



OFFICE OF THE VICE PRESIDENT OF
THE REPUBLIC OF INDONESIA



TNP2K
THE NATIONAL TEAM FOR
THE ACCELERATION OF POVERTY REDUCTION

THE FUTURE OF THE SOCIAL PROTECTION SYSTEM IN INDONESIA: SOCIAL PROTECTION FOR ALL



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THE NATIONAL TEAM FOR THE ACCELERATION OF POVERTY REDUCTION

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FOREWORD



As mandated by the constitution, Indonesia continues to reform its social protection system to provide needed coverage for its citizens.

The social assistance program that began in 1998 is intended for low-income and other vulnerable groups. Although the law on the national social security system was enacted in 2004, the national health insurance system didn't begin until January 2014. However, it now reaches two-thirds of Indonesia's population, with nearly half of its cost being government-funded. The social insurance for employment system that began in January 2015 is currently reaching only a small percentage of the formal sector workers, government employees and military personnel.

Moving forward, social protection in Indonesia needs to reach every individual, whether through social assistance or social insurance, and including the most poor and vulnerable. Social assistance aims to prevent families from falling below the poverty line and is a form of support as well as an investment in resources, such as health and education assistance whereas social insurance aims to provide adequate protection from the working period until the end of a citizen's life and needs to be fully funded via contributory schemes.

Various schemes have been implemented to reach these objectives. A major reform was improving the targeting performance of Indonesia's major social assistance portfolios including: (1) Food assistance for poor families (Rastra and BPNT/non-cash food assistance); (2) Education assistance for poor children; (3) Conditional cash transfers for poor families (*Program Keluarga Harapan* – PKH); and (4) Subsidised beneficiaries of the national health insurance program (*Jaminan Kesehatan Nasional*-Penerima Bantuan Iuran – JKN-PBI) for poor and at-risk individuals.

Efforts are continuously being made to improve the targeting of government-funded premiums for the national health insurance program. In addition, several initiatives have aimed at expanding the number of contributing members for the social security employment program (*Badan Penyelenggara Jaminan Sosial* – BPJS) although it mostly benefits formal sector workers. But major gaps still exist, especially for the emerging middle-income groups who typically work in the informal sectors. They have yet to receive the protection needed to sustain their social and economic growth. The same is true for other at-risk populations, including the elderly, at-risk children and people with disabilities.



Beginning in 2017, the National Team for the Acceleration of Poverty Reduction (TNP2K) under the vice president's office, has been initiating different reforms to gradually address vulnerabilities across the life cycle and prioritise support to the most at-risk populations, particularly the elderly, young children and people with disabilities.

This publication, *the Future of the Social Protection System in Indonesia: Social Protection for All*, is one of the early efforts to establish, refine and develop a comprehensive social protection system in the future. The direction of the Indonesian social protection system in the future is a system that will protect children through inclusive child grants, build a social security system that benefits the productive age group in both formal and informal sectors, ensure social protection for the elderly and guarantee the availability of protection for people with disabilities across all age groups.

We would like to express our appreciation and gratitude to the social assistance policy working group at the TNP2K secretariat, as well as the Australian government through the Department of Foreign Affairs and Trade (DFAT), that have provided support and collaboration in developing this publication. May this prove useful.

Jakarta, October 2018

Bambang Widiyanto

Deputy for Human Development and Equality/
Executive Secretary of the National Team for the Acceleration
of Poverty Reduction (TNP2K)
Office of the Vice President



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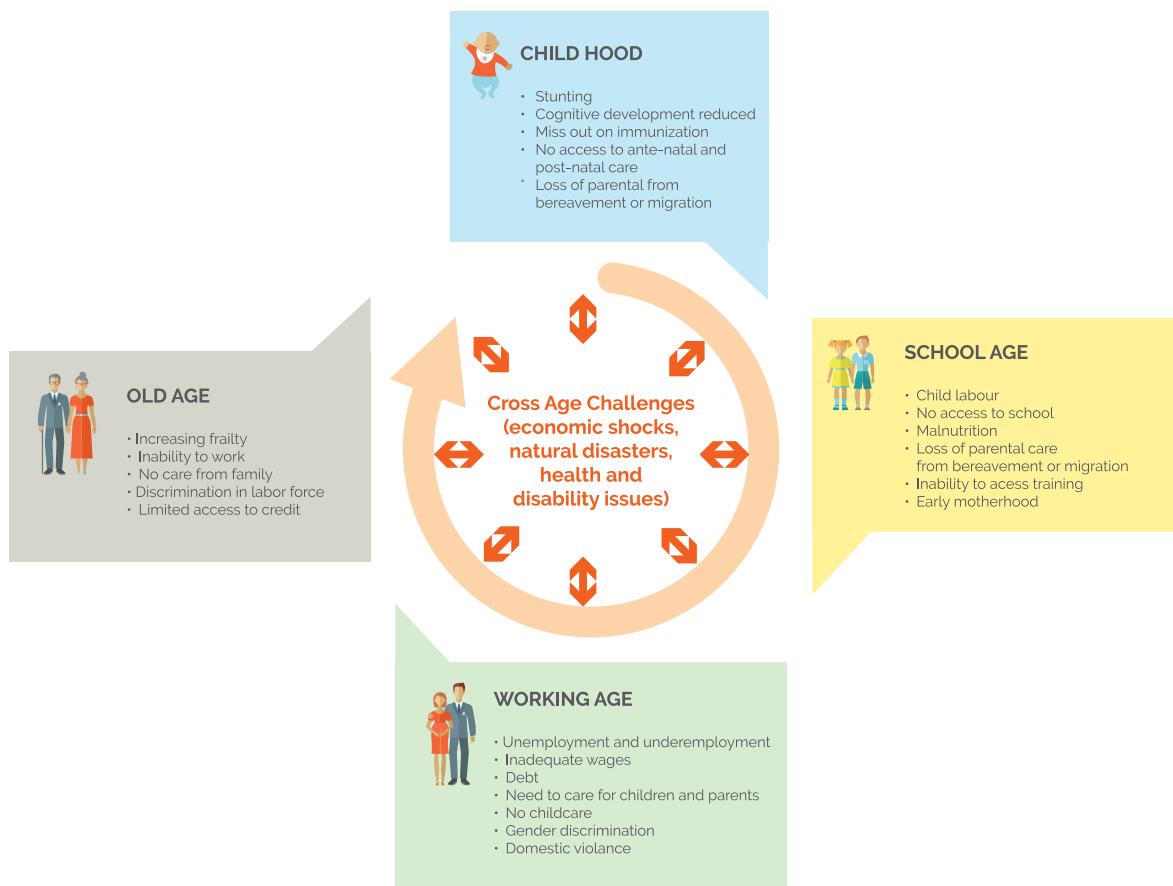


EXECUTIVE SUMMARY

Indonesia was among the few countries globally to experience an average growth rate of approximately 7 per cent annually prior to the Asian economic crisis. However, this dropped to approximately 5.6 per cent a year between 2007 and 2016, signaling the need to stimulate the economy, generate demand and increase consumption. Furthermore, while government efforts have had a positive impact in reducing the official poverty rate, the pace of poverty reduction has been slowing down. Even households living above the official poverty line are still subsisting on vulnerable incomes and are still susceptible to falling back into poverty. Household incomes are highly dynamic, as people react to shocks and crises, and respond to opportunities.

Indonesians face a wide range of risks throughout their lives, beginning in the womb and continuing through to their final days (see ES Figure 1). Life-cycle risks and challenges can affect people's standard of living, particularly when a comprehensive social protection system is not in place. These risks are exacerbated by widespread low incomes that mean people are less able to respond effectively to a crisis. If these issues are tackled effectively, poverty levels would be reduced significantly and the wellbeing of all citizens would be enhanced.

ES Figure 1: Risks and challenges that can affect people across the life cycle



The low incomes and insecurity most people experience highlight some key issues for social protection policy. Social protection is a system of regular and predictable transfers, in cash or in kind, that aim to protect people from risks and provide them with income security and the ability to smooth their consumption over the life cycle. In the Indonesian context, the social protection system is comprised of social assistance or non-contributory schemes financed through the government budget and social insurance or social security schemes that are financed through contributions from members. The health insurance scheme is a hybrid, with a government-financed, non-contributory component for the poor and a contributory component for those who can afford it.

While the government is committed to expanding the national social protection system and has increased its spending on non-contributory schemes, significant challenges persist. Existing non-contributory programs currently target those living in poverty and focus on reducing the expenditure burden of the poorest. However, they do not comprehensively address the vulnerability of most citizens across the economic spectrum. Most of the population on middle incomes – the so-called 'missing middle' – are still extremely vulnerable to risks and shocks but, apart from health insurance, do not currently benefit from Indonesia's social protection system.

Furthermore, the current investment of 0.35 per cent of gross domestic product (GDP) in social assistance schemes is less than expected for a middle-income country like Indonesia, resulting in major gaps in coverage. Other countries, such as Nepal, have a much lower GDP than Indonesia but invest approximately 2 per cent of GDP on tax-financed social protection.

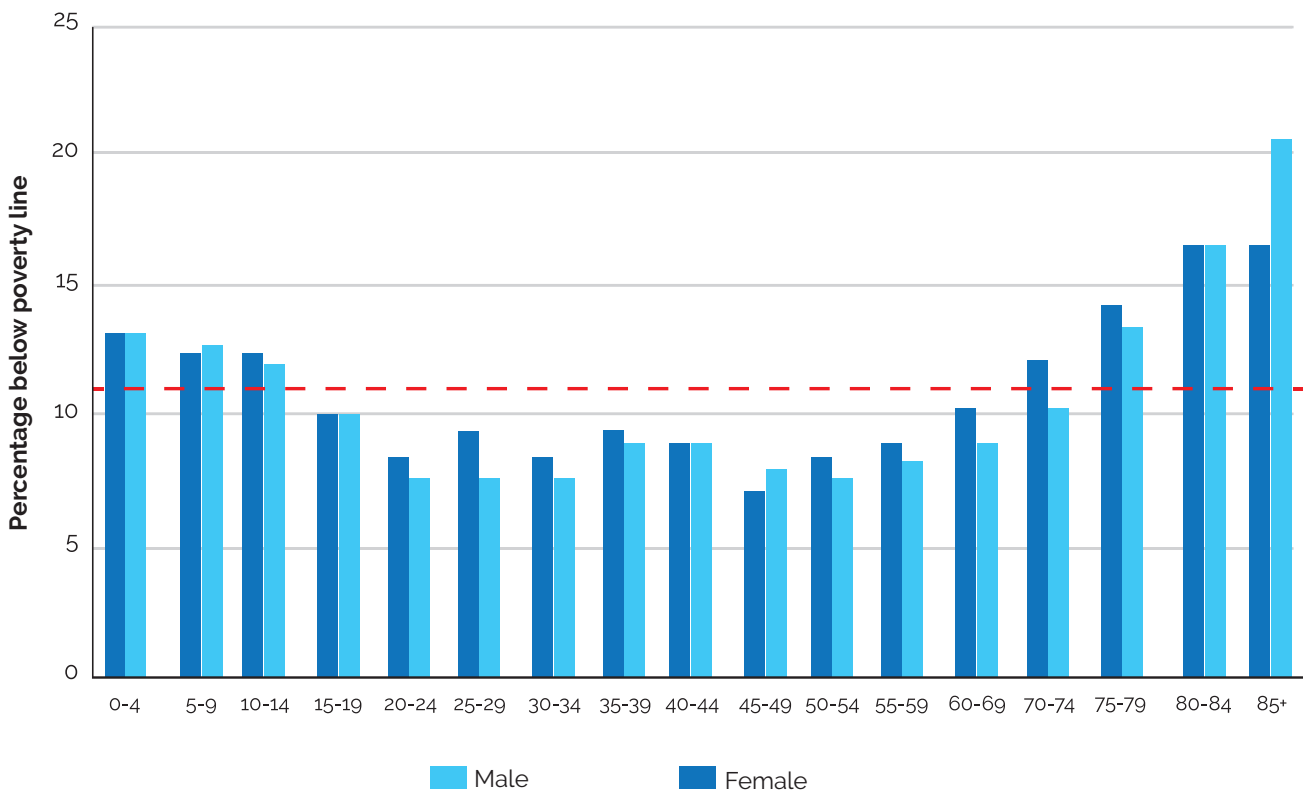
Based on the experience of other middle-income countries, Indonesia will generate significant social, economic and political benefits by investing more in social protection. This will not only reduce poverty and inequality levels but also enhance children's wellbeing and boost labour productivity, thereby accelerating economic growth. Furthermore, all Indonesians – even those who currently feel disenfranchised by the growing inequality – will understand that they are entitled to social protection. This strong social commitment may generate greater national cohesion and a more peaceful and harmonious society.

Indonesia's vision for social protection is enshrined in the constitution which stipulates the right to social security (inclusive of social protection) for all Indonesian citizens. In this report, we present a long-term vision for a comprehensive social protection system and a strategy to improve Indonesia's social protection system over the next five years (2020–2024). The proposals presented in this strategy are intended to ensure that citizens

across the life cycle – from childhood to old age and if faced with a disability – have access to Indonesia's social protection system. This includes greater coverage for the 'missing middle'.¹

Children and the elderly should be prioritised by the social protection system given that Indonesia's poverty has a strong age dimension. The highest rates of poverty – defined as living below the national poverty line of IDR11,994 per day (equivalent to USD2.39)² – are found among children, adults raising children and people over 60, with particularly high rates among people over 80 (see ES Figure 2).

ES Figure 2: Percentage of the population below the national poverty line, by age group, 2017



Note: - - - - national poverty line (IDR11,994 per day per capita)
Source: Susenas 2017

¹ Cain (2009)

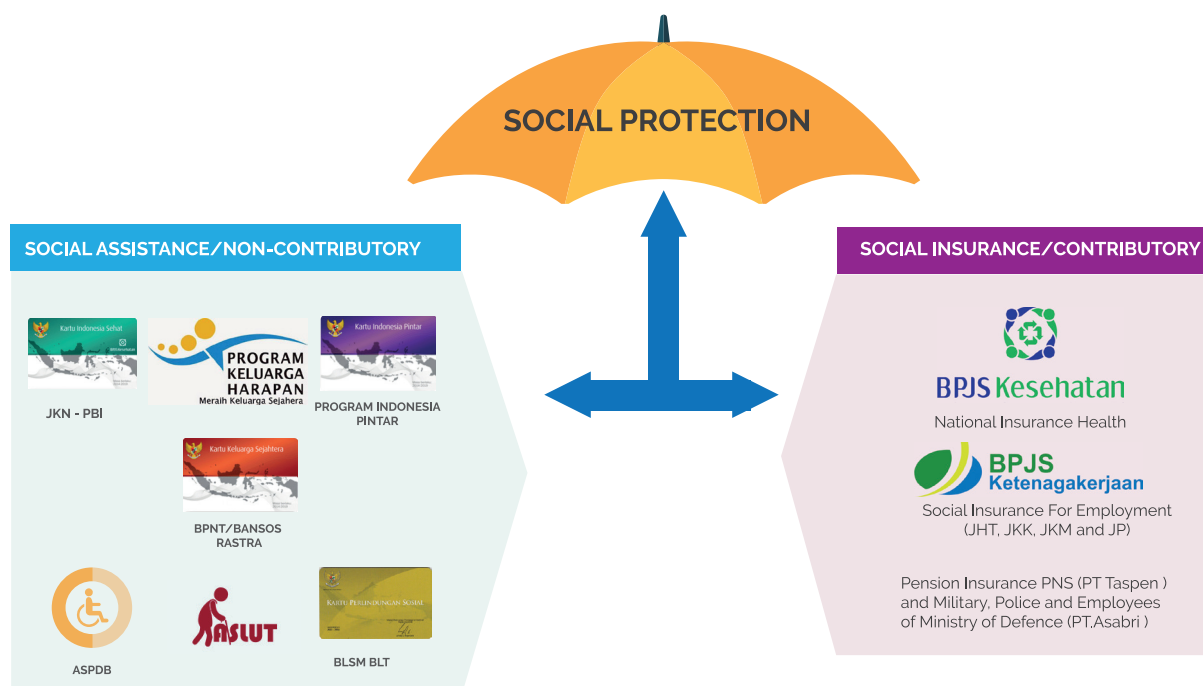
² USD1 = IDR 5,013 (purchasing power parity – PPP 2017)

Providing social protection to citizens across the life cycle forms the basis of social protection in countries with mature social protection systems, with developing countries increasingly following suit. In many countries, the core schemes include benefits for the elderly, for people with disabilities and for children, with residual social assistance programs for poor families.

The current social protection system

Indonesia's social protection system consists of contributory schemes (health insurance³ and employment insurance programs) and non-contributory schemes (social assistance programs financed by the government through general tax revenue) (see ES Figure 3).

ES Figure 3: Indonesia's existing social protection system



Currently, the total investment of Indonesia's social protection system is 0.73 per cent of GDP (2017 figures). The contributory social insurance schemes have collected premiums from members that equate to 0.18 per cent of GDP, particularly from civil servants and military and police personnel. Indonesia invests 0.35 per cent of GDP on social assistance or non-contributory schemes and 0.20 per cent on fully subsidised national health insurance for the poor (*penerima bantuan iuran-jaminan kesehatan nasional* – JKN-PBI), equating to an investment of 0.55 per cent of GDP on non-contributory schemes.

³ Indonesia's national health insurance (JKN) is funded predominantly by members' contributions but also fully subsidises premiums for the poorest 40 per cent of the population through the health insurance subsidy system (PBI).

Non-contributory schemes

Major non-contributory schemes include food assistance programs (*Rastra*⁴ and *Bantuan Pangan Non Tunai – BPNT*), conditional cash transfers (*Program Keluarga Harapan – PKH*) and a cash transfer for students from poor and vulnerable families (*Program Indonesia Pintar – PIP*).

In 2017, *Rastra* was reformed and moved from providing in-kind rice to an electronic food voucher system, known as *Bantuan Pangan Non Tunai (BPNT)*. The process of converging *Rastra* support and *BPNT* is still ongoing and is likely to be completed in 2019. *BPNT* helps poor households purchase foodstuffs, such as rice and eggs,⁵ improves financial inclusion targets and is the government's largest income transfer program with spending of 0.18 per cent of GDP. Indonesia's flagship conditional cash transfer program, *PKH*, reached its target of 6 million poor families with children and pregnant mothers in 2017 and as of 2018 has increased coverage to 10 million families. *PKH* is the second largest income transfer program with an investment of 0.08 per cent of GDP. *PIP* is helping 19.7 million school-age children from poor and vulnerable families to cover the personal costs associated with education and represents roughly the same level of investment as *PKH*. Poor families, particularly those with school-age children, are the primary targets for social assistance in Indonesia. However, elderly people and those with a disability are still missing out, as evidenced by Indonesia's 0.001 per cent of GDP investment in elderly and disability grants.⁶

Contributory schemes

Based on Law No 40 of 2004 on the national social security system (*Sistem Jaminan Sosial Nasional – SJSN*), four health and employment insurance schemes are currently being implemented: national health insurance (*Jaminan Kesehatan Nasional – JKN*), casualty or work injury compensation (*Jaminan Kecelakaan Kerja – JKK*), survivors' benefit (*Jaminan Kematian – JKM*), old age savings with disability benefit (*Jaminan Hari Tua – JHT*) and elderly pension (*Jaminan Pensiun – JP*). Under Law No 24 of 2011 the government established the Social Security Agency for Employment (*BPJS*

⁴The difference between the previous *Rastra* program and the current *Rastra* social assistance is the cost of the subsidised rice. Previously, beneficiary families paid IDR1.600 per kg for the rice and received 15kg per month. While in the current program, the beneficiary families do not pay for the rice and they get a maximum of 10 kg per month.

⁵The food items on offer may change in the future depending on evolving national policy.

⁶As of 2017, *PKH* and the social assistance for older persons program (*Asistensi Sosial Lanjut Usia Terlantar – ASLUT*) only cover around 150,000 out of the 23.4 million elderly people (Susenas 2017).

Ketenagakerjaan) and the Social Security Agency for Health (BPJS Kesehatan) to manage these schemes.

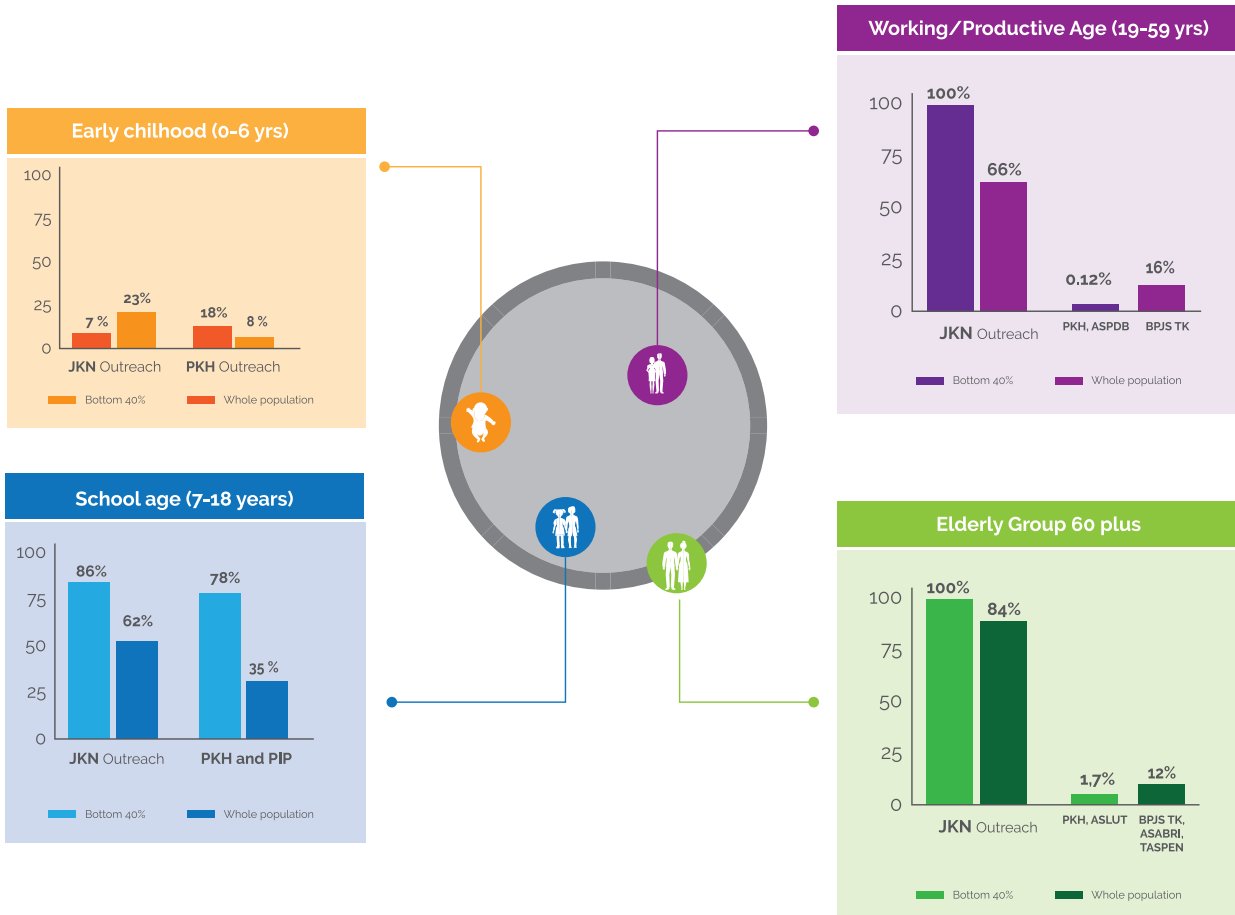
By 2017, the Social Security Agency for Employment covered 15 per cent of the working age population and consisted mainly of formal sector workers, referred to as wage-recipients (*pekerja penerima upah – PU*) and small numbers of informal workers, referred to as non-wage recipients (*bukan penerima upah – BPU*). However, contributing members (based on Presidential regulation No 109 of 2013) are obliged to join the casualty or work injury compensation scheme (JKK) and survivors' benefit scheme (JKM) as a prerequisite to joining the old age savings scheme (JHT) which can potentially discourage those in the informal sector with limited contribution capacity from saving for their retirement.

It will be some time, however, before the contributions are enough to deliver adequate old age pensions. There are also well-established private pension funds for civil servants. PT Asabri caters for employees in the military, police and Ministry of Defence, while PT Taspen caters for all other government employees and employees of state-owned enterprises.

ES Figure 4 shows coverage of contributory and non-contributory schemes across the life cycle for those estimated as being in the bottom 40 per cent of the population and for the entire population. Given that social assistance is currently targeted at the poor and vulnerable, social protection coverage is higher among the bottom 40 per cent across the life cycle. However, both figures show significant under-coverage across most stages

in the life cycle.

ES Figure 4: Coverage of Indonesia's social protection programs across the life cycle (contributory and non-contributory) among the bottom 40 per cent and across the entire population, 2017 (percentages)



Source: Susenas 2017 and 2017 program administrative data – compiled and calculated by TNP2K (2018)

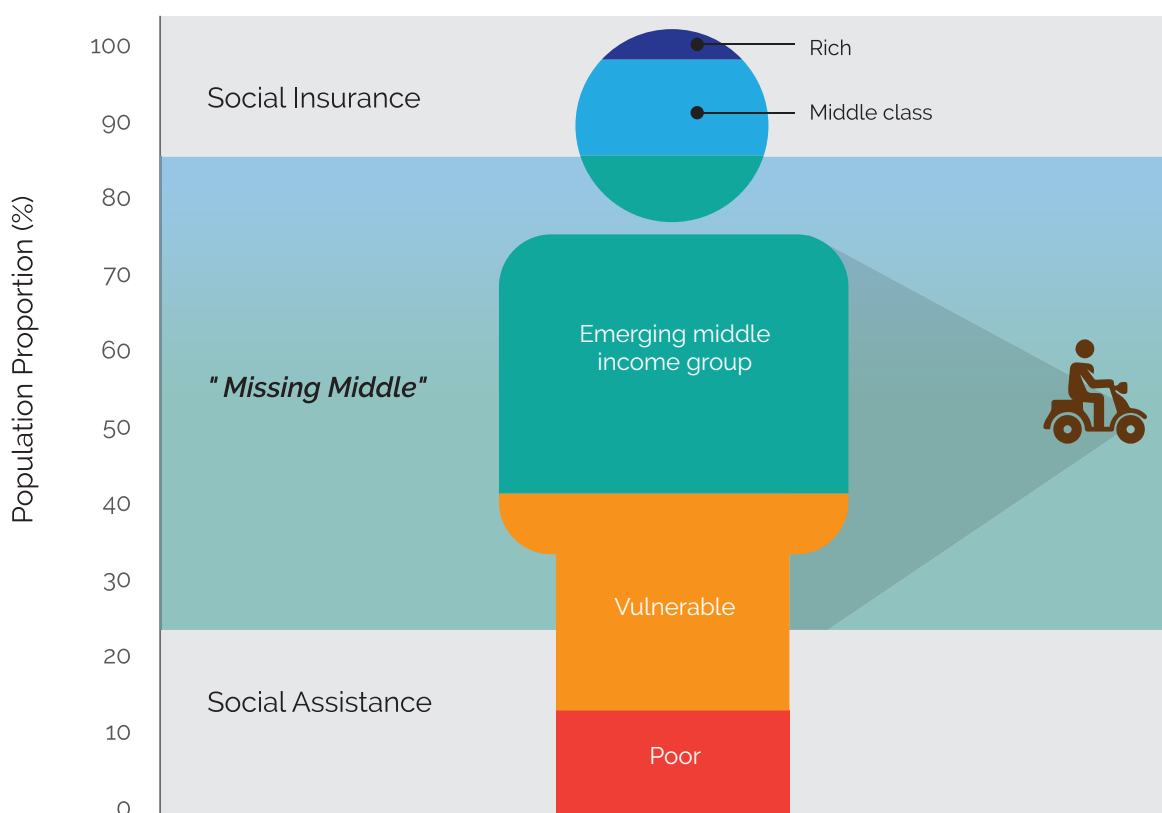
Notes:

- The percentage calculation of PKH and PIP outreach in the early childhood and school age groups assume perfect targeting among the poorest 40% of households;
- For the contributory schemes, the coverage among the elderly and productive age groups only represents contributions made into the schemes as there are very limited benefit pay-outs to date

Indonesia's contributory schemes within the social protection system are currently reaching the more affluent members of society in the formal sector. For those living in poverty, the government provides social protection through several non-contributory programs. However, the 'missing middle' still have limited government support to ensure their basic economic security (see ES Figure 5).⁷

⁷ In reality, large parts of the target groups for both social assistance and social insurance programs are also excluded.

ES Figure 5: The coverage of Indonesia's social protection system offering income transfers



Source: Designed by TNP2K-MAHKOTA (2017)

The social protection system should cover these middle-income households to ensure inclusive economic growth. Furthermore, the 'missing middle' are the category of the population that make up a large portion of the voter population and they have been contributing members of society. As tax-paying citizens, benefits to this group should be seen as giving back a small percentage of their contributions in order to secure their continued loyalty and investment in the state.

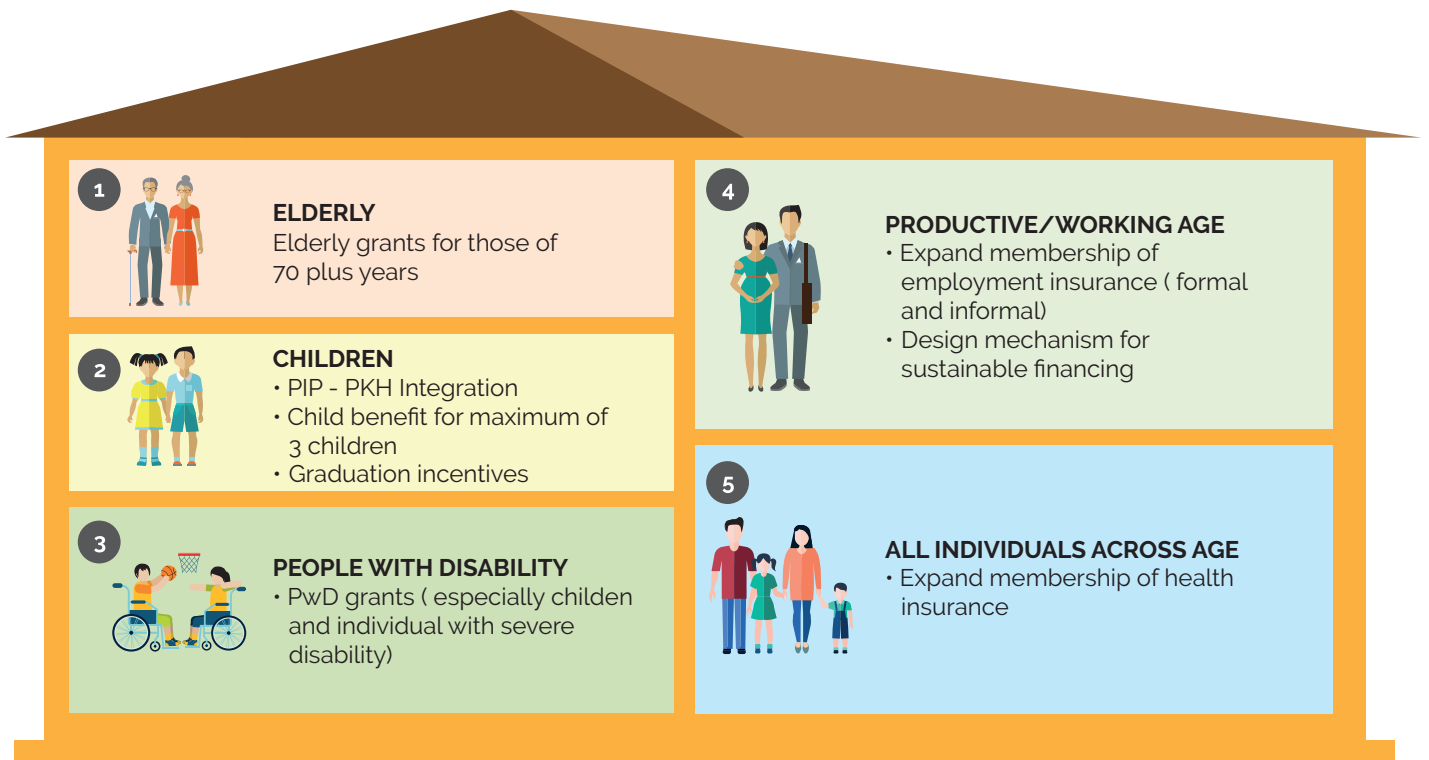
Proposals for reforming the existing social protection system

Through this strategy, TNP2K recommends a social protection system that will protect poor and vulnerable citizens through social safety net schemes designed across the life cycle, as well as prevent health and employment related risks through accessible social insurance schemes. The proposed social protection system will also try to directly address many of the key challenges facing Indonesia and its citizens – particularly stunting in early childhood, low enrolment in secondary level education, disability and old age poverty.

It is recommended that Indonesia gradually move from a social protection system that targets the poorest through social assistance, towards a system that is inclusive of those on middle incomes. Those in the formal sector and those who can pay into the contributory system will receive benefits from social insurance. Progressively, the government should ensure that every citizen is protected, either through contributory or non-contributory schemes.

This strategy focuses on policy recommendations for expanding and reforming the system for 2020–2024. A subsequent publication will provide technical recommendations for this 2020–2024 period, followed by policy recommendations for the longer term.

ES Figure 6: Proposed reforms in the national social protection system, 2020–2024



Source: TNP2K 2018

Over the next five years, TNP2K proposes a reformed social protection system as shown in ES Figure 6 where each scheme is described in turn:

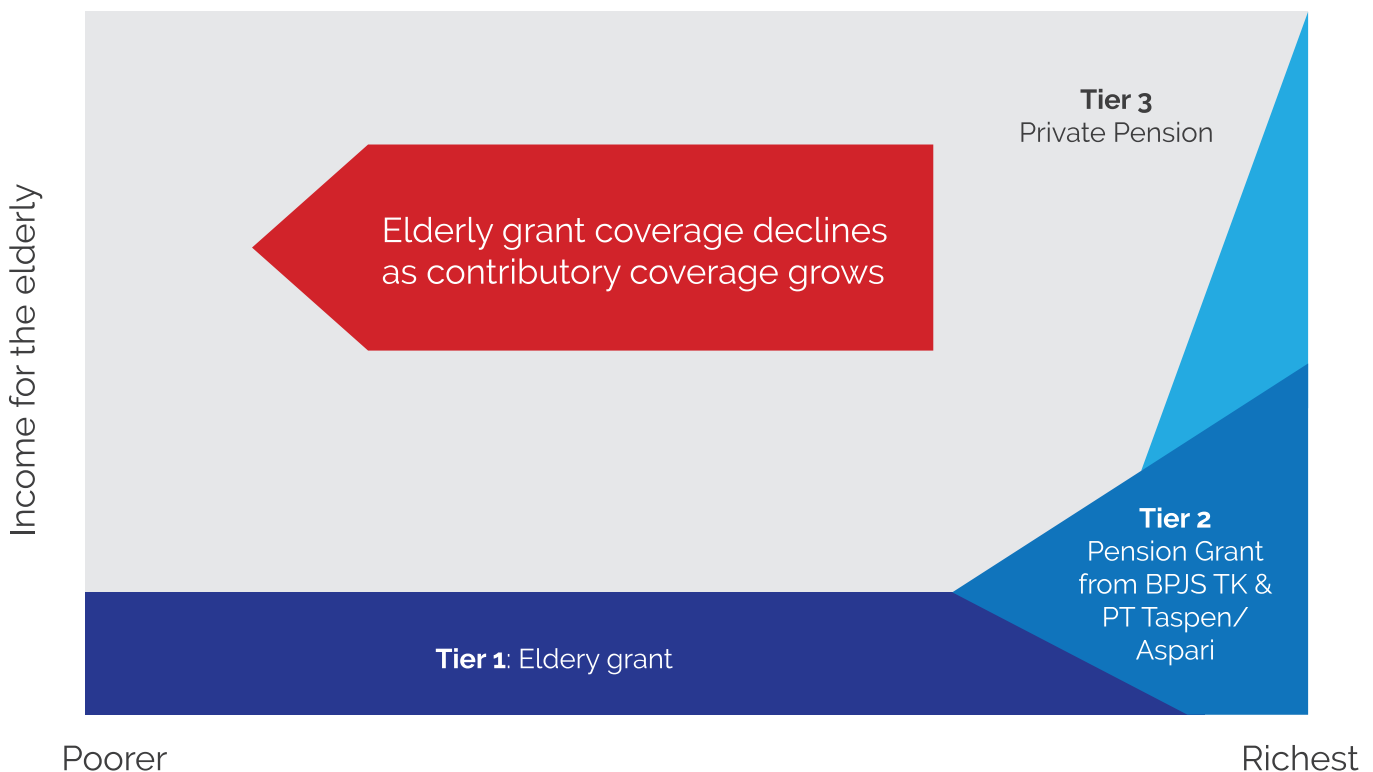
- **Child benefit: PKH and PIP have the same target group, particularly among school-age children, and it would therefore be more efficient to offer these benefits from a single program.** In 2020, the two programs should be integrated into one and provide a unified child benefit, increasing coverage to the poorest 15 million families with children. Each family should receive IDR200,000 per month per child for a maximum of three children in the family.⁸
- **Graduation incentive for school-age children: Given the low rates of secondary school enrolment, this strategy proposes an innovative scheme providing children with a lump-sum payment if they enrol in grade seven and in grade ten.** Students would receive a further graduation incentive payment through an individual savings account if they graduate from senior secondary school. The scheme should begin in 2020 and would initially offer the following sums based on enrolment: entering grade seven: IDR750,000, entering grade ten: IDR1,500,000 and graduating from senior secondary school: IDR3,000,000.
- **Disability grant: As a means of compensating families for the additional costs they incur in raising family members with a disability and giving disabled children and individuals more equal opportunities, extra financial support to families with severely disabled members (especially children) should be offered.** In 2020 children and working age adults who have severe disability should receive a disability benefit set at IDR300,000 per person per month.
- **Social insurance for working-age people: As a starting point, a change in Presidential regulation No 109 of 2013 is required, allowing non-wage earners to flexibly join any Social Security Agency for Employment program that best suits their needs and priorities, enabling them to actively save for old-age retirement.** In parallel, incentive mechanisms such as matching defined contributions (MDCs) into the elderly pension scheme (JP) should also be established to encourage contributions from non-wage earners with savings capacity.
- **Elderly grant: In line with best practice globally, this strategy recommends building a three-tiered social protection system for the elderly (see ES Figure 7).** The first tier

⁸ The benefits are based on 2018 values.

would be a non-contributory elderly grant starting at IDR300,000 per month, offered to all Indonesians above the age of 70 who are not benefitting from a contributory pension. The second tier would be the old age savings with disability benefit (JHT) and elderly pension (JP) programs managed by the Social Security Agency for Employment and civil service and military pensions which will benefit members of these schemes who have made sufficient contributions. The third tier would be private and employment-based pensions for a small proportion of the population who earn higher incomes and can afford the contributions.

- **Food assistance for the poor:** Given that nearly 30 per cent of household income is spent on food consumption among the bottom three deciles of the population, food assistance support (currently in the form of Rastra or BPNT) to the poorest 25 per cent families should continue to be offered. However, the program should be evaluated to inform its continuation beyond 2024.
- **National health insurance (JKN):** The government has planned for all Indonesian citizens to have access to JKN by 2019. While monitoring and evaluation efforts leading to improved implementation is recommended, no further reforms are required.

ES Figure 7: Indonesia's future three-tiered social protection system for the elderly



Source: Proposal TNP2K-Mahkota 2017

The reforms over the next five years should contribute to the national poverty rate falling from 10.64⁹ per cent to 6.18 per cent and the national poverty gap contracting by 41.9 per cent. There would also be significant impacts on inequality with the Gini coefficient falling from 0.392 to 0.376, resulting in greater social cohesion.

A comprehensive national social protection system such as the one proposed would significantly increase coverage, with 30 per cent of households receiving at least one program over the next five-year period. Coverage should reach most people over the age of 70.

The increased coverage would also lay the foundation for a shock-responsive social protection system. If a region of the country is hit by a shock – such as a drought, flood, earthquake or an economic shock – the government will be able to use the national social protection system to immediately send additional financial support to households.

The current investment in social assistance transfers is 0.35 per cent of GDP and the proposals, if implemented, will require an investment of 0.85 per cent of GDP over the next five years. This investment will decrease to 0.70 per cent of GDP by 2024, assuming that transfers are indexed to inflation. This increased level of investment would boost consumption and stimulate economic growth in Indonesia.

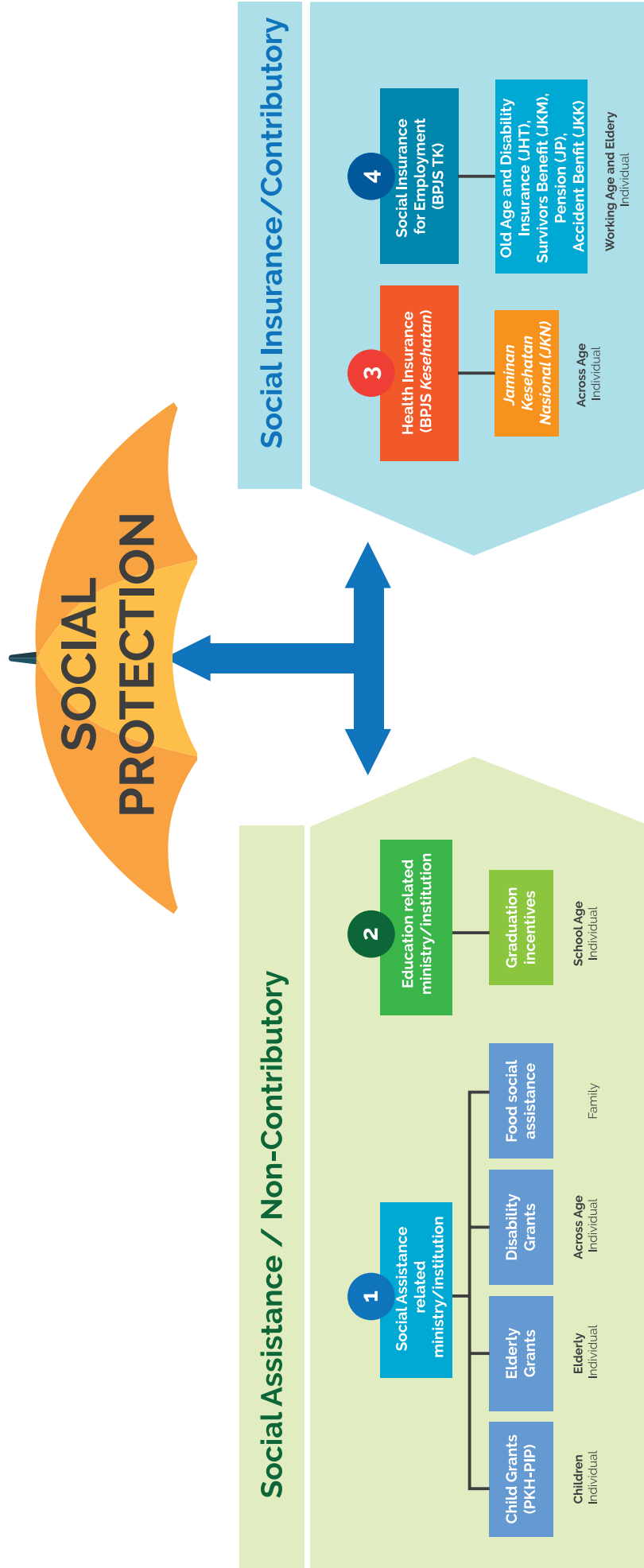
A reformed institutional structure for implementing social protection

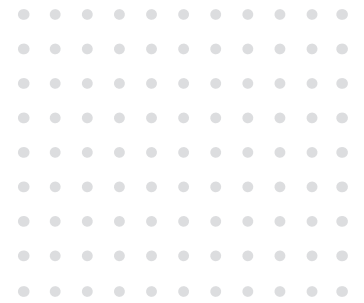
In order to improve the potential impacts of Indonesia's social protection schemes, a reform of the system's institutional structure, as represented in ES Figure 8, is critical for the next five-year period. Beyond 2024, however, rather than assigning these programs to existing ministries, it is suggested that a new independent agency, similar to the Social Security Agency (BPJS), be established to implement all non-contributory social assistance schemes through the issuance of a presidential regulation. This agency would be supervised by a steering committee consisting of related ministries, also appointed by presidential regulation and chaired by the president or vice president.¹⁰

⁹ Based on Susenas 2017 data, although at time of publication the poverty rate had fallen to 9.82 per cent.

¹⁰ The governance proposals beyond 2024 will be discussed in greater detail in the subsequent publication.

ES Figure 8: The social protection system's reformed institutional structure, 2020–2024





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