



JAMSOSTEK
PT. Jaminan Sosial Tenaga Kerja (Persero)



International
Labour
Organization

Extending Social Security Coverage
to Informal Economy Workers:

Way Forward





**Extending Social Security
Coverage to Informal Economy
Workers:
Way Forward**

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Foreword



Started in 2006, PT. Jamsostek (Persero) started to expand its coverage to the informal workers as mandated in the Decree of Minister of Labor and Transmigration number: PER-24/MEN/VI/2006. However, the progress of its membership has shown an uneven and slow growth due to the unfavorable economic situation and limited administration capacities (financial and resources).

How to design an effective and flexible system for the informal workers, both in term of financing mechanism and how to make the best use of resources, have become critical issues. The publication of this paper, I believe, is to explore various strategies and options available for Government and the existing administration carriers, including PT. Jamsostek (Persero).

International experiences have shown that the scheme for the informal workers may take a variety of forms, particularly with regard to the institutional framework, the organization of the service deliverance and its financing system. It is clear that there is no standard model for the case of Indonesia.

This paper tries to investigate the feasibility of the available options and to facilitate the interest of Government, which have seldom had the opportunity to review all the available information on regulatory framework, and of social security carriers, in term of the technical complexities. It is expected that this paper be beneficial for both parties in order to explore the potential role of social security to the informal workers as a means of broadening the access of the population to decent social protection.

This publication is addressed to large audience of parties interested in the contribution that social security can make for the informal workers in Indonesia. It is expected that this publication can create a snowball effect to the discussion of better social protection scheme for the informal workers in the future.

H. Hotbonar Sinaga

Presiden Direktur

PT. Jamsostek (Persero)

Preface



The extension of social security coverage is one of the great challenges facing Indonesia.

The ILO views the improvement of social security systems as part of an overall objective of providing decent work for all men and women. The ILO believes that “decent work” is what workers throughout the world seek, namely work which is productive, which provides adequate income to meet their needs, in which their rights are protected, and with adequate social protection.

The Indonesian Constitution stipulates that every citizen has the right to social security and emphasizes the role of the State in providing universal social security coverage. However, like in many developing countries, most of the population is without any social security protection at all. Only a small number of people in Indonesia have adequate social security. Lack of social security coverage is largely concentrated in the informal economy, where women are more likely to be working.

The passage of the National Social Security System Act (Law No. 40 of 2004) was an important step towards the development of a comprehensive social security system in Indonesia. The ILO was involved in assisting with the process leading to the enactment of that law mainly through a technical cooperation project on “Restructuring of the Social Security System in Indonesia”. Under the project a series of research and discussion papers were prepared on critical issues to be addressed in the reform process, including on ways in which the coverage of social security schemes might be extended to cover excluded groups such as migrant workers and those engaged in the informal economy. Since then a number of studies had been conducted to follow up the findings of the project.

This working paper has been prepared as an update of previous ILO studies and focuses on the extension of social security coverage to informal workers. The working paper has been prepared by Dr. Diah Widarti. It examines the developments over the past few years with social security in Indonesia including recent initiatives by government and others relating to informal sector workers. It puts forward various recommendations as to actions which might be taken to extend social security coverage in the informal economy.

It is hoped that the working paper will stimulate discussion about these issues and assist in finding ways to bring the benefit of social security protection to more Indonesian men and women, especially those engaged in the informal economy

Jakarta, October 2009

Alan Boulton

Director

ILO Jakarta Office

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Introduction

1.1. Background

The lack of provision of basic social security for the greater part of workers in Indonesia is one of the great challenges faced by Indonesia. The most important feature shared by the majority of workers in Indonesia is the absence of any kind of protection, whether it be employment security, pension, or coverage for such risks as illness, accidents, and death. For most of the workers the most basic protection, that is minimum wage, is also not ensured. This is because most workers in Indonesia are engaged in the informal economy. These informal economy workers usually have low levels of productivity and therefore income, where it would be very difficult to make contribution to social security scheme.

The Indonesian constitution stipulates that every citizen has the right to social security and underlines the role of the state in providing universal social security coverage. This is the principle that highlights the Act No. 40 of 2004 on National Social Security System Law (*Sistim Jaminan Sosial Nasional/SJSN*) which came into effect in October 2004. This is a major milestone in the development of social security system that foresees the achievement of universal coverage in a staged manner. One of the greatest challenges to the achievement of the goal of universal coverage is the coverage of the informal economy which currently employs around two-thirds of all workers in Indonesia.

Although the scope of Act No. 3 of 1992 on the Worker's Social Security covers all workers whether he/she is under employment relationship or not, the actual mandatory coverage that limits to firms with employee with 10 or more employee and a monthly payroll of more than one (1) million, means that only formal economy is included. Thus the actual implementation of Act No. 3 of 1992 excludes the informal economy workers.

In line with the objective of the government to achieve universal coverage of social security for all, it is important to mapping out what the initiatives that have been undertaken by the government and other stakeholders in particular for the informal economy workers, what are the challenges and the way forward needs to be done in extending and implementing social security coverage to the informal economy workers. This paper intends to explore the extent of social security coverage for informal economy workers in Indonesia.

1.2. Objective

The paper intends to map out the efforts in extending social security to informal economy workers in Indonesia. This would be the basis for the ILO to provide further support to Indonesia in the field of social security.

1.3. Methodology

Definition

Social security *“primarily refers to social welfare service concerned with social protection, or protection against socially recognized conditions, including poverty, old age, disability, unemployment and others.”*¹ Although some publications use the terms “social security” and “social protection” interchangeably, social security is used both more narrowly.

Furthermore, the definition states that *“...social security may refer to (a) social insurance, where people receive benefits or services in recognition of contributions to an insurance scheme. These services typically include provision for retirement pensions, disability insurance, survivor benefits and unemployment insurance. (b) income maintenance—mainly the distribution of cash in the event of interruption of employment, including retirement, disability and unemployment (c) services provided by administrations responsible for social security. In different countries this may include medical care, aspects of social work and even industrial relations.”*

More rarely, the term is also used to refer to basic security, a term roughly similar to access to basic necessities—things such as *food, clothing, shelter, education and medical care.*

Meanwhile, the International Labor Organization defines social security as *“the protection which society provides for its members, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury and occupational diseases, unemployment, invalidity, old age and death. To this must be added the provision of medical care and the provision of subsidies for families with children. Such protection may be provided by different mechanisms: statutory social insurance schemes, universal benefits and services financed from the general budget, social assistance, insurance schemes and micro-insurance schemes.”* (Adapted from *Social security: A new consensus*, Geneva, ILO, 2001).

Thus, social protection is to include not only public social security schemes but also private or non-statutory schemes with a similar objective, such as mutual benefit societies and occupational pension schemes, provided that the contributions to these schemes are not wholly determined by market forces.

The extension of social security is very important, as affirmed by several international instruments that every human being has the right to social security. Such instruments include the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Convention on the Elimination of All Forms of Racial Discrimination, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention on the Rights of the Child, the European Social Charter, the Additional Protocol to the American Convention on Human Rights in the Area of Economic, Social and Cultural Rights.

¹ Retrieved from http://en.wikipedia.org/wiki/Social_Protection



In line with these international and regional human rights instruments, the Declaration of Philadelphia adopted in 1944 by the International Labour Conference assumes that *“all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”* (II-a). This definition of social security as a human right is reasserted in the International Labour Conference in its 89th session, 2001: *“Social security is very important for the well-being of workers, their families and the entire community. It is a basic human right (...)”* ILO’s social security conventions constitute technical extensions dealing with the practical implementation of this right. The most important of these conventions is the Social Security (Minimum Standards) Convention, 1952 (No. 102).

It is also confirmed that social protection is an important means to prevent poverty, and strengthen the capacity to go out of poverty. The absence of social protection is believed to lead to greater chances of falling into poverty or remaining stuck in a poverty trap. Some social protection measures consisting of direct transfer of funds to the poorer (e.g., social assistance benefits that are means tested) have a direct and at least temporary effect on the level of poverty.

1.4. Organization of the Paper

The second section presents the development of social security legislation in Indonesia. The third section illustrates the role of donor/lender agencies in this area. The fourth section attempts to summarize the previous ILO proposal on social security extension to informal economy workers that had been written by Mr. Angelini and Mr. Kenichi Hirose. The initiatives that have been done by the government and others are presented in the fifth section, and the last section proposes the way forward.

Development of Social Security Scheme in Indonesia

The 1945 Constitution of the Republic of Indonesia Article 28H point (3) states that every citizen has the right to social security and underlines the role of the state in providing universal social security coverage. Furthermore, Article 34 point (2) stipulates that the state shall develop a system of social security for all people and shall empower the inadequate and underprivileged in society in accordance with human dignity. Such notion is the principle of the Act No. 40 of 2004 on National Social Security System, which came into effect in October 2004. Nevertheless, only a small number of people in Indonesia have adequate social security.

2.1. Development of social security legislation

Health insurance programme for civil servants dated back to 1934 when it was firstly introduced. However, not until 1968 compulsory health insurance programme for civil servants, pensioners, and their dependents was launched.²

Then, in 1977 a social insurance system for private sector workers was established, known as *Astek*. The Act on Social Security as of today was introduced in 1992 known as *manpower social security (Jaminan sosial tenaga kerja/Jamsostek)*. This scheme is managed by the state-owned insurance company *PT Jamsostek* (formerly known as *PT Astek*), and under the scrutiny of the Ministry of Manpower and Transmigration. The scheme includes work-injury, death, old-age, and health care benefits.³

Health insurance provided by public scheme (*Askes*), private and micro schemes has more extensive coverage which also include family members. The estimated number of persons covered by the *Jamsostek* health care programme was 2.7 million (of whom 1.5 million were workers) in 2001. The coverage of *Askes* was estimated to be 13.8 million (plus 1.4 million were 'commercial' members). Thus about 18 million people in Indonesia were covered by the formal health insurance schemes. Adding those covered by private or employer-funded health insurance, a total of 30 million persons were estimated to have health insurance cover (FES website).⁴ Nevertheless, there is only little penetration into the informal economy.

In October 2004, the Act No. 40 of 2004 on "National Social Security System" was in effect. The important feature of the new act is that it mandates the establishment of various social security

2 Since 1992 managed by PT Askes

3 Currently the law is under discussion in order to change possibly into a Trust Fund.

4 Available at www.fes.or.id

schemes for Indonesian from old-age pension, old-age savings, national health insurance, work injury insurance, to death benefits for survivors of deceased workers. The schemes would be financed by a payroll tax imposed on workers' wages, but no stipulations on minimum or maximum amounts of benefits or contributions or other parameters, as such details are to be followed up by government regulations.

2.2. Existing social security schemes

Currently there are several social security schemes that were administered by the government. The pension scheme is managed under *Jamsostek* aiming for private sector workers in the formal sector; the *Taspen*, a pension programme for current and retired civil servants and their families; and *Asabri* pension programme for armed forces members. Health insurance is provided by *Askes* mainly for government employees; *Asabri* for the armed forces; and *Jamsostek* for private sector workers. Besides these, some forms of social security have been present although only in smaller scale.

2.2.1. Workers' social security (*Jaminan sosial tenaga kerja Jamsostek*)

Historically, under the government regulations this social security scheme provider for formal private sector workers, called *Perum Astek*, was first implemented in 1978. After the dissemination of the Act on Workers' Social Security and the Government Regulation on the implementation of the Workers' Social Security Programme, the scheme was reformed to *Jamsostek*.

The *Jamsostek* programme consists of the followings (1) old age benefit scheme (*Jaminan Hari Tua/JHT*) (2) work accident benefit scheme (*Jaminan Kecelakaan Kerja/JKK*) (3) death benefits scheme (*Jaminan Kematian/JK*) and (4) health care benefit scheme (*Jaminan Pemeliharaan Kesehatan/JPK*). The premium for work accident, death, and health care benefits are paid entirely by employers, while the old age benefit premiums are shared by both employers and workers. Work accident, death, and retirement benefits are invested in a provident fund managed solely by *PT Jamsostek*. Health care services are allowed to be contracted out to private provider only if the benefits would be either similar or exceed the benefits provided by *PT Jamsostek* (ILO, 2003).

The *Jamsostek* scheme had not been successful in preventing those who were badly affected by the economic crisis from falling below the poverty line (Arifianto, 2004). This is partly due to the fact that *Jamsostek* coverage is limited, which excludes informal economy workers and formal workers employed in small enterprises (with 10 employees or less). Not until 2006 that the government issued a new regulation on extending social security to self employed workers.⁵ This means that the greater part of Indonesian workers is not covered by this scheme. Apart from that, the participation rate of employers in *Jamsostek* scheme is relatively low. It is estimated that only about half of employers required by the Social Security Act to make contributions to the scheme are making contributions (ILO, 2003), which means that the number of workers that are actually covered by the *Jamsostek* programme would be extremely low.

The ILO (2003) study indicated that actual benefits received by those who make contributions to *Jamsostek* are very low. The average value of a *Jamsostek* pension is only amounted to 5.5 months of their basic salary or 8.5 months of the minimum wage in the respective year (ILO, 2003). The

⁵ See the discussion in Section 4.

study concluded that these workers would earn a better rate of return to their investment if they put their retirement savings into a bank account rather than putting it into the *Jamsostek* scheme. Critics have also been expressed that the *Jamsostek* management fund has not been open and transparent.⁶ This is most likely the reason why most Indonesian employers and workers have little faith in the scheme to provide social protection for them.

Jamsostek provides the following social security programmes:

Old-age benefit scheme (Jaminan Hari Tua/JHT)

The programme provides an age retirement benefit and for compulsory early retirement as a result of invalidity or unemployment. The scheme is compulsory for all “legal entity” workplaces with at least 10 employees or monthly payroll of at least Rp. 1 million. Contributions of employer is 3.7% of gross wages and employee 2% of gross wages. The benefits of participating in this programme is that the scheme provides lump sum of combined contributions plus interest or periodical payments for the following life events of the member: at age 55 years, total permanent disability, benefits to the surviving spouse or children in the event of death of member before age 55 years, when membership ceases due to unemployment after at least 5 years membership.

Work accident benefit scheme (Jaminan Kecelakaan Kerja/JKK)

This scheme covers work-related accidents at work and includes travelling to or from work. It is compulsory for all “legal entity” enterprise hiring at least 10 employees or a monthly payroll of at least Rp. 1 million. Employer contribution is between 0.24% to 1.74% of gross wages depending on the economic sector. The benefits cover transportation costs, costs of medical examinations, medical treatment and nursing, rehabilitation expenses, monetary allowances for invalidity, loss of functions and death allowance.

Health care benefit scheme (Jaminan Pemeliharaan Kesehatan/JPK)

This scheme provides for hospital and medical treatment for member, spouse and natural children. It is compulsory for all “legal entity” enterprises employing at least 10 workers or a monthly payroll of Rp. 1 million. Employers providing similar or better health care services for their employees are exempted to participate. Contribution of employer is 3% for single worker or 6% for family of gross wages. The benefits provide primary out-patient care, subsequent out-patient care, in-patient hospital care, pre natal, delivery and post natal care, diagnostic support, special care, immediate life saving emergency services with maximum of Rp. 6,500,000.

Death benefits scheme (Jaminan Kematian/JK)

This schemes covers loss of life during and within the work place or caused by illness or natural causes. It is compulsory for all “legal entity” workplaces employing at least 10 workers or a monthly payroll of at least Rp. 1 million. Employer’s contributions is 0.3% of gross wages. Benefits provided are payments for funeral expenses of Rp. 1,000,000 and death allowance of Rp. 5,000,000.

6 For instance, Leechor (1996) points out that PT *Jamsostek* as the sole provider of publicly funded retirement benefits in Indonesia has failed to provide financial statements and regular progress reports that could be accessed by workers participating in the scheme and the general public.

2.2.2. *Taspen* (Insurance and Retirement Savings for Civil Servants)

PT Taspen is a state-owned enterprise that is to manage the social insurance programme for government employees. *Taspen* scheme was created in 1963 to provide retirement benefits, death benefits, and retirement savings by providing both lump sum and monthly pension for government officials or their beneficiaries. This benefit is expected to be used as an economic resource for members after their retirement. Membership is compulsory for civil servants. This scheme was expanded to cover special pension schemes for elderly members, their successors, and members who are disabled based upon the Government Regulation No. 25/1981 on "Social Insurance for Civil Servants."

Thus *Taspen* consists of an old-age savings scheme and a pension scheme. Employee should contribute 8% of their monthly basic salary, of which 3.25% is used to finance the lumpsum benefit, and 4.75% is for the pension fund. The amount of monthly pension benefits for members is 2.5% of their basic salary times the number of years they served on the civil service. This scheme is funded mostly through the central government budget (*Anggaran Pendapatan dan Belanja Negara/APBN*), and from members' contribution.

It was estimated that the total number of government employees was four million people. Their total contribution makes up about 8% of the overall cost of funding the *Taspen's* programmes. *PT Taspen* contributes about 22.5% of the overall funding costs, derived from its substantial assets and investment income from members' contribution. The rest of the costs (69.5%) are paid for by the government budget (ILO, 2003).

2.2.3. *Askes* (Health Scheme for Civil Servants)

PT Askes started in 1968 with a compulsory membership for civil servants and their families then in 1991 expanded to include veterans and pioneers or fighters of national independence. The membership was expanded in 1993 to employees of the state-owned companies, and private companies but their participation is voluntary. In 2005, compulsory membership of the civil servants and retirees were 14 millions people, while voluntary membership was 1.6 millions.

Employee's contribution is 2% of salary with the benefit among others are primary health care, secondary health care, and inpatient care. The providers for this health care are mainly public health centers and hospitals.

Since 1995, *PT Askes* was appointed by the Minister of Health to manage health insurance for the poor.⁷ Contributions for the poor are financed by the government through the central government annual budget (*APBN*). Health care service is comprehensive, consists of primary care at health center, sub-health center and midwives service in the village, outpatient and inpatient at hospital. Member should go to health center first, which then can be referred to the hospital with a referral letter from the respective health center (see *PT Askes*).⁸

2.2.4. *Asabri* (Social Insurance for Armed Forces Members)

Asabri is a social insurance scheme designed to provide pension and endowment insurance benefits to Indonesian armed forces members and the police corps, thus they are not eligible to receive *Taspen* benefits.

⁷ Around mid January the Ministry of Health announces that the cooperation with *PT Askes* was being reviewed whether it will continue or not.

⁸ Available at www.asean-ssa.org/expand10.pdf

Asabri was founded in 1971. The contribution rate for pension scheme is similar to that of *Taspen*, while benefits depend on rank. The retirement age for military personnel is lower than that of civil servants that is 50 years old. Generally, the monthly pension is 2.5% of the last basic monthly salary multiplied by years of service.

2.2.5. Other schemes

Health care insurance (*Jaminan Pemeliharaan Kesehatan/JPKM*)

The government through the Health Act No. 23 of 1992, introduced a so-called scheme known as *Jaminan Pemeliharaan Kesehatan Masyarakat (JPKM)*, a nationally-managed health care scheme similar to the US Health Maintenance Organization (HMO). *JPKM* is considered as a means to deliver health care services (Bitran and Yip, 1998). It became effective as a national programme in 1995. The promotion of *JPKM* made the development of *badan pelaksana (bapel)*.⁹ By the end of 2002, there were 24 licensed *JPKM bapels*, which are basically non-insurance companies promoting health insurance products as carriers. The scheme covers less than half-a-million people.

Despite many efforts undertaken by the Ministry of Health and funding of the pilot projects, JPKM was not successful. The scheme was highly under funded, mostly due to the lack of actuarial calculations for premiums, and benefits are considered to be of poor quality. This led to a very low membership and finally to a hold for further expansion (Scheil-Adlung. 2004).

Community health fund (*Dana Sehat*)

The *Dana Sehat* (community health fund or micro-health financing scheme) was introduced in mid-70s, starting from a small scale in different parts of the country. It was further extended on a national scale by introducing local schemes mainly in areas where poor population was very profound. The scheme was based on contributions of the people by consensus among beneficiary households. Studies indicated that the smaller proportion of the population, less than 2% are either holding health cards or are members of a community health fund. Many local community-based schemes have stopped functioning after the wide introduction of the social safety net (*SSN*) programme in the health sector in the late 1990s (WHO, 2004).

Social safety net programme

The social safety net programme was introduced partly as the national efforts to alleviate the impact of the 1997/1998 economic crisis. The programme was implemented through different financial assistance mechanisms to ensure that the poor were able to get access to essential health care. The first scheme targeted high risk pregnant women by providing a block grant of Rp 10,000 per household, and the fund was directly given to a village midwife. The midwife then could use the fund for referral of high-risk pregnant mothers as beneficiaries to the nearest health centers or hospitals for further treatment, which include payment for medicines, health care or transportation costs. This programme actually benefited pregnant mothers by facilitating their access to hospital care, especially for complex cases. The second *SSN* scheme promoted the *JPKM* scheme of the Ministry of Health. The third *SSN* scheme aimed at public health facilities.

⁹ Indonesian version of Health Maintenance Organization (HMO).

These health care facilities (health centres) were provided with a block grant of Rp 10,000 per poor family which could use the funds to buy essential medicines and other essential medical supplies, in order to supplement the supplies already provided by the Ministry of Health. Under the fourth scheme, the public hospitals received some block grants for meeting operational costs to take care of the poor. Some reports indicate that people in the category of the marginally poor¹⁰ and also those who were unable to pay for expensive medical care, face financial problems in meeting their medical need (WHO, 2004).

2.3. Existing Indonesian legislations regarding social security¹¹

The following is the list of the existing legislation regarding social security in Indonesia.

- ◆ **Act No. 3 of 1992 concerning Workers' Social Security** (State Gazette, 1992, No. 14, pp. 1-15)

Comprises of 11 chapters and 35 sections. Chapter I provides for definitions. Chapters II and III concern administration of the Workers' Social Security Programme. Chapter IV regulates participation in the Programme. Chapter V deals with contributions, amount of benefits, and payment procedures. Chapter VI regulates the administering body. Chapters VII and VIII provide for penal provisions and investigation. Chapters IX, X and XI provide for miscellaneous provision such as excess payments of compensation, regulations relating to the Workers' Social Insurance Programme and transitional provisions. The Workers' Social Security Programme includes compensation for employment-related accidents, death benefits, old age benefits and health care benefits. Provides that every employee has the right to Workers' Social Security and that each business must participate in the Workers' Social Security on behalf of its employees who perform work in an employment relationship. Workers' Social Security Programme for employees who perform work outside an employment relationship is to be determined by regulation. Payment of contributions is the responsibility of the employer. The Employment Accidents Act No. 33 of 1947 is repealed on the entry into force of this Act.

- ◆ **Implementation of the Programme of Workers' Social Security** (Government Regulation No. 14 of 1993)

The workers' social security programme consists of monetary payments for occupational accident benefit, death benefit, old age benefit, and benefit in the form of health maintenance services. An employer employing 10 workers or more is obliged to insure its workers under the workers' social security programme.

- ◆ **Minister Regulation No. PER-03/MEN/1994 on Implementation of the Manpower Social Security Programme for Casual Daily Workers, Workers Doing Piece Jobs and Workers on a Contract Basis Regulation**

This regulation stipulates that employers must include all their casual daily workers, workers

¹⁰ Not qualified for SSN assistance such as self-employed, part-time workers, seasonal workers and, landless farmers

¹¹ Available at www.ilo.org

doing piece jobs and workers on a contract basis in the Manpower Social Security Programme managed by the Executing Agency. Provides for rules in respect of types of social security programmes, contributions, procedure for implementation and amounts of security and supervision.

- ◆ Instruction of the Minister of Manpower No. INS.02/MEN/1995 on the implementation of the Workers' Social Security Programme for Expatriates in Companies.
- ◆ Government Regulation No. 28 of 1996 concerning Management of Funds for the Programme of Workers' Social Security.
- ◆ Decree of the Minister of Manpower No. Kep-132/MEN/1998 on Revocation of the Instruction of the Minister of Manpower No. INS-02/MEN/1995 on the implementation of the Workers' Social Security Programme for expatriates in companies.
- ◆ The National Social Security System No. 40 of 2004 (*Sistem Jaminan Sosial Nasional - SJSN*)
- ◆ Minister of Manpower and Transmigration's Regulation No. PER-24/EM/VI/2006 Guidelines on the implementation of the Workers' Social Security Programme for workers undertaking jobs outside formal working relations.

This regulation provides guidelines for social security regulations to apply to workers engaged outside industrial relations. The regulation is based on the Act No.3 of 1992 on Workers' Social Security and the Act No. 13 of 2003 on Manpower.

Role of Lender/Donor Agencies

The role of international agencies in Indonesia in the scope of social security has been noted. The following are some lending agencies and international organizations that have made initiatives in the area of social security.

3.1. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

Based on the notion that the issuance of the Act No. 40 of 2004 on National Social Security System that stipulates a comprehensive insurance system for the entire population may have a positive influence on Indonesia's economic development, the GTZ attempts to help Indonesia provide its population in utilizing social health services.¹²

GTZ has been working on the project on "*Development of a Social Health Insurance System in Indonesia*", with the objective that all Indonesian citizens are able to utilize social health insurance services. The lead executing agency for the project is the Ministry of Health with the plan to carry out the project from March 2004 to December 2013

To undertake the project, the GTZ uses such the following approaches:

At policy-making level. The project advises ministries, house of representative's committees and national organizations on developing strategies and concepts for the implementation of efficient social health insurance. Partner institutions are given support in conducting relevant studies and research.

At institutional level. To strengthen the existing social insurance carriers and support in their organizational development, new institutions are considered to be set up. The principles and procedures of social health insurance are explained in the comprehensive training programmes. The project also contributes substantially to the development of curricula for technical training seminars. Information and education campaigns inform people about the improvements in health insurance cover.

Since the enactment of the social security law, the project has promptly set up decentralized steering committees including representatives from the political background, the insurance carriers and health service providers. A demand for advisory services was articulated at national level and

¹² See GTZ website www.gtz.org

within the regions. The existing state health insurance carriers, *PT Askes* and *PT Jamsostek*, are currently discussing their new roles within a social health insurance system, including new business models and management systems in line with the principles of social health

3.2. Asian Development Bank (ADB)

The ADB has been working on the projects that cover social protection component, namely *Social Security and Pension Reform*. The following are the brief of such projects.¹³

Projects with social protection component-approved

Financial Governance and Social Security Reform Programme (2002)

The Technical Assistance contained two components, namely insurance sector restructuring and development of social security system. The second component aimed (i) to raise awareness among the stakeholders, (ii) to consider possibilities for reform and extension of the scheme, and (iii) to assist in preparing for a new legislation and agency for national social security.

This loan aimed to strengthen the financial sector, and improve the management and supervision of the funds of the mandatory programmes and the regulation and oversight of the voluntary plans. The last of the nine components initiates work for the development of a unified social security system.

Projects with social protection component-pipeline

Financial Governance and Social Security Reform Programme II (2004)

This project builds on Financial Governance and Social Security Reform Programme I (Loan33399-01) which supports a broad framework for overall strengthening of the financial sector and promotes the development of sound financial institutions necessary to promote good governance and growth.

Financial Governance and Social Security Reform III (2005)

Social Security Unification and Development (2005)

This project will focus on a unified social security system.

3.3. International Labor Organization

ILO has supported Indonesia on the issue of social security. The office has been closely involved in assisting with the process of reform and improvement through the technical cooperation project "*Restructuring of Social Security Systems in Indonesia*" from 2001 to 2002. The main findings and recommendations of the project were presented in a comprehensive publication "*Social Security and Coverage for All*".

The ILO also carried out a comprehensive review of poverty and economic insecurity in Indonesia. The review resulted in policy recommendations and institutional reform for the Government on socio-economic security. The ILO has initiated a discussion on the new Country Programme

¹³ Available at ADB website www.adb.org on Social protection projects.

Framework of ILO in Indonesia for 2001-2005, under the umbrella of the Decent Work. Increased social protection for excluded vulnerable groups, in particular informal economy workers and migrant workers, is one of the main priorities of the *Tripartite Decent Work Country Programme* for the period 2004-2005.

ILO Surveys in the Urban and Rural Informal Economy

The ILO conducted two surveys which aimed at collecting primary indicators of social security needs and information of the informal economy workers. The urban survey was conducted in 2001 in three areas that had large concentrations of urban informal economy and a total of 1,999 people were surveyed in East Jakarta, Bandung and Yogyakarta. The rural survey was carried out in November 2003 with a total of 2,169 respondents in the rural areas surrounding Bandung, Sukabumi and Pangandaran in West Java, around Cirebon, Northeast of Jakarta, and around Semarang in Central Java.

Key results of the surveys are as follows:

- ◆ Informal economy workers seriously need some forms of social protection. Health insurance is the highest priority. Work accidents and age benefits were on high priorities for urban informal workers, while old-age benefits and education were highly desired by rural workers.
- ◆ The results in general 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. As many as 41.4% and 16% of the urban informal and rural informal workers respectively were willing to contribute.
- ◆ The findings 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 for health insurance in addition to premiums for other programmes.

3.4. Donor community's interests

The interest of donor/lending agencies in social protection development in Indonesia varies. Despite the increasing importance of micro insurance, no donor agencies support these programmes in Indonesia (Allianz, GTZ and UNDP, 2006).¹⁴ The report further states that many actually are reluctant to get involved, which may be due to lack of knowledge and concepts. Their report admitted that the chances of promoting micro insurance would likely be higher when multi-and bilateral agencies implement already microfinance projects.

The Allianz, GTZ and UNDP (2006) revealed that there are some concrete interests in micro insurance that are worth noted:

- ◆ ADB is going to assess the possibility of micro insurance in the context of its Aceh livelihood programme. The decision on micro insurance will be taken based on the results of the study
- ◆ *Save the Children* is interested in exploring micro insurance in the context of its economic development and microfinance coaching programme in Aceh. If this project could be successfully implemented, expansion to other regions would be considered

¹⁴ Commissioned by the German Federal Ministry for Economic Cooperation and Development

- ◆ *Swisscontact* has conducted a study on the opportunities to promote insurance for SME that could be added to its microfinance training programme. Currently it is felt that there could be a way to link micro insurance to the SME and microfinance programme. Nevertheless, this may not happen in the immediate future.

Options to Extend Social Security Coverage for Informal Economy Workers: the ILO Recommendations¹⁵

To follow up the previous ILO project on “Restructuring Social Security in Indonesia” in 2001-2002, the ILO assigned Mr. John Angelini and Mr. Hirose Kenichi to prepare a document on the extension of social security coverage for informal economy workers. This section is basically the brief version of their report which is based on the 2001 and 2003 ILO urban and rural survey results on the informal economy.

4.1. Constraints for informal workers to participate in social security scheme

Several studies including that of Angelini and Kenichi (2004) have identified that there are several issues that need to be taken into consideration in extending the existing social security scheme to informal economy workers, which is as follows;

4.1.1. Legislative restriction

Although the current Act No. 3 of 1992 on Workers’ Social Security may accommodate a provision for workers outside formal working relationship (Article 4, point 2), in practice, the mandatory coverage is confined to employers with 10 or more workers or a monthly payroll of more than Rp. 1 million. This confirms that most enterprises that currently comply with the Act are the formal sector enterprises with legal entities.

4.1.2. Inability to pay contributions

The low and irregular income of the informal economy workers is a major obstacle in ensuring secure resources. Such a circumstance makes the acquirement of a gross or net monthly salary difficult and unreliable. This would make most workers in the informal economy unable to afford paying social security contributions.

¹⁵ This section is entirely based on the ILO Paper on “Extension of social security coverage for the informal economy in Indonesia” (J. Angelini and K. Hirose, 2004).

4.1.3. Unwillingness to pay contributions

General lack of awareness of social security concept and distrust of government institutions is high and common among workers in the informal economy. This would give negative affect on the willingness to pay contributions.

4.1.4. Benefit design and social security priorities

Even though it is desirable to provide the full range of social security benefits, the existing programmes cannot provide the flexibility required by informal economy workers. For example, the *Jamsostek* work accident programme covers only the accidents occurring at work and the provision of disability benefits cover only the prescribed list of injuries that are validated by employers and medical reports. Consequently, many informal economy workplaces could not fulfill the administrative requirements to determine that the accident occurred at work.

For most informal economy workers the critical issue is a loss of capacity to work and hence loss of income. Therefore a full 24-hour cover for work accident would be more attractive and cost effective to administer.

4.1.5. Administration and enforcement

The concurrent improvement of administrative capacity is very important to the success of the coverage extension. This is critical not only because the volume of administrative tasks increases but also because those currently excluded are more likely to create problems of registration, compliance, collection of contributions, and record keeping.

4.1.6. Subsidy

A small partial subsidy for a single social security programme such as death benefit could be a catalyst that attracts informal economy workers into one programme and possibly to other insurance programmes.

4.2. What are the possible options?

As there is no single solution to extend social security coverage to informal economy workers, Angelini and Kenichi (2004) suggested several possible options. Yet, identification of these vulnerable individuals and the priority needs assessment of social security should be the basis for options development.

4.2.1. Who are those informal economy workers?

Based on the access to and stability of the place and employment and resources, workers in urban informal economy are classified as (a) highly mobile workers (b) mobile or home based (c) semi fixed or recognized operating zones (d) fixed location, and (e) professional self employed, fixed or home (Angelini and Kenichi, 2004).

4.2.2. Priority needs and contributory capacity

Both the urban and rural informal surveys found out that there is a high need for some form of social protection. Based on the identification of the priority needs of the informal workers, health insurance was claimed the highest priority. Work injury and age benefits were also high priorities for urban informal economy whereas old-age benefits and education are similarly on high priority for rural informal workers.

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

It is important to understand the range and types of risks that are present and how they may be prioritized in order to develop appropriate mechanisms to cover the risks borne by workers in the informal economy. 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.

It is suggested that the capacity for rural and urban informal economy workers to contribute without any form of cost sharing or subsidy is very limited.

4.3. The ILO recommended programme options

The report proposes a combination of the following three options,

1. Extending the existing legislated social security schemes,
2. Creating a special scheme for the informal economy workers,
3. Encouraging the development of micro-insurance schemes.

4.3.1. Extension of the existing legislated social security schemes

Jamsostek is currently the most acknowledged workers' social security scheme in Indonesia. It is the largest institutions capable of delivering an expanded social security programmes and has a service network in almost all provinces. Thus it would be more feasible for *Jamsostek* to develop a policy for informal sector workers jointly with organized groups and private insurance companies by delivering flexible programmes through local facilitators.

The ILO report recommended to change the criteria of the enterprises that are obliged to participate in *Jamsostek*, among others are:

- (1) to progressively reduce the minimum number of workers employed in companies;
- (2) examine the current criterion of the minimum payroll amount and developing adjustment rules to allow for regular indexation in line with increase in general wage;
- (3) linking regular adjustment of the minimum payroll amount with the adjustment of the ceilings of the contributory earnings.

Regarding the administrative capacity of *Jamsostek*, consideration should be given to the administrative capacity of *Jamsostek* for example the extent to which *Jamsostek* can deliver its

service and the administrative cost that would be involved. Such improvements as procedure, administration and the use of information technology are also crucial.

4.3.2. Creating a special scheme for the informal economy workers

The current legislation and fund structure on the existing social security schemes would make them rather difficult to include a variable programme which could cover all workers in the informal economy. It is considered more effective to create a new contribution model for informal economy workers. In the case of *Jamsostek*, this could be achieved through the development of the government regulations as mentioned in Article 4 (2) of Act No.3, 1992.¹⁶

Development of models for provision of social security to informal economy workers

A viable social security scheme for informal economy workers would be necessary to advance models that provide meaningful benefits with affordable contributions. Implementation of such schemes needs to be progressive and take into account the wide variety of occupations, organizations and geographical distribution of the workers.

The following prerequisites are recommended in the ILO report as an initial step in the process of developing social security models for informal sector workers in Indonesia.

- ◆ Select the executing agencies
- ◆ Identify risks to be covered by the scheme.
- ◆ Design the programmes in terms of the benefits, services, contributions and management fees including risk assessments.
- ◆ The programmes should offer flexible options with a range of contribution rates and benefits to satisfy the needs and capacity of different groups and include at least injury, health, death, old age and other voluntary savings schemes.
- ◆ Develop administrative procedure and service delivery models for the programmes concentrating on group schemes but also providing options for individual and self-employed contributors.
- ◆ The models should include management information requirements to allow close monitoring and evaluation of the schemes.
- ◆ Develop a training strategy and programme for administrative staff.
- ◆ Define user requirements, analysis and design of an Information Technology system with sufficient data that can be integrated into the unified Information Technology system in the future.
- ◆ Design and develop the implementation and marketing strategy.
- ◆ Conduct a small-scale test of the suitability and sustainability of the programmes.

A Self-funded programme

The survey findings suggested that around 42% of urban informal economy workers and 16% of rural informal economy workers may contribute to a suitable scheme. Yet, without government assistance by way of a contribution subsidy the success of any scheme will crucially depend on the sufficient numbers of contributors.

¹⁶ In fact, the government has issued the Minister of Manpower and Transmigration Regulation No. 24 of 2006 specifically for this purpose while in waiting for the respective government regulation that is still in process.

A large-scale (possibly area based) pilot scheme is recommended to be conducted as the pioneer to full-scale implementation of the scheme across the country. The pilot programme would need to incorporate the prerequisite of the earlier stated recommendations and be able to identify the most suitable programme and administrative models for future implementation. The outcomes of the pilot would be to develop associations of informal economy workers based on trust, meaningful social security programmes and an administration capable of collecting contributions and payment of benefits that can be replicated across the country.

In any case if large-scale pilot scheme promoted as part of the social security reforms is successful and with the technical supports of international agencies it would improve the understanding of social security in local communities, highlight the community needs and stimulate the extension of social security coverage in Indonesia. A partially subsidized scheme would demonstrate government commitment to improve the enrolment rates and thus ensure a higher probability of long-term success and sustainability.

4.3.3. Encouraging the development of micro-insurance schemes

Top down models administered by the government have apparently achieved little penetration into the informal economy and experienced low sustainability. This suggests that more emphasis should be placed on the development of decentralized bottom up models that will drive the design of programmes and services to the workers in the informal economy.

Promotion of micro-insurance schemes based on group contributions would need to be considered as an alternative interim measure for informal economy workers. The underlying idea is to use the micro-insurance schemes managed by communities or other organized groups as a vehicle to provide social security for the informal economy. The target groups should be those who earn above the poverty line but are outside the formal social security schemes. In many cases, the micro-insurance schemes are connected with income generating or micro-finance activities.

There are several advantages that support the success of this approach. Firstly, such schemes are expected to be more accountable with the commitment by the leader and participation in management and sense of ownership by members. Secondly, these schemes can have benefits and contributions structure that is more responsive to the needs of the members.

Self-help groups supported by trained facilitators are seen as the key to successful implementation of a social security programme for informal economy workers. Yet, there is an innate concern about micro-insurance schemes that is, its fragility. Lack of necessary preconditions has led many micro-insurance schemes to have a short life span before they become insolvent, usually as a result of imprecise assessment of risk, failure in investment and inadequate delivery of services. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardize the development of a future government subsidized system by legitimatizing evasion through support of informal arrangement. It is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control.

Thus ensuring the sustainability in the extension of social security coverage, the Government is expected to play an important role as a coordinator and as the guarantor of last resort. In the long run, therefore, the most sustainable arrangement may be to bring these decentralized schemes under the Government umbrella in which self help groups can facilitate registration of members and collection of contributions.

In addition to micro-insurance, private insurance companies such as *Bumiputra* could provide the cover for injury and health, injury and death independently or in competition with micro-insurance schemes. Competitive rates for life insurance and injury insurance could be achieved for a scheme that covered informal economy workers given an adequate pool of contributors and appropriate re-insurance and risk guarantees.

Relevant trials and experiences in micro-insurance schemes for the informal economy

The approach to extend the coverage by means of decentralized micro-insurance schemes is relatively new. Such an approach would be in contrast to the approaches assuming the Government as a primary social security provider.

As a standard model by way of decentralized micro insurance scheme does not exist thus each trial to some extent is experimental in nature. Lessons to be learned may be based on the experiences for example from (a) Klaten experiment for health insurance and (b) Askesos of the Ministry of Social Affairs.

Extending Social Security to Informal Economy Workers: What are the Current Initiatives?

There have been a number of efforts with regards to the feasibility of extending social security coverage to informal economy workers. These initiatives may be in the form of pilot project or studies either by government or non government agencies.

5.1. Government initiatives

Social security is very imperative for workers outside formal working relationship that form the bulk of the labor force in Indonesia and since such workers have special characteristics in that the provision of social security programme for those workers needs to be organized separately. As the Indonesian constitution mandates that every citizen has the right of social security the government launched a National Social Security System in October 2004.

Since the government regulation for extending social security for workers outside working relationship is still in the process, the government issued the *Minister of Manpower and Transmigration's regulation No. 24 of 2006* that becomes the guideline for extending social security for such workers. This is the current initiative of the government.

5.1.1. Legal basis

The legal basis for the issuance of the Minister of Manpower and Transmigration's Regulation No. 24 of 2006 are the following legislations.

1. Act No. 3 of 1992 on Jamsostek

In brief, although the Act No. 3 of 1992 may accommodate provision of social security to all workers both in formal and in informal working relationship, the practice however makes it obligatory to firms with at least 10 employees or a monthly pay roll of one million *rupiah*. This means that the Act only regards workers in the formal working relationship.

2. Government Regulation No.14 of 1993 on Implementing Board on Workers' Social Security Programme (Lembaran Negara Republik Indonesia Tahun 1993 Nomor 20, Tambahan Lembaran Negara Republik Indonesia Nomor 3520);

3. Regulation of the Minister of Manpower and Transmigration No. PER-05/MEN/1993 on the Technical Guidance of Member Registration, Contribution Payment, Compensation Payment, and Workers' Social Security Services
4. Government Regulation No. 36 of 1995 on the Determination of the Implementing Board for Workers' Social Security (Lembaran Negara Republik Indonesia Tahun 1995 Nomor 59);
5. Act No.13 of 2003 on Manpower (Lembaran Negara Republik Indonesia Tahun 2003 Nomor 39, Tambahan Lembaran Negara Republik Indonesia Nomor 4279);
6. Government Regulation No. 64 of 2005 on the Fourth Modification on the Government Regulation No. 14 of 1993 on the Implementation of Workers Social Security Programme (Lembaran Negara Republik Indonesia Tahun 2005 Nomor 147, Tambahan Lembaran Negara Republik Indonesia Nomor 4582);

It should be noted however that this Minister of Manpower and Transmigration's regulation No. 24 of 2006 is only confined to self employed who works outside formal working relationship.

5.1.2. Act No. 40 of 2004 on the National Social Security System (NSSS) and Informal Workers

In Chapter 1, Article 1, the NSSS defines *Social Security as one form of social protection to secure all people to fulfill their decent basic living needs.*" Thus the scheme is intended for all people, which validates the inclusion of workers in informal economy as well

Chapter 3 Article 3 states*"National Social Security System intends to provide decent living needs to its members and/or his/her family members."* By legislation, the implementation of NSSS aims at the realization of social welfare for all Indonesian people.

Chapter 3 Article 5 states that this Act provides for the formation of the Implementing Board of Social Security System with four agencies currently to undertake the task of implementation and facilitate social security extension to workers as they are at present, namely *Private Sector Workers' Social Security (Jamsostek); Civil Servant Insurance and Saving Fund Company (Taspen); Social Insurance of the Armed Forces (Asabri); and Indonesian Health Insurance (Askes).*

Chapter 5 Article 14 Clause 1 and 2 stipulates that the government in staged manner will register recipients in particular the poor and those financially incapable for accessing the government assistance to the Implementing Board of Social Security.

Under the mentioned scheme, a self employed may participate as an individual by paying the nominal rate determined by the government or may participate in the system through a community group. Workers receiving low wages are also encouraged to participate in the insurance programme. They should be given access to claim their rights to social security not only for themselves but also for their families.

Type of social security benefits depends on one's financial ability to pay. Hence one may choose any of the following programme namely health, accident at workplace, pension, old-age security; and death.

The explanation on the Act No. 40 of 2004 specifically affirmed that social security shall protect all Indonesian from illness, accident, job loss, old age population or those needing pension resulting from total loss or reduce in income. Informal workers, particularly the self-employed, are therefore by law not excluded from the said privileges

5.1.3. Initiatives for extending social security to workers in the informal economy

As proposed by the ILO earlier that there are three options for extending social security services to workers in the informal economy, namely (1) extending the existing legal social security scheme (2) developing special models for informal economy workers and (3) promotion of micro insurance scheme. Currently the effort for extending the existing social security for informal economy workers has been initiated, which is elaborated below.

Current government initiative: A pilot model?

Article 1 of Act No. 3 of 1992 defines an *employee* as the one who is able to perform work including contract workers, meanwhile *employer* is meant for individual, association or legal entity managing enterprise in Indonesia. The Act No. 3 of 1992 Article 1 point (2) stipulates that social security provision is intended for workers, which means that it includes all people who are able to perform works both inside and outside of formal working relationship to produce service or goods to fulfill the needs of the people. Article 2 furthermore states that social undertakings and other establishments not in the form of an enterprise shall be treated as an enterprise if such an undertaking has manager(s) employing other persons in an employer-employee relationship. This implies that any employer-employee relationship would in effect come under the jurisdiction of this Act and not restricted to legal entities. Thus it is actually possible for the Act 3 of 1992 to accommodate workers in the informal economy, as indicated by Article 4 (2) that stipulates that social security for the “employees outside the contract of employment” will be provided by further government regulation.

Nevertheless until now the follow-up regulation for those who are outside working relationship as mandated by the Act No. 3 of 1992 Article 4 Clause 2 has not been formulated. The government is currently in the process of formulating a draft bill for this purpose. Article 3 (2) of this Act confers the rights of social security to every employee and Article 4 (1) made contributions mandatory. The remaining articles of this Act defined the programmes, contributions, benefits and operation of the employees’ social security scheme.

Meanwhile, to organize the extension of social security to informal economy workers, the government issued the Minister of Manpower and Transmigration’s Regulation No. 24 of 2006 (PER-4/MEN/VI/2006) on the Implementation Guidance of Social Security Programme for Workers Outside Working Relationship. This may cover those who work as self employed like medical doctor, actor/actress, as well as farmer or trader. This regulation *No Per-24/MEN/VI/2006* was nationally launched in Semarang on June 27, 2006.

This minister regulation *No Per-24/MEN/VI/2006* regulates the organization, membership, amount of contribution, type of programme and benefits provided to participants of social security for workers outside working relationship. The division of tasks is regulated among Central Government, Regional Government and the Implementing Board. The programme provided is in accordance with the Act No. 3 of 1992 namely workers’ accidents (*Jaminan Kecelakaan Kerja/JKK*), old-age benefits (*Jaminan Hari Tua/JHT*), death benefits (*Jaminan Kematian/JK*) and healthcare benefits (*Jaminan Pemeliharaan Kesehatan/JPK*). The amount of contribution is determined on the basis of certain nominal at least equals to relevant provincial/municipal/district minimum wage.

The contribution for each programme is 1% for workers’ accident benefit, minimum 2% for old-age benefit, 0.3% for death benefit, and 3% (single person) or 6% (family) for healthcare benefits. Workers outside working relationship can voluntarily be participant of *Jamsostek* programme

as long as the maximum age limit is 55 years old. Participants may choose types of programme according to their ability and needs.

In 2006, the MOMT (Directorate General for Industrial Relations and Workers' Social Security) has carried out a pilot project on the implementation of the said minister regulation No. PER-4/MEN/VI/2006. In 2006 three pilot cities were selected namely Pontianak (West Kalimantan), Semarang (Central Java) and Jambi. In 2007 another three provinces were added to the existing provinces, namely Jakarta, East Kalimantan and East Java. According to the report there has been 121,000 individuals participating in the scheme, with most notable additional membership occurred in East Java.

The pilot project provides contributory subsidy for social security of Rp 10,000 per individual for five (5) months. It is expected that after the five months they can continue on with the programme on their own. The results of the pilot project would be the inputs for the draft government regulation that is now being worked on.

Possible limitation in the implementation of the Minister Regulation No. 24 of 2006

Despite the government efforts to extend the coverage of social security scheme to the informal economy workers, there might be some issues in this regulation that need to be reviewed.

The term of "outside formal working relationship"

The minister regulation No. 24 of 2006 limits the coverage to those *self-employed workers*. However, in the practice it would be rather difficult to apply to the targeted group without proper identification. This is due to the fact that there is some confusion on the term itself. Such confusion will lead to the inclusion of not only self employed workers but also other workers as long as they are informal workers as defined by the Indonesian Central Board of Statistics (*Badan Pusat Statistik/ BPS*).

It seems that so far this pilot scheme does not differentiate participants according to their categories, he/she can be genuine informal workers but to some extent also individuals that actually are under formal working relationship (such as security guards in companies/offices). It is suggested that the term should be first agreed and understood clearly.

Age limit for participation

The regulation stipulates the maximum age limit of participant is 55 years old. Meanwhile many of people working in the informal economy are beyond that age limit. This could restrict the full participation of those informal economy workers who are outside the age limit.

Premium base

By regulation the premium is based on minimum wage (provincial, municipal or district wage level). As most informal workers are not paid according to the minimum wage, some difficulties in the determination of the contribution criteria would likely emerge.

Limited knowledge on the scheme

As many workers in the informal economy do not realize or do not know that such a scheme exists, it is suggested that socialization should be done in wide scale and target oriented through high

profile promotion for example via television, radio rather than using shield the standard socialization that usually done in an official meeting.

5.2. Micro insurance

Micro-insurance is a financial arrangement to shield low-income people against specific risks in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.¹⁷ This definition further mentions that micro-insurance does not refer to: (i) the size of the risk-carrier (some are small and even informal, others very large companies); (ii) the scope of the risk (the risks themselves are by no means “micro” to the households that experience them); (iii) the delivery channel which can be served through a range of different channels, including small community-based schemes, *credit unions* or other types of *microfinance* institutions, but also by enormous multinational insurance companies and the like.

Micro-insurance is equivalent to community-based financing arrangements.¹⁸ These may include community health funds, mutual health organizations, *rural health* insurance, revolving drugs funds, and community involvement in user-fee management. Most community financing schemes have developed in the perspective of severe economic difficulties, political instability, and lack of good governance. The common feature is the active involvement of the community in *revenue* collection, *pooling*, *resource allocation* and, frequently, service provision.

Thus, micro insurance is purposely designed for the safeguard of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress (Allianz, GTZ and UNDP, 2006).

The country studies¹⁹ conducted by the Allianz, GTZ and UNDP (2006) indicated that access to micro insurance by the poor and disadvantaged population can contribute significantly to the achievement of the Millennium Development Goals, particularly the goals of eradicating extreme poverty and hunger (MDG 1), promoting gender equality and empowering women (MDG 3) and evolving a global partnership for development (MDG 8). The country studies examine and appraise the most urgent social security risks and needs of poor population groups, which highlight the various aspects of micro insurance supply and demand.

The Indonesian country study covered Jakarta, Tangerang, Yogyakarta, Bali and Aceh. Building on the recommendations of the studies, pilot activities in Indonesia are being implemented by Allianz AG supported by GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

It is interesting to note that the findings from the Allianz, GTZ and UNDP (2006) demonstrated that serious illness is definitely the most significant risk facing low-income households. This is because long-term serious illness may cause absolute poverty by eating away their assets. Thus, health insurance seems to be the most obvious demand for low income families. The market for health insurance may not be as strong as that for education insurance, yet those who have experienced a health crisis understand how expensive and stressful it is.

17 Churchill C. (ed.) (2006). Protecting the Poor: A Microinsurance Compendium. Geneva: ILO. Cited from http://en.wikipedia.org/wiki/Microinsurance#Definitions_of_Microinsurance

18 Alexander S. Preker, Guy Carrin, David Dror, Melitta Jakab, William Hsiao, Dyna Arhin-Tenkorang (2002). “Effectiveness of community health financing in meeting the cost of illness”. Bulletin of the World Health Organisation 80 (2): 143–150. Geneva: WHO. Cited from http://en.wikipedia.org/wiki/Microinsurance#Definitions_of_Microinsurance.

19 The country studies were done in India, Indonesia and Lao PDR.

The Allianz, GTZ and UNDP studies (2006) indicated that the demand for life insurance is unclear. Cultural perception and local superstitions are more likely impediments for low-income communities to consider life insurance.²⁰ The more significant risk for low-income families is the loss of a breadwinner. Life micro insurance that provides a benefit for surviving family members, rather than just enough to cover funeral expenses, would be more valuable for households and possibly higher in demand. The studies assessed that the few people who are purchasing life insurance on an individual basis are better educated than many of their neighbours. This better educated people seem to have a clearer idea of the dangers they face in their life and the implications to their family.

Micro insurance in Indonesia is still in the stage of emerging, some activities are being noted. The Allianz, GTZ and UNDP studies demonstrated that demands from the low-income market are significant for such insurance products as hospitalization, education endowments, life insurance and property cover.

Examples of the existing micro insurance²¹

Allianz, GTZ and UNDP (2006) identified there are at least two major micro insurance networks are active in Indonesia in addition to *Bank Rakyat Indonesia (BRI)*, namely *Arisan* and *Pasar Konsorsium*.

Arisan. This is a long established type of a community-based informal financial gathering in which no formal governmental registration is required. They are well known throughout the country with its different purposes which can be professionally or informally managed, in urban and rural environment, for men and women, and for wealthy and poor. Each *arisan* group sets its own priorities. While some groups focus on savings, others focus on to raising business capital rapidly and/or offer micro insurance, yet no credit can be granted to any member.

Pasar Konsorsium. The formation of this consortium was stimulated by the fire that destroyed the *Tanah Abang* traditional market, in Jakarta in 1979. This tragedy then provoked the Indonesian Ministry of Finance to ask local insurers to provide appropriate fire coverage for traditional markets. A consortium of insurers came together to share the risk of such a calamity. This consortium became the *Pasar Konsorsium* and the concept has spread to the extent that the *Pasar Konsorsium* is active all over Indonesia both in urban and rural areas. Most of the policy holders are shopkeepers and are reasonably wealthy.

20 Despite the fact that funeral expenses might be high there is always assistance from friends, family, and the community when death occurs in one's family.

21 Derived from the Allianz, GTZ and UNDP studies (2006).

Way Forward

The previous ILO studies (Angelini and Hirose, 2004) on informal economy workers demonstrated the following findings.

- ◆ Informal economy workers seriously need some forms of social protection. Health insurance is the highest priority. Work accidents and age benefits are on also high priorities for urban workers, while old-age benefits and education are highly required by rural workers.
- ◆ The results in general indicate that people both urban and rural informal economy workers have an interest in social security and would be prepared to contribute to a scheme that suits their needs and priorities. As many as 41.4% and 16% of urban and rural workers respectively are willing to contribute to suitable scheme.
- ◆ The findings confirm the limited contributory capacity for rural and urban informal economy workers. Without any form of cost sharing or subsidy, it would seem difficult for the informal economy workers especially those working in rural areas to contribute health insurance in addition to premiums for other programmes.

Based on the surveys findings, Angelini and Kenichi (2004) have proposed some following recommendations.

- ◆ Extending the existing legal social security schemes
- ◆ Creating a special scheme for the informal economy workers
- ◆ Encouraging the development of micro-insurance schemes

So far the government has made an initiative. The extension of the existing statutory social security scheme is currently implemented through the issuance of the Minister Regulation No. 24 of 2006. A pilot scheme is underway which is undertaken by the Ministry of Manpower and Transmigration (Directorate General of Labour Standards).

Way Forward

Based on the above ILO recommendations and what have been done so far on the issues of social security schemes in Indonesia, the steps forward should be aligned to the on going efforts.

Stimulate technical discussion with the stakeholders (MOMT, SJSN team, *Jamsostek*, employers and trade unions) regarding the the progress of the pilot scheme.

In the case that a new model of scheme specifically designed for informal economy workers is to be set up, some considerations should be taken into account.

- ◆ To develop according to demographic status of informal economy workers (individuals)
- ◆ The assessment not only by groups but also by individuals
- ◆ To widely socialize in order to increase the understanding of the concept and to attract more participants
- ◆ Assessment on the capacity of the executing agency in terms of service delivery
- ◆ The relevant ministry should have an effective monitoring and evaluation system in order to get feed back for policy formulation
- ◆ Further research is necessary to look into the dimensions and characteristics of different categories of informal economy workers in order to obtain a more comprehensive mapping of the excluded workers in the informal economy

In the case that promotion of micro insurance is to be selected as a means for extending social security to informal economy workers, it is necessary to find out the on going pilot projects on the existing micro insurance project for example Klaten experiment, Askesos, piloted by GTZ and Allianz and others as lessons to be learned.

Possible ILO involvement in the near future

ILO may propose a feasibility study that will produce different models of social security scheme for informal economy workers according to the different needs and priorities of different informal worker classification.

Capacity building of the officials (MOMT and *Jamsostek*) who deal with social security tasks in concepts of social security, procedure and administration, and other skills for managing social security coverage for informal economy workers.

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