	5,063	5.5
1999	94,847	6,030	6.4
2000	95,651	5,813	6.1

Source: BPS, Sakernas, various years.

Table 12: Poverty and Income Distribution in Indonesia, 1986–1999

Indicator	1987	1990	1993	1996	1998	1999
Incidence of poverty (head account index)						
Urban	20.1	16.8	13.5	9.7	21.9	20.0
Rural	16.1	14.3	13.7	12.3	25.7	25.9
Urban + Rural	17.4	15.1	13.7	11.3	24.2	23.6
Poverty gap index						
Urban	3.2	3.2	2.3	1.6	2.5	3.8
Rural	2.8	2.1	2.0	1.8	3.7	4.8
Poverty severity index						
Urban	1.0	0.9	0.6	0.4	1.3	1.1
Rural	0.8	0.5	0.5	0.4	1.5	1.4
Gini index						
Urban	32.0	34.0	33.0	36.0	33.2	32.6
Rural	26.0	25.0	26.0	27.0	25.6	24.4
Urban + Rural	32.0	32.0	34.0	35.6	31.6	31.1

Source: BPS, Susenas, various years.

Table 13: National Social Security Expenditure in Indonesia and Some Other Countries

Country	% of GDP			
	1993	1994	1995	1996
Indonesia				
Total	—	0.02	0.05	0.05
Old-age	—	0.01	0.03	0.03
Survivors	—	0.002	0.002	0.002
Employment injuries	—	0.01	0.01	0.01
Sickness & health	—	0.004	0.01	—
China				
Total	2.55	—	—	—
Old-age	1.63	—	—	—
Medical care	0.05	—	—	—
Employment injuries	0.01	—	—	—
Maternity	0.86	—	—	—
Malaysia				
Total	0.152	—	—	—
Employees' Provident Fund	0.00	—	—	—
Social security organization	0.149	—	—	—
Workmen's compensation	0.00	—	—	—
Public employees' pensions	0.00	—	—	—
Philippines				
Total	3.01	—	—	—
Old-age	0.31	—	—	—
Survivors	0.26	—	—	—
Invalidity	0.11	—	—	—
Funeral grant	0.03	—	—	—
Sickness & maternity cash	0.86	—	—	—
Employees' compensation	0.03	—	—	—
Medical care	0.13	—	—	—
Government service insurance	2.00	—	—	—
Singapore				
Total	—	1.70	1.64	1.68
Old-age	—	1.31	1.25	1.28
Survivors	—	0.11	0.11	0.13
Invalidity benefits	—	0.01	0.01	0.01
Sickness & health	—	0.27	0.27	0.26
Thailand				
Total	0.12	—	—	—
Social security fund	0.09	—	—	—
Workmen's compensation fund	0.02	—	—	—
Benefits paid for accidents in 1992	0.01	—	—	—

Source: ILO, 2001.

Table 14: Number of Membership, TASPEN, 1989–1993 (thousand)

	1989	1990	1991	1992	1993
Government civilian employees	3,738.8	3,771.3	3,917.9	4,090.6	4,121.3
Participating state enterprise employees	169.9	179.4	181.7	186.2	188.0

Source: INSSA, 1995.

Table 15: Number of Claims and Claims Payments, TASPEN Program, 1989–1993

	1989	1990	1991	1992	1993
Number of claims (thousand)					
a. Endowment	44.4	43.6	49.9	57.8	59.1
b. Life insurance	26.4	26.5	27.7	29.5	31.5
Claims payment (thousand Rp.)					
a. Endowment	75,072.6	88,678.3	112,361.1	196,383.6	278,179.5
b. Life insurance	5,414.7	7,219.5	7,876.3	10,191.3	13,512.2

Source: INSSA, 1995.

Table 16: Number of Pensioners and Pension Payments, TASPEN, 1989–1993

	1989	1990	1991	1992	1993
Number of pensioners (thousand)	1,139.9	1,334.2	1,383.4	1,431.5	1,482.5
Pension payments (thousand Rp.)	1,987.4	1,609.3	1,832.8	2,090.8	2,760.6

Source: INSSA, 1995.

Table 17: Coverage of PT ASKES, 1995–1998

Year	Families	Dependents	Total social members	Commercial members*
1995	5,326,994	10,456,941	15,783,935	319,189
1996	5,513,026	10,965,561	16,478,587	491,625
1997	5,451,267	10,402,172	15,853,439	574,621
1998	5,034,450	8,545,541	13,579,991	622,098

* Commercial members are those who joined the scheme voluntarily.

Source: Alkatiri *et al.*, 2000.**Table 18: Number of Participating Health Facilities, PT ASKES, 1993**

1. Primary health services	
– Health centers	10,638
– Family physicians	944
2. Secondary and tertiary care	
– government facilities	336
– military facilities	63
– private facilities	46
– special facilities	51

Source: INSSA, 1995.

Table 19: Number of Members Receiving Benefits and Amount of Benefit Payments, ASABRI, 1990–1994

	1990	1991	1992	1993	1994	Total
Number of members receiving benefits	26,087	28,773	20,419	18,696	15,428	471,350
Amount of benefits payments (million Rp.)	35,005	35,335	32,681	33,841	32,503	325,264

Source: INSSA, 1995.

Table 20: Mandatory Contributions and Subscriptions, 1990–1994, JASA RAHARJA (in million Rp.)

Contribution	1990	1991	1992	1993	1994
Passenger accident insurance	18,425	20,845	21,890	23,843	30,687
Third-party liability insurance	65,049	84,756	92,173	99,428	106,513

Source: INSSA, 1995.

Table 21: Amount of Benefits Increases, JASA RAHARJA, 1990–1994 (in million Rp.)

Contribution	1990	1991	1992	1993	1994
Passenger accident insurance	4,074	5,707	8,597	8,402	8,381
Third-party liability insurance	19,852	28,879	33,098	36,320	41,055

Source: INSSA, 1995.

Table 22: Programs and Contributions of ASTEK and JAMSOSTEK

Programs	ASTEK GR No. 33/1977 (%)	JAMSOSTEK Law No. 3/1992 (%)	Calculation basis
Work accident	0.24–3.6	0.24–1.74	Net-wage
Death (survivor)	0.5	0.3	Net-wage
Provident Fund	2.5	5.7	Gross-wage
Health care	—	3–6	Net-wage
	3.24–6.6	9.24–13.74	

Source: Purwoko, 2001b.

Table 23: Benefits, ASTEK and JAMSOSTEK

	1978–1983	1984–1988	1989–1992	1993–1998	1999
Promised interest (%)	6	8	10	10	17
Survivors' benefit (million Rp.)	0.17	0.4	0.7	1.2–2.4	—
Maximum work accident hospitalization cost (million Rp.)	1.0	—	1.5	3.0–4.0	—
Death benefits due to work accident (Rp.)	21.6 times wage	—	28.8 times wage	36 times wage	—
Orthopedic, wheelchair and optics	Injured employees	—	—	—	—

Source: Purwoko, 1999.

Table 24: Benefits Expenditure and Contributions, JAMSOSTEK, 1995–1998
(million Rp.)

Year	Employment injury (JKK)		Death (JKM)		Health (JPK)		Provident Fund (JHT)	
	Benefits	Contrib.	Benefits	Contrib.	Benefits	Contrib.	Benefits	Contrib.
1995	40,486	97,475	8,569	43,073	35,781	44,365	119,180	456,929
1996	50,313	112,828	9,660	48,295	51,681	64,315	179,186	902,314
1997	71,144	148,306	11,160	62,893	65,629	86,233	239,003	1.139,343
1998	74,330	174,260	12,897	73,480	84,504	105,317	708,081	1.301,436

Source: ILO, 1999c.

Table 25: Membership Growth of SHI program of JAMSOSTEK, 1991–1999

Year	Firm (No.)	Employees (No.)	Insured (No.)	Premium (thousand Rp.)	Claim ratios (%)
1991	723	85,926	199,695	4,553,000	63.9
1992	958	110,345	238,022	8,280,000	62.2
1993	3,419	256,402	537,173	13,657,000	59.1
1994	5,624	458,257	963,619	28,263,000	67.5
1995	8,034	698,052	1,414,175	44,365,000	80.7
1996	9,191	969,519	1,706,115	64,314,000	80.4
1997	10,878	988,946	1,949,051	86,233,060	76.1
1998	14,309	1,129,922	2,224,690	96,691,019	88.3
1999	15,597	1,251,442	2,256,079	134,312,312	76.5
Growth (%)	58.8	44.7	28.9	55.1	72.7

Source: PT JAMSOSTEK, 2000.

Table 26: Non-commercial Credit Programs Funded by the Government through the Bank of Indonesia Liquidity Credit

Value (billion Rp.)	Program	Orientation
675	KKU	Credit for non-collateral micro business
651	KMK-UKM	Working capital credit for SMEs
36	PHBK	Credit for special project that links banks with small business development agencies
94	KSM	Credit for micro activities delivered by rural credit institutions (BPR)
7	PKM	Credit for all members of any cooperatives
1,689	KKPA	Credit for sugar cane workers, transmigrants, overseas workers and low-income workers who need a small size house
139	KKUD	Credit for village unit cooperatives
399	KUT	Farming credit for small farmers
3,689	Total	

Source: Robertson, 1998.

Table 27: Small and Micro-Credit Providers in Indonesia, Some Characteristics

Type of institution	Number	Total amount of loans	Number of borrowers	Average size of loans (% & Rp.)	Savings amount
BRI Unit Desa	3,701	511 billion new lending 32.3 trillion cumulative	2.5 million	14.6%; 500,000 30.3%; 500,000 to 1 million 31.8%; 1 to 2 million	16 trillion
BPR	2,056	2 trillion	2 million	1000000	
Savings & Loan Coops.	37,595	4 trillion		500000	1.3 trillion
Commercial banks	221	45 trillion on small loans		max. 350 million	

Source: Shreshta (1999) and ILO (1999d).

Acronyms

AFTA	–	ASEAN Free Trade Area
AG	–	Attorney General
APBN	–	State Budget (Anggaran Pendapatan dan Belanja Negara)
APINDO	–	Indonesian Employers' Association (Asosiasi Pengusaha Indonesia)
ASABRI	–	Social Insurance Scheme for Members of the Armed Forces (Asuransi Sosial Angkatan Bersenjata Republik Indonesia)
ASKES	–	Health Insurance Scheme for Public Servants (Asuransi Kesehatan Pegawai Negeri)
ASKESOS	–	Health Insurance Scheme for the Informal Sector (Asuransi Kesehatan dan Sosial)
ASTEK	–	Employees' Social Insurance (Asuransi Sosial Tenaga Kerja)
BAPPENAS	–	National Planning Agency (Badan Perencanaan Pembangunan Nasional)
BDS	–	Business Development Services
BPS	–	Central Bureau of Statistics in Indonesia (Biro Pusat Statistik)
BRI	–	Indonesian People's Bank (Bank Rakyat Indonesia)
BRKB	–	Natural Disaster Relief and Rehabilitation (Bantuan dan Rehabilitasi Korban Bencana)
CPI	–	Consumer Price Index
CSO	–	Civil Society Organization
DEPKES	–	Ministry of Health (Departemen Kesehatan)
DEPNAKER TRANS	–	Ministry of Manpower and Transmigration (Departemen Tenaga Kerja dan Transmigrasi)
DEPSOS	–	Ministry of Social Welfare (Departemen Sosial)
DPR	–	House of Representatives (Dewan Perwakilan Indonesia)
FBSI	–	Indonesian Trade Union Federation (Federasi Buruh Seluruh Indonesia)
GBHN	–	Basic Guidelines to State Policy (Garis Besar Haluan Negara)

GDP	–	Gross Domestic Product
Golkar	–	Golkar Party (Partai Golongan Karya)
IDT	–	Presidential Decree Program for Least Developed Villages (Inpres Desa Tertinggal)
ILO	–	International Labor Organization
IMF	–	International Monetary Fund
ITB	–	Indonesian Tripartite Body (Badan Tripartit Indonesia)
JAMSOSTEK	–	Social Security for Private Employees (Jaminan Sosial Tenaga Kerja)
JHT	–	Old Age Benefits Programme (Jaminan Hari Tua)
JKK	–	Employment Injury Programme (Jaminan Kecelakaan)
JKM	–	Death Benefit Programme (Jaminan Kematian)
JPK	–	Health Insurance Programme (Jaminan Pemeliharaan Kesehatan)
JKPM	–	Community Health Maintenance Protection/Insurance (Jaminan Pemeliharaan Kesehatan Masyarakat)
JPS	–	Social Safety Net (Jaringan Pengamanan Sosial)
KADIN	–	Indonesian Chamber of Commerce and Industry (Kamar Dagang dan Industri Indonesia)
KKB	–	Small Business Consultant Clinics (Klinik Konsultan Bisnis)
KUBE	–	Collective Economic Activity Group (Kelompok Usaha Bersama Ekonomi)
KUT	–	Special Credit Scheme for Farming (Kredit Usaha Tani)
LE	–	Large Enterprise
LIK	–	Industrial Estate Services (Lingkungan Industri Kecil)
MENEGKOP & PKM	–	State Ministry of Cooperative and Small and Medium Enterprises (Menteri Negara Koperasi dan Pengusaha Kecil dan Menengah)
MENKEU	–	Ministry of Finance (Menteri Keuangan)
MLE	–	Medium and Large Enterprise
MoIT	–	Department of Industry and Trade (Menteri Perindustrian dan Perdagangan)
MPR	–	People's Consultative Assembly (Majelis Permusyawaratan Rakyat)
MSE	–	Micro and Small Enterprise
NGO	–	Non-governmental Organization
PAN	–	National Mandate Party (Partai Amanat Nasional)
PDI-P	–	Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan)
PKB	–	National Awakening Party (Partai Kebangkitan Bangsa)
PPFM	–	Assistance for the Poor (Penyantunan dan Pengentasan Fakir Miskin)
PT	–	Perseroan Terbatas
RT	–	Neighborhood Associations (Rukun Tetangga)
SAKERNAS	–	National Labor Force Survey (Survei Angkatan Kerja Nasional)

SHI	–	Social Health Insurance (Asuransi Kesehatan Masyarakat)
SME	–	Small and Medium Enterprise
SP	–	Population Census (Sensus Penduduk)
SPSI	–	All Indonesian Workers' Union (Serikat Pekerja Seluruh Indonesia)
SUPAS	–	Inter-censal Population Survey (Survei Penduduk Antar Sensus)
SUSENAS	–	National Social-Economic Survey (Survei Sosial Ekonomi Nasional)
TASPEN	–	Social Insurance Scheme for Public Servants (Tabungan Asuransi Pegawai Negeri)
UMR	–	Regional Minimum Wage (Upah Minimum Regional)
UPRT	–	Common Services Facilities (Unit Pelayanan Masyarakat)
UPT	–	Technical Service Units (Unit Pelayanan Teknis)

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