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SERIES:

SOCIAL SECURITY EXTENSION
INITIATIVES IN SOUTH EAST ASIA

INDONESIA:
EXTENSION OF SOCIAL
INSURANCE COVERAGE TO THE
INFORMAL ECONOMY

ILO Subregional Office for South East Asia



Decent Work for All

Asian Decent Work Decade

1. Introduction

The Constitution of Indonesia stipulates that every citizen has the right to social security and emphasises the role of the State in providing universal social security coverage. However, only a small number of people in Indonesia have adequate social security.

The National Social Security System Law (SJSN Law, Law No. 40 of 2004) which came into effective on October 2004 is a major milestone in the development of social security system in Indonesia. The law anticipates the achievement of the universal coverage in a phased manner¹.

One of the greatest challenges to the achievement of the goal of universal coverage is the informal economy which currently employs two-thirds of all workers. This chapter aims to provide a basis for the formulation of the policy to extend the contributory social security coverage to workers in the informal economy.

This Chapter presents the analysis of social security needs assessment of workers in the informal economy in both urban and rural areas and provides a basis for the formulation of the policy to extend the contributory social security coverage to workers in the informal economy, based on the ILO Working Paper "Extension of Social Security Coverage for the Informal Economy in Indonesia".

2. Challenges in extending social security coverage to the informal economy workers

Although the scope of Act No. 3, Year 1992 on the Employees' Social Security covers all workers under any employer-employee relationship, the actual mandatory coverage is limited to employers with 10 or more employees or a monthly payroll of more than Rp. 1 million. This implies that most enterprises that currently comply with the Act are the formal sector enterprises with legal entities.

There are a number of hindering factors for extending contributory social security coverage to the informal sector workers:

- The low and irregular income of the informal economy workers is a major obstacle in ensuring secure resources. As most workers in the informal economy receive irregular income, the establishment of a gross or net monthly salary is difficult and unreliable. In the absence of employers' participation, the total contributions are not affordable by most workers in the informal economy. In addition, unless the employers comply with making social security contributions on behalf of the employees, efficient collection of contributions is difficult with the existing administrative infrastructure.
- The type and level of benefits are not responsive to the priority needs and resource constraint of workers in the informal economy. Whilst it is desirable to provide the full range of social security benefits, the existing programmes cannot provide the flexibility needed for workers in the informal economy.

¹ The current Government gives high priority on the provision of health insurance for the poor. In 2005, Askes is tasked to provide health insurance for 36.1 million poor persons.

- General lack of awareness of social security concept and distrust of government institutions, which are common among workers in the informal economy, negatively affect the willingness to pay contributions.
- The success of the coverage extension critically depends on the concurrent improvement of administrative capacity. This is critical not only because the volume of administrative tasks increases but also because those currently excluded are more likely to pose considerable problems of registration, compliance, collection of contributions, and record keeping.

3. Social security assessment of the informal economy workers

For the formulation of the policies and strategies for extension, it is important to analyse the characteristics of the excluded individuals and assess their priority needs of social security.

3.1. Classification of the informal economy workers

Though the workers in the informal economy consist of heterogeneous groups, one can classify the workers in the (urban) informal economy in terms of access to and stability of the place of employment and the resources. This classification can help policy planners to develop progressive measures to extend the social security cover to workers in the informal economy. It may also assist in the identification of the poor and vulnerable groups in the informal economy. A realistic strategy would be to prioritise the coverage extension according to the level of organisation and the stability of income.

3.2. Identification of priority needs and contributory capacity

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. garbage scavengers, drivers of motor cycle taxis), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to the insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritised. The strategy on how the informal economy workers may adopt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

3.3. ILO surveys in the urban and rural informal economy

The ILO conducted two surveys which aim at collecting primary indicators of social security needs and information of the informal economy workers². Key survey results are as follows:

- There is a high need for some form of social protection for the informal economy workers. Health insurance is the highest priority for both urban and rural areas. Work injury and old-age benefits were high priorities in the urban survey, while old-age benefits and education were high in the rural survey.
- A significant portion of the informal economy workers are willing to contribute to a suitable scheme. In the urban survey 41.4% replied that they were prepared to contribute, while 16.0% replied positively in the rural survey.
- At the same time, the survey results confirm the limited contributory capacity for rural and urban informal economy workers. Without any form of cost sharing or subsidy, it would be difficult for the informal economy workers (especially those working in rural areas) to contribute Rp. 25,000 per month for health insurance in addition to premiums for other programmes.

These results indicate that people both in the urban and rural informal economy in Indonesia have an interest in social security and would be prepared to contribute to a scheme that suits their needs and priorities. These findings should be reflected in the policy design of pilot projects.

4. Extension of Jamsostek coverage for the informal economy workers

4.1. Ministerial Regulation on the Jamsostek coverage for the informal economy workers

In 2006, the Department of Manpower and Transmigration (Depnaker) issued a Ministerial Regulation (PER-24/MEN/VI/2006) on the guidance of the administration of Jamsostek programmes for the workers outside employment relationship, including the workers in the informal economy.

The Ministerial Regulation is based on Act No. 3, Year 1992 (known as Jamsostek Law). Article 4 (2) of the Jamsostek Law stipulates that social security for the “employees outside the contract of employment” (i.e. those workers who do not have an employer-employee relation) will be provided by further Government Regulation.

The following presents specific provisions in Chapter III of the Ministerial Regulation:

² The urban survey was conducted in 2001 in three areas that had heavy concentrations of urban informal economy and a total of 1,999 people were surveyed in East Jakarta, Bandung and Yogyakarta. The rural survey was conducted in November 2003 with a total of 2,169 informants in the rural areas surrounding Bandung at Sakabumi and Pandangaran in West Java, around Cirebon north east of Jakarta, and around Semarang in central Java.

(i) Scope of the coverage

The scope of the Ministerial Regulation covers workers outside employment relationship (Tenaga Kerja Di Luar Hubungan Kerja).

(ii) Types of programme

The Ministerial Regulation stipulates that Jamsostek provides the workers in the informal economy with the same benefits as the current Jamsostek members. These benefits include, Employment Injury, Death, Old-Age and Health Care. A notable difference is that a worker in the informal economy can join selected programmes according to the financial capacity and social security needs.

(iii) Voluntary coverage

The Ministerial Regulation stipulates that the coverage of the informal economy workers is voluntary.

(iv) Determination of contributory income

Contributions are flat rate amounts set on the basis of a percentage of the regional minimum wages. For instance, the monthly minimum wage in Jakarta (which is one of the highest regions in Indonesia) is Rp. 900,560 in 2007. In view of the difficulties in establishing monthly income for workers in the informal economy, it would be reasonable to make such an assumption.

(v) Rates of contribution

The following Table specifies the rates of contribution and the amount on the basis of minimum wage in Jakarta for the four benefit programmes for the informal economy workers³. The contributions are to be paid solely by workers.

³ For comparison, contribution rates for the formal employee are as follows:

Programmes	Employer	Worker	Total
Employment injury (JKK)	0.24% to 1.74%	-	0.24% to 1.74%
Old-age (JHT)	3.7%	2%	5.7%
Death (JK)	0.3%	-	0.3%
Health care (JPK)	3%(single) 6%(married)	-	3%/6%

Table. Contribution rates of Jamsostek for the informal economy workers

Programmes	Contribution rate	Monthly contribution (Jakarta 2007)
Employment injury (JKK)	1%	Rp. 9,006
Old-age (JHT)	2%	Rp.18,011
Death (JK)	0.3%	Rp. 2,702
Health care (JPK)	3%(single) 6%(married)	Rp. 27,017 Rp. 54,034
Total	6.3% (single) 9.3% (married)	Rp. 56,735 Rp. 83,752

(vi) Collection of contribution

The contributions are paid monthly or quarterly. The Ministerial Regulation allows for the collection by organised groups.

(vii) Benefit design

As noted earlier, the benefit design of the Ministerial Regulation is similar to that of the formal sector employees (Government Regulation on the Implementation of Jamsostek, No.14, Year 1993).

4.2. Observations

Depnaker started pilot projects in three sites in 2006 and implemented additional three pilot projects in 2007. At the end of 2006, there were 13,580 workers participated in this programme.

With regard to the design of the informal economy programme, the following observations are made:

- Under the current Jamsostek Law (Law No. 3 of 1992), the actual mandatory coverage is limited to employers with 10 or more employees or a monthly payroll of more than Rp. 1 million. Thus, the employees working in small-sized enterprises are still outside the scope of Jamsostek coverage. To cover this gap, adequate action be taken to include the employees in small-sized workers in Jamsostek system.
- Although it is not feasible to enforce compulsory coverage for the informal economy workers, the voluntary coverage, coupled with the provision on partial coverage of programmes, may lead to considerable adverse selection problem, in particular in health care programme.
- Although a flexible approach that allows for more choices to the members will facilitate the entry of currently excluded workers, voluntary membership should

be seen as a transitional measure to alleviate temporary administrative and budgetary constraints. In the long-term the government must accept its responsibility to provide for a minimum social security system for all citizens.

- While a formal sector employee pays only 2%, an informal economy worker has to pay 6.3% (single) or 9.3% (with family) for full coverage. The main reason for high contribution rates is that these workers have to pay the total amount of contributions in the absence of employers' participation. It is also due to the fact that the informal sector scheme has simply adopted the contribution structure for the formal employee (where health insurance contribution rate is relatively high due to the ceiling of contributory wage for this programme) without proper risk assessment of informal economy workers. It would be difficult for the informal economy workers (especially those working in rural areas) to sustain the payment of contributions without subsidy or any form of cost sharing.
- Although the Ministerial Regulation takes into account some specific features of the workers in the informal economy, some of the provisions which were designed for the formal employed workers may be difficult to administer. For example, in employment injury benefits, it would be difficult to establish definitions of occupational accident or diseases due to irregular working hours and the fact that some jobs are done in the home or on the streets and that some employ family workers including children. Thus, instead of limiting benefits to work-related accidents and diseases, it may be more manageable to cover accidents and diseases in the framework of health care and death and invalidity benefits programmes.

4.3. Strategies to enhance the implementation

A shift of focus to the informal economy will require additional resources for the development and implementation of a programme to reinforce the compliance with the regulations, which involves marketing, promotion, additional staffing, training, accommodation, IT programmes and transport. The efficiency should also be enhanced to provide services for smaller workplaces.

To develop effective strategies for enhancing the informal economy programme, the following issues should be taken into account:

(i) Awareness-raising (socialisation)

There are low awareness and lack of understanding of social security among the informal economy workers. However, as the ILO social security needs assessment survey indicates, given the right information, informal economy workers are willing to participate in social security programme, where health is a high priority.

The government should therefore conduct awareness and information on the new system through (1) socialisation and orientations of the programme, (2) development of information, education and communication (IEC) materials, (3) documentation and information-sharing of best practices and lessons learned in the pilot projects.

(ii) Efficient administration and enforcement

Workers without employer-employee relationship are more likely to pose considerable problems of registration, compliance, collection of contributions, and record keeping. The extension of the Jamsostek coverage should be accompanied with the improvements in the supporting administration capacity. Without these improvements expansion of the membership will be difficult to achieve or remain less efficient.

In particular, unlike the case of employed members where the employers remit social security contributions on behalf of the employees, efficient collection of contributions is critical for the informal economy workers. The group collection is considered to be a cost-efficient way of contribution collection. To encourage local communities and other organised groups, incentives could be given to these groups by reduced contribution or additional benefits.

(iii) Coordination with other programmes

The programme for the informal sector workers is closely linked with the programmes to cover the persons who have insufficient capacity to pay contributions. An effective coordination should be ensured between the Jamsostek programme for the informal economy and the social assistance programme for the poor.

In view of the SJSN Act, there is a need to consider the coverage of social security for the informal economy workers in a wider framework of national social security system.

(iv) Monitoring, evaluation and policy review

Regular monitoring is important in the implementation of the programme. After certain time of programme implementation, an evaluation should be conducted to measure the progress of implementation and, if necessary, review the implementation strategy. The key issue to be looked into is whether the programme can provide the type and level of the benefit which are responsive to the priority needs and income constraints of workers in the informal economy.

4.4. Concluding remarks

The Ministerial Regulation is a first concrete step to extend the social security coverage for workers in the informal economy. The approach of the Ministerial Regulation is to apply the provisions designed for the formal employed workers to the informal economy workers. Further analysis of this programme could be conducted by the ILO to develop models of a viable social security scheme for informal economy workers.

5. Other gaps in social insurance coverage

5.1. Casual and contract workers

One of the major areas of non-compliance with regard to Act No. 3 of 1992 is that employers declare that workers employed in their enterprises are paid on a daily basis or are contractors and thus are not insurable under Jamsostek. Although this is common practice, it is not consistent with the legislation. There are numerous references in the Act and in the Regulation which clearly state that the intention of the legislation is for them to be included in the Jamsostek scheme.

Relevant examples are:

- Elucidation of Article 8 of the Act on employment injury states that “contractor who is not an employer is considered to be working for the employer who contracts the job”.
- Elucidation of Article 4 clarifies the meaning of an employee as anyone “working in employment as an individual or an enterprises and who receives wages, including daily, casual, and contractual workers.....”
- Article 1 (3) of Regulation No. 14, 1993 defines how the income for daily workers, contractual, piece rate and seasonal workers are to be calculated.

It is thus evident that there is a statutory obligation on employers to enrol their casual, piece rate and contract workers. It is also evident that without an effective compliance regime the common practice of excluding these workers will continue.

5.2. Migrant workers

When examining a policy to extend the social security coverage, particular consideration must be made to the international migrant workers as a growing number of Indonesian workers, a large majority of whom are women, leave the country to work overseas. The number of documented overseas workers increased from 232,275 in 1997-98 to 435,219 in 2000 and to 480,393 in 2002⁴. As of end-2006, a total of 77,122 overseas workers were registered with Jamsostek.

Migrant workers face multiple disadvantages in their working conditions, including the lack of social protection. The following issues should be addressed:

- Review the current policy that excludes migrant workers from Jamsostek and cover them in the scheme or develop a programme that meets their needs;
- Develop a partnership with the key agents in the process (Depnaker, employment agencies and Jamsostek) to provide social security cover to migrant workers. Incorporating the employment agencies as employers on the social security IT system could also provide the management information that is not currently available to Depnaker; and,
- Initiate steps to conclude multilateral and bilateral agreements with major receiving countries that ensure the maintenance of rights and equality of treatment on social security.

⁴ The number decreased in 2001 and in 2003 due to temporary suspension of placements to Middle East and Taiwan, stricter requirements for placement as well as outbreak of SARS. However, the statistics of the migrant workers are likely to be under-estimated since many undocumented workers seek for employment abroad.

Extending social protection for migrant workers constitutes one of the key pillars of the ILO Plan of Action on Labour Migration in Asia Pacific. It states that

“The Asian Regional Meeting in 2001 asked the ILO to help design a social security treaty for migrant workers, especially for coverage of old age benefits and payment of pensions in countries where the migrants retire. Possibilities for harmonizing benefits that can be availed of by each other’s nationals when employed in another member country will be studied, including the requirements and qualifications for membership and for entitlement to various benefits. There may be a need in some cases to amend existing social security legislation to allow for pension-rights to be given to non-nationals. The International Social Security Association (ISSA) will be asked to help design bilateral agreements on social security, or if the countries are ready design multilateral treaty for several Asian countries (i.e. ASEAN) and to encourage agreement. Both ISSA and the Social Security Department of the ILO will be asked to provide technical expertise on social security issues under the Plan of Action.”

Within the ILO/EC Asian Programme on Governance of Labour Migration, ILO has commissioned a feasibility study on social security agreements for migrant workers in ASEAN countries. The key observations are:

- Social security agreements between ASEAN countries would strengthen protection for migrant workers.
- A single ASEAN multilateral agreement would be the ideal solution, but could be difficult to achieve, especially for long-term benefits. Bilateral agreements would be a more feasible option.

There is an increasing need for improved social protection for migrant workers. In line with the strategies outline above, Indonesia should take steps to extend social security for migrant workers.

6. Conclusion

There is a large unmet need for social security in the informal economy in Indonesia. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programmes based on risks, income and needs, (iv) develop efficient group collection and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

In general, there is no single solution to achieve the over-arching goal of universal coverage of social security. An effective policy needs to be formulated, implemented and periodically reviewed in the light of national conditions and in consultation with all stakeholders.

Results of the rural and urban informal economy surveys have demonstrated that a carefully structured programme may be able to attract sufficient contributors to make a contributory scheme viable in terms of numbers, however the dispersed nature of the contributors, the variability of their income, their capacity to pay and the administration issues suggest that solutions will not be simple to develop or to maintain. The extension

of social security to the informal sector is feasible if one could develop a viable scheme that is flexible, affordable, sustainable and well-marketed and understood.

International experience tells that the process of extension is complex and that it usually requires a long time (sometimes several decades) to achieve the universal coverage. It is not accomplished without strong long-term commitment and integrated efforts of the relevant stakeholders.

Limited population coverage of social security is one of the major deficits for the fulfilment of Decent Work and the extension of social protection coverage should be given a priority in the Decent Work Country Programme for Indonesia.

Reference

ILO, *Social Security in Indonesia : Advancing the Development Agenda*, 2008