

A decorative graphic consisting of a grid of grey dots of varying sizes, with several dots highlighted in red. The dots are arranged in a pattern that roughly outlines the shape of the Indonesian archipelago.

Social Security for All

A Continuous Challenge for Workers in Indonesia

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- Ten years before the current financial crisis hit the global economy Indonesia suffered the worst economic crisis in its own history in 1997–1998. The Indonesian government introduced relief programs that relied heavily on funding from loans by the Asian Development Bank and the World Bank and that were of a temporary nature; they proved barely sustainable.
- Social Security in Indonesia until today remains a patchwork for the few: Formal social security protection is very limited in terms of the percentage of population covered and the benefits provided.
- The biggest challenge in Indonesia remains to provide social security for the large informal sector. To protect the poor from becoming poorer, government education grants, conditional cash transfer, free health care, and capital funds were installed. But these temporary social assistance programs proved to be hardly sustainable.
- Finally, in 2004, the National Social Security System Law (NSSS) was passed. Since it seeks to establish a sustainable system financed by domestic sources, the law itself constitutes a milestone for social protection in Indonesia. However it has still not been implemented today because of disagreements between different interest groups, amongst them the government, employers and workers.
- Like today, these reforms in Indonesia took place against the backdrop of a controversy over bailing out banks versus establishing public works programs to absorb the high level of unemployment – a discussion that is being replayed during the current crisis in the US and Europe.

Ten years before the current financial crisis hit the global economy, marked by the collapse of Lehman Brothers, Indonesia suffered the worst economic crisis in its own history in 1997–1998. An exchange rate crisis coincided with environmental disasters and resulted in the tripling of the number of poor people in Indonesia from 27 million to 85 million in over a year. The Indonesian currency, the rupiah (IDR), plunged 600 per cent (from IDR 2,300 per USD in June 1997 to IDR 15,000 in January 1998). Real income per capita dropped to USD 600, prompting a massive lay off. It was estimated that more than 5.5 million Indonesians lost their jobs in 1998.¹ Subsequently, the Indonesian government was forced to carry out reforms in the social security, education and health sectors. More than 60 per cent of Indonesians were living below the World Bank poverty line of two US dollars a day in 1998. Acknowledging the heavy impact of poverty on education, employment and health, the initial response of the Indonesian government encompassed – besides bank bailouts – subsidies for basic commodities and a comprehensive health care reform. However, those programs were of a temporary nature and relied heavily on funding from loans by the Asian Development Bank and the World Bank, and they proved barely sustainable.

Finally, in 2004, the National Social Security System Law (NSSS) was passed to provide relief from the consequences of economic hardship by ensuring a minimum living standard for all in line with the ILO Social Protection Floor². While the law itself constitutes a milestone for social protection in Indonesia, since it seeks to establish a sustainable system financed by domestic sources, the law has still not been implemented today because of disagreements between different interest groups, amongst them the government, employers and workers. Like today, these reforms in Indonesia took place against the backdrop of a controversy over bailing out banks versus establishing public works programs to absorb the high level of unemployment – a discussion that is being replayed during the current crisis in the US and Europe.

Social Security in Indonesia: A patchwork for the few

Current social protection systems in Indonesia comprise three main sub-systems providing benefits for different groups: civil servants and military personnel, workers in the formal economy and workers in the informal economy. In reality, formal social security protection is very limited in terms of the percentage of population covered and the benefits provided. All civil servants and a quarter of employees in the formal economy are partially protected by these social security systems. Civil servants have traditionally enjoyed the best level of protection for the past 42 years, with generous health insurance, maternity benefits, secure employment, and a monthly pension income.

Except for health insurance, co-funded by civil servants and the government through a two per cent share of salary, other benefits function on the basis of a »pay as you go« (PAYG) system.³ After funds previously established by the Dutch government to provide pensions had been liquidated, pension benefits for civil servants are now exclusively financed directly from the state budget.⁴ The minimum replacement income ratio is 60 per cent of the latest monthly salary. Health insurance benefits include comprehensive and unlimited health care; however, the coverage is rationed by a limitation on health care providers, mostly in public hospitals.⁵

For the second group, workers in the formal economy, a Labor Social Security System (called Jamsostek) had been established in 1992. The system covers mandatory programs for occupational injuries, a defined contribution provident fund and death benefits. In addition, the law provides health insurance with an opt-out option. Employers who provide better health coverage may purchase health insurance from the private sector. However, until 2003, only twelve million of 31 million workers in the formal sector were enrolled in Jamsostek.⁶ More seriously, fewer than five per cent of workers in the private

1. Employment Challenges of the Indonesian Economic Crisis, ILO-UNDP Report, 1998.

2. ILO Jakarta. Social Protection for All, Jakarta, 2004.

3. Winer, Mitch. White Paper for the Indonesian Social Security. www.bapepamlk.depkeu.go.id.

4. Rachmatarwata, Isa, Indonesia Pension System: Where to Go? Paper presented at Hitotsubashi Collaboration Center, Tokyo, Japan, 23-24 February 2004.

5. Askes, Annual Report 2009. PT Askes, Jakarta, Jakarta, 2010.

6. Academic Paper for the National Social Security System. The President Task Force for Social Security Reforms. Jakarta, February 2004.

Table 1. Provident Fund and Yearly Contribution of Jamsostek

Provident Fund	Active members (million)	Non-active members (million)	Contribution, USD million	Contribution investment revenue, USD million	Claim paid, USD million
2006	7.72	15.36	673.06	1,154.49	291.09
2007	7.94	15.79	762.41	1,249.55	353.63
2008	8.22	18.41	935.44	1,183.71	416.01
2009	8.50	20.53	1,031.24	1,735.19	643.32

Abstracted from various Jamsostek Annual Reports 2001-2010

sector were covered, due to an opting out provision under a government regulation.⁷

Contributions to the provident fund amount to 5.7 per cent of workers' salary, shared by employer (3.7 per cent) and employee (two per cent), the lowest among ASEAN countries. Overall contribution revenue has grown slowly, as shown in Table 1.

While per capita income in Indonesia at the current exchange rate increased from USD 900 in 1993 to USD 3,024 in 2010, the level of contributions remained the same. Many countries increased the level of contributions over time as incomes rose. One option would be to raise contribution rates as the income of employees and employers grows. A regional comparison shows the poor performance of the Indonesian provident fund: the total assets of Jamsostek in 2010 were Rp. 104 trillion, about ten per cent of the total assets of the Employee Provident Fund of Malaysia, where the population is only one tenth the size.⁸ Considering the overall population, the assets of Indonesia's provident fund amount only to one percent (1 %) of the Malaysian provident fund. Scenarios for pension schemes for all employees were produced in a white paper on implementation of the NSSF law (Wiener, 2008).⁹

In addition to the poor performance of social security, several defined contribution (DC) or defined benefits (DB) supplemental old age schemes are available for about 1.4

million employees.¹⁰ However, no more than 30 per cent of private employees and less than five per cent of workers in the formal economy have old age protection. The initial intention of expanding coverage of old age insurance to the informal sector has not been achieved so far.

The biggest challenge in Indonesia remains to provide social security for the large informal sector, which was estimated to employ 58.52 million workers in 2002.¹¹ In 2010, their number had grown to a level of 64.84 million informal workers out of a 104.49 million workforce in 2010. The informal sector is characterized by low incomes close to the poverty line, poor nutrition and poor health as a result of a lack of affordable insurance. To protect the poor from becoming poorer, government education grants (IDR 17.3 trillion), conditional cash transfer (IDR 4.9 trillion), free health care for the low income (IDR 7.2 trillion), and capital funds for low income (IDR 10.3 trillion) were installed. In addition, financial stimuli were created for eligible businesses to create jobs and for subsidizing energy and clean water. But these temporary social assistance programs, which included cash transfer, free health care for the poor, and subsidized rice for the poor, proved to be hardly sustainable.

Furthermore, the relatively slow decrease in poverty over a decade has proven that the social protection programs have so far not improved the economic situation of those on a low and middle income. From 1998 to 2010, GDP grew about 15 times, with per capita GDP increasing about five times. However, the reduction in poverty was less than half the 1998 level. This shows that economic growth has not been reaching the real sector to gener-

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8. Sinaga, Hot Bonar. Mobilisasi Sumber Dana Untuk Pembangunan. Paper presented at the Seminar of PKS, The Parliament, March 24, 2011. (Mobilization of Financial Resources for Development).

9. Wiener, M. Concept Paper, Unpublished paper, Personal communication with ADB consultant. 2008.

10. Pension Funds Annual Report 2009. Bureau of Pension Funds, Ministry of Finance Republic of Indonesia, Jakarta, 2010.

11. ILO Jakarta. Social Protection for All, ILO, Jakarta, 2004.

Table 2. Indonesian Economic Indicators, 1995-2010

Indicators	Unit	1995	1998	2000	2005	2010
Gross domestic product (GDP)	Bill US-\$	223.4	56,22	165.5	285.9	757.9
GDP per capita, current prices	US-\$	1,144	610	807	1,304	3,024
Economic growth	per cent change YoY	8.2	-6,21	5.4	5.7	6.0
Inflation rate	per cent change YoY	9.4	77,36	3.8	10.5	6.96
Exchange rate, annual average	IDR per US-\$	2,249	8,025	8,422	9,705	8,966
Labor force	(million people)	82.83	92.34	95.65	105.80	115.9
Employed, formal sector	(million people)	31.60	30.30	33.20	31.90	30.7
Open unemployment	(million people)	6.36	5.35	5.81	12.63	8.9
Partial unemployment	(million people)	31.86	34.30	31.78	32.11	32.8

Abstracted from the Central Bank of Indonesia, 2010 and Central Statistic Agency 2010

ate a decline of unemployment or the creation of jobs, see Table 2.¹²

The main problem in the administration of all social insurance carriers is the legal status of these organizations as profit-oriented state enterprises that are mandated to pay corporate income tax and dividends to the government. Unlike other governments that contribute to social security, the Indonesian government in effect has been deducting money from social security schemes amounting to more than IDR 10 trillion (USD 1.1 billion) or more than 10 per cent of the total assets of Jamsostek. Another problem is that the health insurance benefit does not cover catastrophic health care such as cancer treatment, heart surgery, and hemodialysis. The opt-out provision for health benefits has resulted in adverse selection for Jamsostek. Only seven per cent of employees in the formal sector are protected for health care benefits under Jamsostek. The majorities of employees are not protected at all and are suffering from impoverishing diseases due to very expensive health care in Indonesia. The management of the provident fund, in theory, has been under the scrutiny of employer associations and labor unions, but the transparency of fund management remains a serious problem.¹³ Another flaw of Jamsostek is that it does not have the authority to enforce regulations on mandatory contributions and take legal action against employers who do not comply with the law.

12. Abstracted from Data Published by the Central Bank of Indonesia, Jakarta, 2009.

13. Thabrany, H. Peta BPJS dan SJSN. Paper presented at the National Workshop on Social Security. Jakarta, December 15-16, 2010. (The Map of Social Security Management Body and the National Social Security System).

The Battle for Reform of the National Social Security System

The Political Process

ILO Indonesia has played an active role in creating a social protection floor, starting with public education about establishing social protection for all. Between 2000 and 2002, a comprehensive review of social protection was conducted and found flaws in the Indonesian social protection systems. In 2001, Indonesia's Vice President Mrs. Megawati mandated a commission to review the social security systems. It was later established as a Task Force to reform the National Social Security System (NSSS). After lengthy debates, the Task Force finally drafted the NSSS Bill early in 2004. After the President submitted the Bill, the NSSS law was enacted on October 19, 2004. But only four months after the law was passed, it was judicially reviewed, resulting in a demand that the NSSS be decentralized to local governments. However, the Court reaffirmed that the design of the NSSS was in accordance with the Constitution and acknowledged that local governments had the right to develop social security programs, including supplemental or complementary schemes, indicating that the local schemes must be operated within the framework of the NSSS. One of the most important Court decisions was that the social security carrier(s) must be legally incorporated. The Court ordered that the social security carriers must be reformed to become non-state enterprises, since state enterprises are not legally incorporated.

In 2010, after the government had failed to draft a law regulating the social security carrier(s), Parliament took

the initiative to draft a Bill on Social Security Carrier(s) as mandated by the Court. In December 2010, the President appointed eight Ministers to engage in prior consultations with the Parliament, but talks on regulating the NSSF Carrier to ensure transparent management of the fund ended in deadlock. Parliament proposed establishing a non-profit legal entity safeguarded by a tripartite body and regulated by a transparent administrative process and fund management. The government rejected the establishment of such a new entity as well as regulation of the NSSF Carrier. In the same year, labor unions had already been frustrated about waiting for the NSSF Law to be implemented. On Labor Day – May 1, 2010 – about 100,000 workers demonstrated to demand that the President implement the NSSF Law.

The Thick Wall to Pass Towards Social Protection for All

The Association of Employers (APINDO) has voiced its objections to the new law since the beginning of the reform process, arguing that it will pose another burden in addition to the current 12.7 per cent maximum contribution for social security – a level of contribution that is actually among the lowest in the world. Instead, the association demands the revision of the unimplemented NSSF Law.¹⁴ On the other hand, associations of employees, which originally had objections to the law, are now pushing the government to implement it. There are about 100 labor unions and several confederations of labor unions in Indonesia. On the issue of expanding social security, these unions are split into two main groups. The smaller group wants the government to provide free health care for all without charging any contribution from workers. A former Minister of Health and advisor to the President even claimed that the NSSF Law would place a greater burden on the people and called for its dismissal.¹⁵

The larger group, consisting of approximately 65 labor unions, NGOs and research centers, set up a Committee on Social Security Action (Komite Aksi Jaminan Sosial, KAJIS) to join forces in demanding implementation of the Law as soon as possible by suing the President for viola-

tion of the Constitution. The demand by KAJIS for health and pension coverage for all Indonesians is an important step towards providing social security for all. Calling for a more equitable and just system, KAJIS argued that workers were willing to contribute towards their social protection: »A system where only civil servants receive generous PAYG pensions while workers who pay taxes have no pension income at all is unjust.«¹⁶ Members of KAJIS accused the government of only considering social security from a cost perspective. Almost all stakeholders agree that the government lacks the political will to implement social security.¹⁷

Conclusion and Recommendation

Six years have passed and implementation of the NSSF Law has still not begun. A group of trade unions and NGOs (KAJS) have submitted a citizens' law suit against the President for neglecting to protect the workers. The battle is still raging. Employees face a very thick wall around adequate social security. Aware of the highly political nature of implementing the NSSF, KAJIS is organizing a million signatures from workers to push the President to implement the Law and to ensure social security for all. It is shameful that with a per capita GDP of more than USD 3,000, Indonesia has not yet started stacking the bricks and building a strong social security system for all its people.

Employees are frustrated by low salaries, while the majority of the population enjoys no social protection. Since a social security system is always political in its definition, strong labor movements are required, mainly to understand the need for social security, the risks of not having social security, the cost of implementing social security, and the benefits for the country of having a strong social security system. Without a strong labor movement, collusion between the Indonesian government and the employers, combined with the disorientation and lack of political will of the Indonesian government, will incur further miseries for the Indonesian workforce.

14. Pengusaha Usulkan Revisi UU Sistem Jaminan Sosial Nasional, <http://www.tempointeraktif.com>, 25 January 2011. (Employers propose revision of the National Social Security Law).

15. UU SJSN Dinilai Rugikan Rakyat, <http://www.jamsostek.co.id>, 01 March 2011. (The National Social Security Law is considered disadvantageous for the people).

16. Ribuan Buruh »Duduki« Istana Presiden, <http://www.republika.co.id>, 06 February 2011. (Thousands of workers »occupied« the presidential palace).

17. Focus group meeting conducted by the Institute of Social Security in Indonesia (ISSI) and Friedrich Ebert Stiftung (FES) in Jakarta [10 March 2011].



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Trade unions, works councils and other forms of workplace representation of interests are fundamental as an expression of democratic freedoms in a society. They enable a significant segment of the population to articulate its interests and contribute to the social and equitable development of societies in so doing.

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