



## Reforming the Social Security System in Indonesia

For more than three decades, Indonesia has made significant progress in its economic and human development. This has resulted in poverty reduction, better health conditions for Indonesians, and longer life expectancy. Despite this encouraging success, persistent efforts are required to ensure that economic growth benefits the poor segment of the population. In 2007, about 37 million or 15.8% of Indonesians were living below the poverty line. Furthermore, the population is aging rapidly. It is estimated that by 2020, about 11.3% of the population will be over 60 years old. The rapid aging of Indonesia's population within the next three decades will create various public policy implications, including greater demand for social security for the elderly.

The Government recognizes that while economic growth remains fundamental to reducing poverty, improved social service delivery and better targeted public expenditure through modern social protection systems are also essential to counter income and non-income poverty. Hence, the Government has undertaken several steps to improve social service delivery under the fiscal decentralization policy.<sup>1</sup>

For social protection, the country has two types of public intervention. The first type consists of targeted efforts to provide economic or social support for the poor, such as an ad hoc social safety net introduced after the crisis, cash transfer scheme, and other pro-poor programs. However, these programs have shown mixed results due to weak targeting and leakages. The second intervention is through contributory social insurance and mandatory saving for civil servants and formal sector employees. But this system suffers from a number of weaknesses,

including low coverage. Out of 100 million workers, only about 16 million workers are covered by fragmented schemes; the informal sector, employing more than 65% of the total workforce, is largely excluded from the existing system.<sup>2</sup>

### National Social Security System Law

The enactment of the National Social Security System (SJSN) Law 40/2004 provides an opportunity to undertake a comprehensive reform of the existing system. The law is set to implement a viable, efficient, and transparent SJSN that serves the needs of all Indonesians. The scope of the law covers five social security programs, namely: health insurance, employment injury, old-age (provident fund), pensions, and death benefits.

The law was a major legislative achievement and provided the basic framework in the development of a national social security system in Indonesia. As an umbrella law, it does not provide transition measures from the existing segmented schemes to the ultimate system, thus a number of substantial issues remain to be resolved. In particular, the following issues need to be addressed:

- There should be a road map defining the process of implementing the SJSN Law in every stage.

**Improved social service delivery and better targeted public expenditure through modern social protection systems are also essential to counter income and non-income poverty.**

Specifically, the road map should clarify the organizational structure of the SJSN and its impact on the existing social security schemes. In line with the road map, strategic action plans should be developed that describe the goals to be achieved for each stage of implementation. The National Social Security Council should monitor and evaluate the implementation of the SJSN law in line with the road map and action plans.

- Detailed provisions of social security programs have to be determined in the Presidential Regulations. This will involve the development of policy options for the benefit design (including the determination of the benefit parameters and the adjustment of the possible duplication of old-age benefits and pensions benefits), determination of the contribution rates based on actuarial projections, financing mechanisms, and organizational arrangements.
- The administrative capacity for existing social security organizations should be strengthened to improve workers' compliance in the formal sector and to prepare the expansion of workers in the informal economy.

### Improving Implementation of the SJSN

The Asian Development Bank (ADB) has advocated the social security reform and preparation of the SJSN

law in Indonesia through technical assistance (TA) and program support.<sup>3</sup> In 2008, the Government of Indonesia requested ADB to provide additional advisory TA<sup>4</sup> to support key implementation aspects of the National Social Security System.

The additional assistance supports more inclusive economic growth through the implementation of a more efficient and sustainable social protection system. It would help assess fiscal implications of various social security schemes and enhance the system's capacity to anticipate a range of shocks that could have significant poverty, macroeconomic, and fiscal implications, given the fiscal and macroeconomic challenges the Government is facing.

To achieve the objectives set for this assistance, it is expected that the following would be delivered at the end of the TA:

- final design of the social security system, including contribution and benefit structure, and support for key implementation aspects of the system;
- capacity building support to the Risk Management Unit (RMU) to enhance staff capacity in analyzing fiscal implications and economy-wide effects of alternative social security reform options; and
- support for the Government's initiative to enhance its economic monitoring system to anticipate a range of shocks that could have significant poverty, macroeconomic, and fiscal implications.

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## Endnotes

<sup>1</sup> The Asian Development Bank (ADB) has supported the Government with medium-term program loans and technical assistance (TA) on this area of reform. See ADB. 2005. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Republic of Indonesia for Local Government Finance and Governance Reform Sector Development Program*. Manila (Loans 2192-INO and 2193-INO [SF], and TA 4682-INO); and ADB. 2008. *Report and Recommendation of the President on a Proposed Program Cluster and Loan for Subprogram 1 to the Republic of Indonesia for the Second Local Government Finance and Governance Reform Program*. Manila.

<sup>2</sup> ADB. 2008. *Technical Assistance to Indonesia for Social Security Reform and Economic Modeling Capacity Building* (TA 7024-INO). Manila.

<sup>3</sup> ADB. 1998. *Technical Assistance to the Republic of Indonesia for the Reform of Pension and Provident Funds* (TA 3116-INO). Manila; ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for Financial Governance and Social Security Reform Program*. Manila; ADB. 2002. *Technical Assistance to the Republic of Indonesia for Financial Governance and Social Security Reform* (TA 4024-INO). Manila; and ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for Capital Market Development Program Cluster (Subprogram 1)* (Loan 2379-INO). Manila.

<sup>4</sup> ADB. 2008. *Technical Assistance to Indonesia for Social Security Reform and Economic Modeling Capacity Building* (TA 7024-INO). Manila.

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Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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