

# Financing Social Protection through contributions and the removal of fuel subsidy



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## Indonesia

Indonesia reprioritized its spending by cutting expensive fuel subsidies and successfully managed the political resistance by putting in place a compensatory scheme supporting low income families, while in parallel also working on the extension of social protection by supporting the creation of a universal healthcare system and extending pension coverage.

After the Asian Crisis in 1997-98, the government of Indonesia provided targeted safety nets, soon to realize they were inadequate. Indonesia endeavours to extend social protection coverage to the entire population. The amendment to its 1945 Constitution in 2002, recognizes the right to social security for all, and the responsibility of the State in the development of social security. Indonesia has committed to achieving universal health coverage by 2019 through a coordinated approach of contributory and non-contributory schemes.

This country brief highlights how the government of Indonesia is achieving universality and progressive implementation of the right to social protection. It will also discuss how Indonesia tackled the problem of unsustainable fuel subsidies by introducing cash transfers to offset the adverse impact on the poor.

Social Protection Floors (SPFs) guarantee access to healthcare for all and income security for children, persons of working-age and older persons.

185 countries have adopted the Social Protection Floors Recommendation, 2012 (no. 202) an approach to achieve universal social protection of the population.

This brief presents a successful country experience and gives a practical example of how SPFs can be implemented.



### Main Lessons Learned:

- Indonesia recognizes social protection as a constitutional right to its citizen.
- The government gradually withdrew from their fuel-subsidy policy, while extending social services, including educational assistance, healthcare and conditional cash transfers.
- Step by step the government built capacities to extend health care to the entire population, creating a universal health care system (Jaminan Kesehatan Nasional (JKN)) following the ILO Social Protection Recommendation 202 (2012). The contribution-financed scheme is now covering 145 members, while the contributions for the poor and near-poor and covered by the government.
- The Government successfully extended health care coverage to the informal sector and is now covering both public as well as private sector workers under the newly designed pension scheme.

**Social Protection in Action:**  
Building Social Protection Floors

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## Social protection system in Indonesia

Social protection in Indonesia is a shared responsibility between all stakeholders – the State, employers, workers, and families or communities. Extended family and community support still plays a large role while a constitutionally mandated formal structure is taking shape. Indonesia now has a three-pillar social security system, namely:

- Social assistance/service: funded by the State. Beneficiaries are old and poor people, schools, and micro-business grants
- Compulsory savings: compulsory contribution into a provident fund to benefit from public pension.
- Social insurance: compulsory contribution; government pays premium for the poor people.

From July 2015 five social security schemes are operational in Indonesia, namely:

1. Occupational accident scheme: contribution of between 0.24 per cent and 1.74 per cent, depending on the type of business, paid by employers.
2. Death benefit: contribution of 0.3 per cent, paid by employers.
3. Old-age benefit scheme: contribution of 5.7 per cent (3.7 per cent paid by employers; and 2 per cent by employees).
4. Healthcare protection scheme: contribution of 5 per cent (4 per cent paid by employers, 1 per cent paid by employees). Informal sector workers and non-employee: between IDR25,000 and IDR59,500 (per person per month depending on the choice of class of facilities).
5. Pension scheme: contribution of 3 per cent (1 per cent paid by the employee and 2 per cent by the employer). In addition, permanent employees are entitled to severance pay: 1 month salary (<1 year working period), up to 9 months salary (>8 years working period).

There are three important milestones in the development of social security in Indonesia. First, the early recognition of social protection as a right, as stated in the 1945 Constitution of Indonesia. Second, in the mid-1960s, the Government gradually developed social security schemes, but limited to formal sector workers. Third, driven by the effects of the Asian Financial Crisis (AFC) at the end of the 1990s, governments established a stronger social security system by adopting universal coverage.

The post AFC era was characterised by ad hoc and targeted programmes, leaving a large number of the poor uncovered, while there was substantial benefit leakage to the non-poor. Programmes involved rice subsidy; school scholarships and block grants; health card for the poor with free access to public health

services; labour-intensive work programme; and the provision of grants to selected community groups.

As a result of the rather poor outcomes of these targeted programmes, the government adopted the principle of universal coverage by amending the 1945 Constitution in 2002. An important step was the passing of the Law regarding the National Social Security System (SJSM) in 2004. The Law stipulates five social insurance programmes: (i) pension; (ii) old-age savings; (iii) health-related benefits; (iv) work accident compensation; and (v) death grants. It provides a framework for integration of various social security schemes that already existed and new schemes, as well as the expansion of social security coverage to the entire population.

The Law follows a staircase approach with non-contributory schemes for the poor, contributory schemes for the self-employed, and statutory social security schemes for formal sector workers. Universal health insurance under the Law on Health Social Security Providers (BPJS Kesehatan (BPJS I)) commenced in 2014, while other schemes, under Law No. 24/2011 on Social Security Providers (BPJS Ketenagakerjaan (BPJS II)), started in 2015. On the social assistance front, efforts to extend coverage to reach the poorest and most vulnerable and to better coordinate programmes are in progress.

During this phase, Indonesia also had to deal with the Global Financial Crisis (GFC). Indonesia responded with a fiscal stimulus package which contained expanded social protection measures. About 7 per cent of the stimulus package announced during 2008-2009 was on social protection.

## Indonesia's fuel subsidy reforms and expansion of social protection

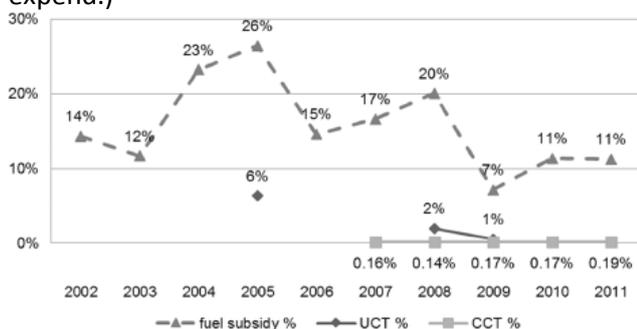
Indonesia's universal oil subsidy was initiated in 1967 to distribute the state's oil windfall to ordinary citizens. But ironically Indonesia became a net oil importer in 2004 when international oil prices were soaring, putting pressure on the national budget. So, Indonesia had no choice but to reform its fuel subsidy system.

Reducing the fuel subsidy in 2005 led to an increase in prices by 30 and 114 per cent in March and October 2005, respectively. When rioting broke out in 2005, the government responded quickly by introducing a compensation programme for the poor consisting of educational assistance, healthcare and unconditional cash transfers (UCTs). The UCTs consisted of cash benefit of IDR100,000 (roughly \$10.50) per month to each target household, covering 15.5 million households or nearly a quarter of the population. But the programme was not financially sustainable and in

2006, the government prepared to switch to conditional cash transfers (CCTs) through the Hopeful Family Programme.

The UCT was primarily introduced in the context of fiscal consolidation in the time of economic crisis, which was the primary concern for the government. As can be seen from the Figure 1, although UCTs and CCTs are still very insignificant, fuel subsidy cuts were substantial; its share in government expenditure dropping from 26 per cent in 2005 to 11 per cent in 2010-2011. A lost opportunity to further expanding social protection.

**Figure 1: Share of total central government expenditure, 2002–2011** Fuel subsidy (% of govt. expend.)



Source: Huck-ju Kwon and Woo-rim Kim (2015)

### Towards universal health coverage

The first social health programme targeting poor households started in 1994 with the health-card programme. The programme changed its name in 2005 to Health Insurance for Poor Households (Asuransi Kesehatan bagi Keluarga Miskin or ASKESKIN) and initiated the first-phase towards universal health coverage. Initially targeted to poor households, ASKESKIN evolved into the Health Security for Society (Jaminan Kesehatan Masyarakat or JAMKESMAS) programme in 2008, aiming at universal health coverage through a mandatory public health insurance programme.

The programme accounted for about 7 per cent of Indonesia's total social protection spending in 2009 and sought to reach 76.4 million people, or about one-third of the total population. The cost to the government per insured individual amounted to IDR6,250 (roughly \$0.7).

In 2014, the Government launched a national health insurance scheme, Jaminan Kesehatan Nasional (JKN) to provide insurance to the entire population. BPJS Kesehatan has been established to implement the scheme. JKN is a unified, contribution-financed health insurance scheme, and has 145 million members. The contributions for the poor and near-poor are paid by the government.

In 2014, 86.4 million people were eligible for contribution assistance (PBI). The government spent IDR 19.9 trillion (US\$ 1.43 billion) financing PBI, more than double the 2013 budget allocation. But it still amounted to only IDR19,225 (\$1.4) per person per month, significantly lower than actuarial estimates of a sustainable premium. Despite remarkable progress in the first year, many doubt whether JKN's budget will be sufficient to cover the unlimited and comprehensive service benefits.

### Challenges

Successive Governments' political commitments are not matched by budgetary allocations. For example, only 2.2 per cent of the total government budget is allocated for health.

In addition, there are supply-side and administrative challenges. Indonesia has critical shortages of health workers as well as hospitals and clinics for a nation with more than 250 million people.

Implementing a universal social protection system across more than 17,000 islands, and in a decentralized country of 34 provinces and around 500 districts poses serious administrative challenges. Health issues (including finance and infrastructure) have been designated as the district government's responsibility. However, the role of local governments remains unclear in the grand design of universal health coverage. More encouragingly, universal healthcare coverage is playing an important role in local electoral politics. This is creating pressure on local politicians to give priority to social protection and to adopt participatory budgeting.

### Concluding

Indonesia offers some interesting lessons. It has set a salutary example by recognizing social protection as a constitutional right of its citizens. It also took politically bold steps to reprioritize its spending by cutting expensive fuel subsidies and putting in place various compensatory schemes with money saved from fuel subsidy to ameliorate impact on low-income families. Yet it has missed the opportunity to boost its social protection programmes significantly with the funds freed from the subsidy. Yet, Indonesia is increasingly expanding its social protection system also through contribution collection, subsidising only those that cannot afford paying, thus building a stronger base for the extension of coverage and services.

Removing fuel subsidies and expanding contributory revenues are two of the many alternatives that countries have to expand fiscal space for social protection. Other options are explained in the paper "[Fiscal Space for Social Protection: Options to Expand Social Investments in 187 Countries](#)".

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