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Social Protection Programs: Components, Priorities, Strategic Choices and Alternatives for Indonesia

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Indonesia's first priority in enhancing social protection should continue to be increasing employment generation by improving the investment climate and reforming appropriate labor and investment laws and policies. Increasing productive employment is the only avenue to sustainable poverty reduction and social protection. Expanding JAMSOSTEK pension coverage beyond that currently authorized is probably a "luxury" the country cannot yet afford. It should instead concentrate on improving JAMSOSTEK governance and operational effectiveness and obtaining greater compliance among those formal sector workers who are already supposed to be in the system. Adding or improving disability, unemployment and death/survivors' benefit insurance in the formal sector is worth considering. The Government should apply its limited public resources on targeted social assistance, micro and area-based community development and child protection programs that help the most vulnerable groups while at the same time making investments that will enhance the country's future productivity. A national social assistance program could condition its financial support on specified program objectives, periodic audits and evaluations in a contractual relationship with local authorities. With closer attention to targeting, administrative control and good governance at local levels, such programs could include rice and food subsidies, health cards and education scholarships for the very poor and special employment on local development projects. Initiating or enhancing the child protection programs would also be one of the best and most forward-looking uses for scarce public resources.

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## **Social Protection Programs: Components, Priorities, Strategic Choices and Alternatives for Indonesia<sup>1</sup>**

### **I. Introduction and Definitions<sup>2</sup>**

“Social protection” is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people’s exposure to risks, and enhancing their capacity to protect themselves against hazards and the interruption or loss of income. “Social protection” includes “social security” programs, but the latter generally refers to comprehensive mechanisms and coverage employed in high-income countries that are not yet financially or administratively possible in developing countries.

There are four main types of risks to the poor: 1) *lifecycle risks* like hunger, child development, illness/injury/disease, disability, old age, and death of the bread-winner; 2) *economic risks* like loss of livelihood (crop failure, livestock disease, etc.), unemployment, low income, price inflation, and national economic/financial crises, 3) *environmental risks* like drought, floods, earthquakes, landslides, and volcanic eruptions, and 4) *social/governance risks* like political instability, extortion, corruption, crime, domestic violence, exclusion.

Most families have household or informal ways of dealing with these, but when these fail or are insufficient, public sector interventions may be needed to reduce the risk and/or mitigate the impact. Various private sector mechanisms (such as commercial insurance schemes) can also be employed for these purposes in some situations, but this paper will focus on public sector options.

### **II. Components of Social Protection**

There are five basic kinds of social protection programs: 1) labor market policies and programs designed to facilitate employment and promote efficient labor markets, 2) social insurance programs to cushion the risks associated with unemployment, health, disability, work injury, and old age, 3) social assistance and welfare service programs for the most vulnerable groups with no other means of adequate support, 4) micro and area-based programs to address vulnerability at the community level, and 5) child protection to ensure the healthy and productive development of the future workforce.

#### **1. Labor Market Policies and Programs**

Employment is the major source of economic support for most workers and their families. Labor market improvements to enhance social protection include:

- a) labor market assessment to identify country needs and options
- b) active labor market programs

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<sup>1</sup> This briefing paper was prepared 7 Oct 2002 by C. Stuart Callison of the Partnership for Economic Growth (PEG) Project at the request of Bambang Widiyanto, Director for Manpower, Bappenas, Republic of Indonesia. PEG is a USAID-funded project with the Government of Indonesia. The opinions expressed in this paper are the author’s and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

<sup>2</sup> The first four main sections of this paper (I, II, III, and IV) comprise a summary, much of it verbatim, of material contained in *Social Protection in Asia and the Pacific*, edited by Isabel Ortiz, Asian Development Bank, Manila, 2001, Chapter 17, pp. 599-638, to which the reader is referred for more detail.

- i) direct employment generation (promoting SMEs, public works)
- ii) labor exchanges or employment services (job brokering, counseling)
- iii) skills development programs
- c) passive labor market policies
  - i) unemployment insurance
  - ii) income support
  - iii) appropriate legislative framework balancing economic efficiency and labor protection
  - iv) safeguards to ensure enforcement of labor laws and regulations

## 2. Social Insurance

Reducing labor market risks by providing income support allows workers who have lost their jobs to search for a good alternative, encourages them to acquire more education and training, and protects the health and continued education of their children. Such programs include:

- a) unemployment insurance
- b) work injury insurance
- c) disability and invalidity insurance
- d) sickness and health insurance
- e) maternity insurance
- f) old age insurance (retirement benefits)
- g) life and survivors' insurance

Some form of government intervention is needed to deal effectively with these risks. Most countries employ a mixed public-private system that contains two basic elements:

- i) public programs to assure minimum income to the aged, unemployed and other vulnerable groups, and
- ii) private programs that encourage voluntary supplementation by individuals.

In the case of old age pensions public and private programs usually provide retirement benefits scaled to individual contributions. The design of a particular social insurance intervention involves selecting the approach that seems most appropriate to the country's stage of development and social traditions. A balance must be maintained between the social gains from improved protection and the economic cost of a system that is too generous.

## 3. Social Assistance and Welfare Services

Social assistance and welfare services are designed to reduce poverty directly by protecting those who cannot qualify for insurance payments or would otherwise receive inadequate benefits. Programs targeted to younger people can also promote longer term growth and development by encouraging investment in human capital. These interventions include:

- a) *welfare and social services* for highly vulnerable groups, such as the disabled, orphans, and substance abusers
- b) *cash or in-kind transfers* such as food stamps and family allowances
- c) *temporary subsidies* such as energy life-line tariffs, housing subsidies, and support of lower staple food prices during a crisis
- d) *safeguards* to mitigate short-term negative effects of policy reforms or new infrastructure

#### 4. Micro and Area-Based Programs

Micro and area-based schemes provide social protection to small-scale agriculture and the urban informal sector like the more traditional social insurance programs supply to the formal sector labor force. Microinsurance insures the poor against their main risks at affordable prices. Crop insurance programs encourage the adoption of new crops and innovative farming techniques. Together with disaster management and community-based social development funds, these programs can reduce vulnerability at the community-level and promote more sustainable rural livelihoods.

- a) *microinsurance* involves voluntary and contributory schemes for the community, handling small-scale cash flows to address major community risks.
- b) *agricultural insurance* can reduce the uncertainty of farm loss by pooling a large number of risks due to natural perils
- c) *social funds* managed at local levels finance small-scale projects such as local infrastructure and livelihood programs for community groups
- d) *disaster preparedness and management* can greatly reduce risks associated with recurring natural disasters, especially improved hazard forecasting and a focus on local vulnerabilities and community preparedness

#### 5. Child Protection

Inadequate child protection results in undernourishment, poor health and intellectual underdevelopment. Investing in children is a key factor in poverty reduction and economic growth, and the small investments required bring considerable future benefits to society as a whole. Child protection programs include:

- a) early child development through basic nutrition, preventive health and education programs
- b) school feeding programs, scholarships and school fee waivers
- c) waiving fees for mothers and children in health services
- d) street children initiatives
- e) child rights advocacy/awareness programs against child abuse, child labor, etc.
- f) youth programs to avoid social anomia in teenagers, criminality, sexually transmitted diseases, early pregnancies and drug addiction
- g) family allowances to help impoverished families with young children meet part of their basic needs

### **III. Identifying Country Priorities**

Determining appropriate and feasible social protection priorities for a particular country requires an assessment of 1) country needs, 2) available resources, 3) existing institutions, and 4) the political economy of reform in that country.

#### 1. Country Needs

An assessment of the country's more important social protection needs should be based on 1) a summary vulnerability and risk profile that describes the major risks to the population, its demographic structure, urban-rural ratio, poverty levels and relative sizes of the formal and informal economic sectors, and 2) a summary labor market analysis.

## 2. Available Resources

Many existing social protection systems and programs are underbudgeted, receive random funding, or have mistargeted benefits. Where allocated public funds are limited and the country's needs are large, public programs should be targeted to those most in need. An evaluation of the effectiveness of current programs and the resources available to reduce poverty and vulnerability will identify the need for reforms. If a country lacks the fiscal resources for a comprehensive social security system with significant coverage, it should concentrate on poverty reduction and labor force improvements through labor market policies, child protection, micro and area-based schemes, social assistance and minimal social insurance benefits.

A social expenditure review should look at the administrative costs of current social protection programs, the distribution of funds among them, the benefit incidence and effectiveness in reaching vulnerable and poor people, and who is paying and who benefits. Matching the expenditure review with the social protection needs assessment will identify the need for reforms.

## 3. Existing Institutions

Decisions must be made about whether reform efforts should build on existing institutions or create new ones. The country's institutional history, including the relative credibility of those in the public and private sectors and the extent of previous government social protection commitments, affects the design of any new intervention. Existing institutional stakeholders will resist change, and reforms are likely to be more successful if they are involved in the new approaches. The institutional capacity to deliver a social protection intervention effectively must also be considered.

## 4. Political Economy of Reform

The potential gains and likely losses from reforms or new interventions, and their affordability must be carefully analyzed. Successful programs are those supported by a serious political commitment of the political leadership and reflecting the social architecture of the country. They should be discussed with all relevant social groups as members of the country's social contract.

## **IV. Making Strategic Choices in Design**

Once a country's priorities for social protection have been determined, a few strategic principles should be followed to design programs that will balance the trade-offs between reducing poverty and vulnerability and promoting human development. The design choices to be made involve 1) coverage, 2) targeting vulnerable groups, 3) sustainability and good governance, and 4) using an integrated approach. Investments may not be worthwhile where the program does not contribute to a reduction of poverty and vulnerability, where sustainability is in doubt, coverage is likely to be limited, or needy population groups are not served.

## 1. Coverage

Coverage gaps occur due to *statutory exclusions*, poor enforcement, or inadequate benefits. Labor market regulations and standards often exclude SMEs, household workers, daily laborers, farmers, fishermen, and many urban self-employed. The informal sector operates outside the regulations, with low and unstable income and poor working conditions. Many of the most vulnerable groups are not protected. Effort to expand coverage should address the priority needs of the poor and informal sector: improvement of their productive potential and their employment and income-generating capacity, improving their household welfare, and mitigating risks that keep them in poverty. A key mechanism for this is microinsurance for health care, death of the breadwinner (survivor's benefits), and against short-term risks through voluntary schemes established by mutual benefit societies, cooperatives, or civil society groups.

*Lax enforcement* often has the same impact as statutory exclusion. Effective enforcement requires institutions with the authority to establish liabilities and enforce collections, and the budget, willingness, ability and political support necessary to enforce the law.

Many social protection systems are underbudgeted and provide *inadequate benefits* to achieve their social objective. Transaction and administrative costs are often larger than the benefits provided. Benefits should not be so large as to generate disincentives to work, but neither should the social objectives chosen be greater than the society can afford to finance.

## 2. Targeting Vulnerable Groups and Gender Issues

Where resources are too limited to cover all identified needs, priority should be given to the most vulnerable groups. Where child/adult dependency ratios are high and children are exposed to risks, the social protection system should target children. When most vulnerable groups live in rural areas, resources should be decentralized and those groups targeted. Girls and women, half the population, are generally more at risk than boys and men, yet they tend to receive less assistance when things go wrong and fewer opportunities to help themselves. Social protection approaches that might appear gender-neutral may actually disadvantage women unless careful attention is paid to their unique problems and life patterns during the design phase. The most vulnerable populations are often not reflected in household surveys—migrant workers, orphans, the homeless, street children, victims of disasters, refugees, nomads and marginalized indigenous groups. These groups may require special attention and outreach strategies owing to both extreme poverty and social exclusion.

## 3. Sustainability and Good Governance

Planning for social protection interventions should include assessments of how to ensure efficient and sustainable delivery operations. This involves several issues:

- a) *sources of finance*: Potential financial commitments under a program, both benefits payable and administrative costs, must be evaluated to be sure the resources are likely to be available.
- b) *redistribution issues*: The design of the program must ensure that 1) the vulnerable and poor benefit and 2) public resources do not mostly benefit upper income groups.
- c) *effective administration*: A successful program must avoid common operational problems such as corruption, cronyism, favoritism, inadequate

information processing, storage and retrieval systems, and organizational cultures hostile to customer service.

- d) *Good governance* is crucial for sound macroeconomic management, progressive taxation, and equitable allocation of funds for social development. It must avoid inadequate budgets and wasteful, inefficient, unresponsive administrations. The poor suffer most due to poor access, low bargaining power and little influence on local officialdom and service providers. Fundamental governance issues in designing a social protection system are: i) the most appropriate way to serve all citizens, ii) the most suitable administrative arrangements, and iii) the best way to achieve operational efficiency.
- e) *institutional structure*: Public social protection programs often do not have sufficient resources to cover identified needs. There are three main social protection delivery mechanisms: i) public, normally best to achieve expanded coverage, ii) market-based, normally best for efficient delivery for the formal sector of the economy and voluntary schemes for upper income groups, and iii) NGOs and charitable institutions, normally good to target low-income communities. However, each one has important limitations, and a mixed delivery system may be the best way to diversify risks and address priorities.
- f) *Avoiding excessive administrative charges* is a major challenge. Inefficient and unresponsive government bureaucracies often cause excessive administrative costs, wasting resources with duplicative and inefficient service delivery structures.
- g) *cost-effectiveness*: Careful attention should be paid to the comparative value of social protection interventions against other social development programs (e.g., health, education and rural development programs), and they should be placed within the country's overall list priorities to reduce poverty. Evaluating the cost-effectiveness of social protection programs requires an impartial assessment of the following issues:
  - i) the cost of the programs (as a percentage of GDP and total public expenditure)
  - ii) performance (the percentage of vulnerable targeted groups covered, the percent of benefits going to poor and non-poor groups, and the extent to which the benefits are adequate to servicing identified needs)
  - iii) administrative cost (as a percentage of total costs, and how it compares with other programs)
  - iv) long-term social benefits
  - v) feasible options to improve cost-effectiveness, including the cost to society (who pays for reforms and who benefits)

#### 4. Integrated Approach to Social Protection

Social protection is only one of several measures that should be working together to promote socially inclusive human development, reduce poverty, and support enhanced productivity and growth. Close collaboration is needed to ensure that such programs and policies are consistent and mutually supportive. Many problems arise when they are not. A country should have a coordinating mechanism like a National Social Protection Coordination Commission, responsible for strategic planning and coordination, to plan an overall strategy for strengthening social protection. It should include government, external funding agencies,

and civil society groups to achieve consensus on priorities and objectives. The role of the Ministry of Finance and the national planning authority (Bappenas) is crucial in achieving balanced views on realistic and affordable priorities and the best sequencing of reforms with the ministries directly responsible for developing and managing such programs. Integrated planning is complex but essential for policy cohesion and efficient use of resources. A participatory approach is critical to ensure ultimate success.

## V. Current Public Programs in Indonesia

### 1. Labor Market Policies and Programs

Laws and policies that encourage investment in activities that generate productive and remunerative employment should be the first line of attack against poverty, because employment is the major source of financial support for most workers and their families, as noted above. About 95 million people were classified as being in the labor force in 2000,<sup>3</sup> when the labor force participation rate was estimated to be 60%.<sup>4</sup> Based on the 1996 Economic Census, only 12.4% of all workers were in the formal sector of the economy, leaving 87.6% in the informal sector (including agriculture).<sup>5</sup> This complicates any attempt to design an effective social security system involving pension schemes and comprehensive coverage and argues for continued emphasis on more productive employment generation as the first priority in Indonesia for some time to come.

The current investment climate and the labor market regime in Indonesia both leave much to be desired and urgently need improvement. However, as these policy areas are currently being dealt with extensively in other studies and reports sponsored by Bappenas or written by and for Bappenas itself, they will not be discussed in this paper.

### 2. Social Insurance: JAMSOSTEK, TASPEN, ASABRI and Dana Systems

**JAMSOSTEK (JST)** is the formal retirement, death and disability system for private sector employees. It is compulsory for all employers with more than 10 employees or with a monthly wage bill of more than Rp 1.0 million to enroll all of its employees in the plan. Given inflation and the increase in minimum wages, firms with 2 to 4 employees are now theoretically required to contribute to the fund. All participants of JAMSOSTEK must be covered by the retirement, disability and death parts of the program. Employers can opt out of the health component if they have a better health care program. This is not a social security program. It is a provident fund that requires contributions from both employees and employer, an insurance scheme for those who pay the premiums. Despite being compulsory, only 45% of eligible employers (approximately 83,000 out of 183,000) were contributing to the plan in 2000. Civil servants, members of TNI and self-employed workers are not required to participate. The retirement benefit provided at age 55 is a lump sum payment of accumulated contributions plus any accrued investment income, and the latter have historically been negative in real terms and below market rates of return.<sup>6</sup>

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<sup>3</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 1), Project Report (1 April 2001 to 30 April 2002)*, 27 May 2002, p. 42

<sup>4</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 8), Report to the Government on the financing and investment of Jamsostek and social budgeting in Indonesia*, 24 May 2002, p. 8

<sup>5</sup> *Ibid.*, p. 12

<sup>6</sup> The Pragma Corp., for the Asian Development Bank, *Reform of Pension and Provident Funds Indonesia*, Vol. I, "Overview and Core Recommendations," August 2000, T.A. No. 3116-INO, pp. 2-3.

**TASPEN** is the pension program of Civil Servants. All permanent Civil Service employees at head office and regional level participate in the plan except those at the Ministry of National Defense who participate in **ASABRI**, the pension system for the Armed Forces. TASPEN also provides insurance style death and disability benefits and a lump sum on leaving service. PT ASKES manages healthcare benefits after retirement. In 2000 there were approximately 3.7 million contributing members of the TASPEN plan and 2 million former Civil Servants and dependents receiving monthly pensions. The replacement ratio of the basic pension is only about 18% of take home pay prior to retirement, but a number of allowances are also paid.<sup>7</sup>

**ASABRI** is the pension and insurance program for members of the Armed Forces and Civil Servants at the Ministry of Defense. There were approximately 550,000 members contributing to the plan in 2000. The number of pensioners was only around 21,000, as this is a relatively new program and TASPEN had historically been responsible for them. The contributions and benefits of ASABRI are similar to those provided by TASPEN.<sup>8</sup>

In addition to these formal retirement systems, labor regulations require that employees who reach the age of 55 and are not members of another pension program receive a lump sum based on length of service and final salary, a combination of **severance and service pay**.<sup>9</sup>

**Dana Pensions, the DPPKs and DPLKs:** Law number 11, 1992, created two new types of retirement funds, an Employer Sponsored Pension Fund (EPF or DPPK) and a Financial Institution Pension Plan (FIPF or DPLK). These are private plans sponsored by large, formal sector companies. In December 1998 approximately 909,000 employees participated in DPPKs and 198,000 in DPLKs.<sup>10</sup> There are currently less than 400 employers who use approved employer pension plans administered by trustees. This is only a small fraction of formal sector employers and a tiny portion of the 2 million employers in Indonesia. Both of these plans tend to be defined-benefit schemes based on final salary level. Fund managers are required to invest exclusively in Indonesian financial markets.<sup>11</sup>

### 3. Social Assistance: The Social Safety Net Programs (JPS)

The financial crisis of 1997 and 1998 created hardships for large groups of people as family breadwinners lost their jobs and prices of food and other basic commodities soared. The Government of Indonesia responded by introducing several social assistance measures known collectively as the Social Safety Net (JPS):<sup>12</sup>

- a) Food Security (OPK). The initiative reaching the largest number of people, even if in small measure, was the rice subsidy program, the Special Market Operations (OPK) program. This allowed the target poverty households to buy 10

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<sup>7</sup> Ibid., p. 10

<sup>8</sup> Ibid., p. 14

<sup>9</sup> Ibid., pp. 23-25

<sup>10</sup> Ibid., pp. 17-23

<sup>11</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 2), Pensions Reform in Indonesia*, 24 May 2002, pp. 30-31

<sup>12</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 7

(later 20) kilograms of rice per month at a price of Rp1000/kg when the average market price was around Rp2500/kg.

- b) Education: Scholarships and DBO. Scholarships were intended to help keep children from poor families in school, and additional DBO grants were provided to schools.
- c) Health and Nutrition Programs (PMT-AS). Additional grants were given to health centers and low income people were given health cards for some free health care. A nutrition program provided higher quality food for babies and their mothers.
- d) Job Creation: PKSPU, Cipta Karya, and initiatives for unemployed women. Special employment creation programs were to be targeted to the poor and the unemployed.
- e) Community Empowerment (PDM-DKE). Community development grants and loans were given to some poor communities to create employment and business opportunities and to develop and improve local socio-economic infrastructure, as determined by the communities themselves.<sup>13</sup>

## VI. Some Key Issues and Alternatives for Indonesia

### 1. Labor Market Policies and Programs

As noted in Section V.1. above, laws and policies that encourage investment in activities that generate productive and remunerative employment should be the first line of attack against poverty in Indonesia. In this regard, Bappanek is already much involved in attempts to rationalize the labor relations law, the minimum wage rate issue, and the Indonesian investment climate, and these issues will not be dealt with in this paper, except to note that the introduction of unemployment insurance and improved labor exchanges or employment services (job brokering and counseling) might be worth looking into, along with enhanced skills development programs.

### 2. Social Insurance

**Coverage:** Current JAMSOSTEK active membership is understood to be around 9 million, and active membership in TASPEN and ASABRI is around 4 million. Thus only about 13 million employed people in Indonesia have some form of active contributory social insurance cover. This is about 14 percent of the labor force. Only about 35 percent of currently eligible private formal sector workers are in fact covered by the compulsory JAMSOSTEK pension plan. Less than 5 percent of all employers are members of JAMSOSTEK. Thus the extent of coverage is an important issue, both in the low level of compliance from those already

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<sup>13</sup> John Strauss, *et. al.*, *Indonesian Living Standards Three Years After the Crisis: Evidence from the Indonesian Family Life Survey*, Center for Population & Policy Studies, Univ. of Gadjah Mada, Yogyakarta, Indonesia, Michigan State Univ., Rand Corp. and the World Bank (with a grant from the USAID-funded Partnership for Economic Growth (PEG) Project), Aug. 2002, p. 99

eligible for this plan, and in whether, when and how to extend coverage to a larger portion of the workforce.<sup>14</sup>

The JAMSOSTEK health care package covers only about 2.7 million people (1.3 million workers) and ASKES covers about 14.5 million. Thus only around 8 percent of the total population is covered by formal, public health care plans. Adding in those covered by private health insurance raises the proportion covered to 15 percent.<sup>15</sup>

Reasons given for non-compliance with JAMSOSTEK registration include:<sup>16</sup>

- a) the additional cost to employers and a reduction in net wages to employees
- b) low benefits compared with contributions
- c) poor client service record
- d) poor asset investment decisions and earnings record
- e) large share of “profits” going to Government in taxes and dividends
- f) lack of information

There are six main groups of workers excluded from JAMSOSTEK coverage:<sup>17</sup>

- a) employees legally required to enroll but not enrolled
- b) employees not currently required to enroll (like those in small firms)
- c) informal sector employees
- d) unemployed workers
- e) migrant workers temporarily abroad
- f) households without adult breadwinners

**Benefit levels:** When JAMSOSTEK contributors retire at age 55 they receive a lump sum representing their total contributions plus investment income. The average pay-out is Rp2.1 million (around \$200), or 8.5 times the average monthly minimum wage. This does not provide adequate funds for old age. Furthermore, many workers withdraw their contributions as a lump sum before retirement if they become unemployed, since there is no unemployment insurance, and this further erodes any provision for old age. Replacing the lump sum pay-out with a periodic pension would be theoretically desirable; but at current levels of contribution and earnings the pension would be very small and would still provide inadequate protection against poverty during old age. Provisions in the current system for disability pensions or survivors benefits in the event of the early death of the employee suffer from the same problems—low benefit levels and lump sum payments, with no further periodic payments to replace earnings lost.<sup>18</sup>

Establishing a system of contributory unemployment insurance is considered feasible for the formal sector, but not yet for the wider unemployed population.<sup>19</sup>

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<sup>14</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 1), Project Report (1 April 2001 to 30 April 2002)*, 27 May 2002, pp. 44-45

<sup>15</sup> *Ibid.*, p. 44

<sup>16</sup> *Ibid.*, pp. 45-46

<sup>17</sup> *Ibid.*, p. 46

<sup>18</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 2), Pensions Reform in Indonesia*, 24 May 2002, pp. 10-12

<sup>19</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 1), Project Report (1 April 2001 to 30 April 2002)*, 27 May 2002, p. 60

### 3. Social Assistance

The Social Safety Net programs were set up quickly, mostly as short-term measures, in an attempt to ease the hardships imposed by the sudden and unexpected financial and economic crisis of 1997-98. The central government did not have an adequate administrative network to deliver these programs, and the local arrangements used were often problematic. Central government intentions were not fully achieved. However, important lessons can be learned from the experience to improve any future efforts to establish more permanent social assistance programs, should the government decide to do so. In general, many in the target groups did not receive assistance, there was significant “leakage” to higher income groups, and in some areas there was evidently KKN (corruption, collusion and nepotism) in the allocation of the assistance.<sup>20</sup>

In the **OPK rice program**, for example, the 2000 Indonesia Family Life Survey (IFLS) found that while 57% of the poor families surveyed received some subsidized rice in the preceding 12 months, so also did 37% of the non-poor families, a much larger group (the IFLS classified only 15.5% of the total population as below the poverty line in 2000, and 84.5% above)<sup>21</sup>. Furthermore, the actual value of the assistance received through this program was very small, amounting to only 2.0% of per capita expenditures among those poor families who actually received subsidized rice.<sup>22</sup>

The extra block grants in the **education assistance** program were reported to have helped some schools faced with escalating costs, although some commentators suggested that as a consequence “normal” funding was subsequently reduced.<sup>23</sup> The 2000 IFLS found that 70%, 63% and 80% of public primary, junior secondary and high secondary schools, respectively, received some operational assistance. (The percentages were 8-10 percentage points lower for private schools.)<sup>24</sup>

The **scholarship program** reached a very high percentage (96-99%) of public schools in the communities surveyed in the IFLS,<sup>25</sup> but the incidence among students was very small (4-8%) and 71% of the awards went to non-poor students. The percentages of children from poor households who received these scholarships were only 6% in primary schools, 12% in lower secondary schools, and 5% in upper secondary schools.<sup>26</sup>

The **JPS health program** was widespread, covering 98% of the 2000 IFLS communities, but again the fraction of the poor covered was small and there was significant leakage to the non-poor.<sup>27</sup> A SMERU evaluation showed that 6.3% of households used their health cards to

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<sup>20</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 9

<sup>21</sup> John Strauss, *et.al.*, *op.cit.*, pp. 13 and 106

<sup>22</sup> *Ibid.*, p. 107

<sup>23</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 11

<sup>24</sup> John Strauss, *et.al.*, *op.cit.*, p. 113

<sup>25</sup> *Ibid.*, p. 111

<sup>26</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 11

<sup>27</sup> John Strauss, *et.al.*, *op.cit.*, pp. 113-115

obtain free medical services, including 10.3% of the poor and 5.3% of the much larger non-poor group.<sup>28</sup>

The **special nutrition program** reached 15.9 percent of all pregnant women and children under three, 16.5% of the poor and 15.8% of the non-poor, and 79% of the beneficiaries were from non-poor families. There was no discernable targeting in this program, but it did reach significant numbers of people.<sup>29</sup>

In an evaluation of the **special employment programs** a SMERU evaluation found that 8.4% of poor households and 4.9% of the larger non-poor group had at least one member in the Padat Karya program. Problems identified included the hiring of non-target people, paying wages well above local minimums (hence attracting people out of other employment), and sometimes paying people for work not actually done. Also, the value to the community of the work done was not always clear.<sup>30</sup>

The **community development grants and loans** were faulted for not actually doing much for local self-reliance or community development. Its objectives were not well understood, the selection of projects or activities was done with very little input from poor members of the communities, and the activities were not targeted to those that would help the poor. The loans were directed to established businesses and public employment hired very small numbers of the unskilled. Also, there were no penalties for defaulting on the loans, which were supposed to be from a revolving fund.<sup>31</sup>

The experience with the JPS Social Safety Net programs provides a good foundation for selecting and designing more permanent social assistance programs, if the Government chooses to do so. The problems summarized above have more to do with implementation and control than with the basic approach. **Better planning and targeting and better governance** mechanisms could remedy most of these problems.<sup>32</sup>

#### 4. Micro and Area-Based Programs

The community development grants and loans (PDM-DKE) discussed above under social assistance would fit in this category of social protection programs, if they were extended as long-term efforts instead of just short-term, emergency programs to help folks get through a crisis. Better disaster preparedness and management against recurring natural disasters could also be a good public investment. The Government might also want to consider how to encourage and facilitate community-based microinsurance schemes and private agricultural insurance against natural perils and risks.

#### 5. Child Protection

The author has not had time to look into the extent and effectiveness of current child protection programs in Indonesia, such as those mentioned above in Section II.5, but these

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<sup>28</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 13

<sup>29</sup> *Ibid.*, p. 13

<sup>30</sup> *Ibid.*, p. 12

<sup>31</sup> John Strauss, *et.al.*, *op.cit.*, p. 110

<sup>32</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 14

would seem to represent good public investments of a developmental nature, with relatively high social and individual benefits in the future.

## VII. Concluding Comments

Given the levels of economic development and public resources in Indonesia, a sentence from Section III.2. above bears repeating:

**If a country lacks the fiscal resources for a comprehensive social security system with significant coverage, it should concentrate on poverty reduction and labor force improvements through labor market policies, child protection, micro and area-based schemes, social assistance and minimal social insurance benefits.<sup>33</sup>**

Indonesia's first priority in enhancing social protection should continue to be increasing employment generation by improving the investment climate and reforming appropriate labor and investment laws and policies. Increasing productive employment is the only avenue to sustainable poverty reduction and social protection.

Expanding JAMSOSTEK pension coverage beyond that currently authorized is probably a "luxury" the country cannot yet afford. It should instead concentrate on improving JAMSOSTEK governance and operational effectiveness and obtaining greater compliance among those formal sector workers who are already supposed to be in the system. In fact, the Rp1.0 million threshold mandating compliance should probably be increased in line with inflation since it was established, to avoid the hassles and bureaucratic costs of trying to enforce the system on the many small firms employing only 3 or 4 workers until the system itself is functioning much better than it is today. The country should probably move toward a mixed pension system, with a basic flat-rate, defined benefit system compulsory for all formal sector employees (JAMSOSTEK), supplemented by voluntary defined contribution systems for those who can afford them (such as the TASPEN, ASABRI and the Dana Pensions). Adding or improving disability, unemployment and death/survivors' benefit insurance in the formal sector is worth considering.

Instead of trying to expand the formal pension system beyond the formal sector under present circumstances, the Government should apply its limited public resources on targeted social assistance, micro and area-based community development and child protection programs that help the most vulnerable groups while at the same time making investments that will enhance the country's future productivity.

Needs assessment and program control can only be done at local levels, and local needs and conditions vary widely in Indonesia. However, if funds for such programs as these are simply devolved to local authorities, recent experience suggests the national program objectives would likely not be achieved. A national social assistance program could, perhaps more successfully, condition its financial support on specified program objectives, periodic audits and evaluations in a contractual relationship with local authorities, rather than as part of a regular decentralized budget allocation, and could even require local government contributions as part of the effort. With closer attention to targeting, administrative control and good governance at local levels, such programs could well include a continuation of the

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<sup>33</sup> Isabel Ortiz, ed., *Social Protection in Asia and the Pacific*, Asian Development Bank, Manila, 2001, Chapter 17, p. 626

rice and food subsidies, health cards and education scholarships for the very poor and special employment on local development projects at minimum wages. They could also include some direct cash assistance to those unable to support themselves in more advanced local areas.<sup>34</sup>

Initiating or enhancing the child protection programs listed in Section II.5. above would also seem to represent one of the best and most forward-looking uses for scarce public resources.

The ILO project, "Restructuring of the Social Security System in Indonesia," has recently produced a series of studies and reports (all dated May 2002) on various aspects of the topic, some of which have been used (and cited as sources) in preparing this paper. The topics include: 1) a summary Project Report, 2) Pension Reform in Indonesia, 3) Employment Injury and Death Benefits, 4) Unemployment Insurance, 5) Social Assistance, 6) Maternity Protection, 7) JAMSOSTEK Health Care, 8) JAMSOSTEK Financing and Investment and Social Budgeting in Indonesia, and 9) JAMSOSTEK Operations and Information Technology Systems. This ILO project has been extended until the end of December 2002 and plans to present the results of these studies at a workshop in mid-December, presumably under the auspices of the Presidential Task Force on Social Security Reform to assist it in the development and design of the national social security scheme (JAMSOSNAS).<sup>35</sup>

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<sup>34</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 5a), Report on the Feasibility of Introducing Social Assistance in Indonesia*, 24 May 2002, p. 25

<sup>35</sup> ILO/Jakarta, *Restructuring of the Social Security System in Indonesia (Part 1), Project Report (1 April 2001 to 30 April 2002)*, 27 May 2002, pp. 4 & 66-68