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# ► Legal, Financial and Administrative Considerations for an Employment Insurance System in Indonesia



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▶ **Legal, financial  
and administrative  
considerations for an  
employment insurance  
system in Indonesia**

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First published 2020

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**ISBN: 9789220338056 (web PDF)**

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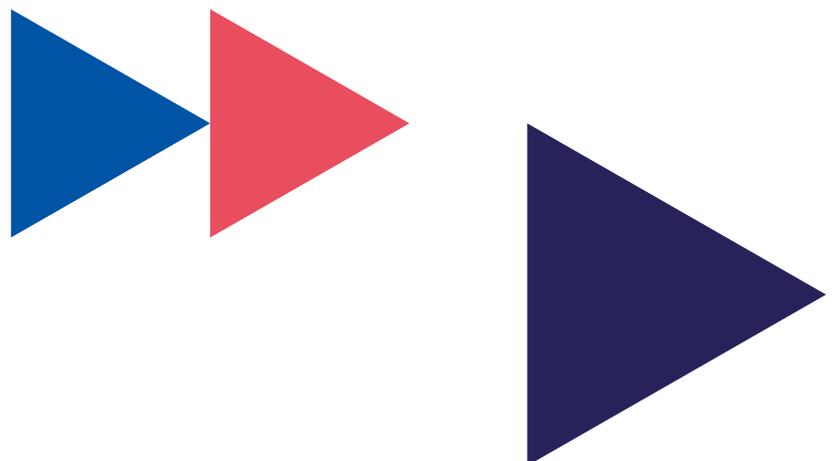
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## Acknowledgments

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The authors wish to express their gratitude to the Government of Japan and the Fast Retailing Co., Ltd., for its support in providing financial assistance to the development of this report through the ILO/Japan Project on Promoting and Building Social Protection in Asia (Third Phase): Extending Social Security Coverage in ASEAN and the ILO/Fast Retailing Project on Unemployment Protection in Indonesia – Quality Assistance for Workers Affected by Labour Adjustments. The contents of this report were prepared and discussed with Indonesian stakeholders as part of the ILO/Japan Project in 2018 and 2019, and edited and designed as part of the ILO/Fast Retailing Project in 2020.

We also wish to extend our gratitude to Ms Ekaning Wedarantia of the Ministry of National Development Planning of Indonesia for background information on social protection systems in Indonesia as well as a summary of legislation and rules regarding layoffs and termination of employment and separation payments; Mr Arief Dahyan of the BPJS Ketenagakerjaan and Mr. Markus Ruck, Senior Technical Specialist on Social Protection, ILO Decent Work Technical Team for Southeast and East Asia (DWT-Bangkok) for valuable inputs; Mr Kazutoshi Chatani, Employment Specialist for the ILO Country Office for Indonesia and Timor-Leste, for participating in the fact-finding and consultation missions and for providing expert advice on employment issues; Mr Albert Bonasahat of the ILO Country Office for Indonesia and Timor-Leste for effectively facilitating the consultation meetings with employers and workers; Mr Christianus Panjaitan, National Project Officer on Social Protection, ILO Country Office for the Indonesia and Timor-Leste, for coordinating a series of technical meetings and workshops; Ms Ayunda Eka Pratama, Communication Officer, ILO Jakarta, for leading the design of this report; and Ms Chadapa Krailassuwan, Administrative and Finance Assistant, ILO Regional Office for Asia and the Pacific; Ms Ernie Gontha, former Administrative and Finance Assistant, ILO Jakarta; Ms Yulia Frida, Administrative and Finance Assistant, ILO Jakarta; and other experts who assisted us in translation, copy editing and design.





## ▶ Table of Contents

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<b>ACKNOWLEDGMENTS</b>	<b>3</b>
<b>TABLE OF CONTENTS</b>	<b>5</b>
<b>TABLES AND FIGURES</b>	<b>7</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>8</b>
<b>EXECUTIVE SUMMARY</b>	<b>9</b>
<b>1 INTRODUCTION</b>	<b>11</b>
<b>2 THE INDONESIAN ECONOMY AND EMPLOYMENT</b>	<b>13</b>
2.1 General overview	14
2.2 Employment and unemployment in Indonesia	17
2.3 Diversity of minimum wages	21
2.4 Religious Holiday Allowance	23
2.5 Formal versus informal employment	24
2.6 A concern: The declining value of the Indonesian rupiah	28
2.7 Observations	29
2.8 Considerations for employment insurance	30
<b>3 SOCIAL SECURITY IN INDONESIA</b>	<b>32</b>
3.1 General overview	33
3.2 JHT provident fund	36
3.3 JP defined benefit pension	39
3.4 Apparent liquidity reserves	39
3.5 Tapera: Law of Public Housing Savings	40
3.6 Observations	41
3.7 Considerations for employment insurance	41
<b>4 EMPLOYMENT TERMINATION IN INDONESIA</b>	<b>43</b>
4.1 General overview	44
4.1.1 Allowed reasons for termination of employment	45
4.1.2 Termination benefits: Components	45
4.1.3 Definition of pay	46
4.1.4 Termination benefits: Amounts	47
4.1.5 Disputes	49
4.2 Discussion	49
4.3 Observations	52
4.4 Considerations for employment insurance	53

<b>5</b>	<b>ADMINISTRATIVE CONSIDERATIONS</b>	<b>54</b>
5.1	Policy development and leadership	55
5.2	Administration of claims for employment insurance benefits	55
5.3	Workflow of employment insurance system in comparison to existing social security programmes	56
5.4	Implementation plans and issues	58
5.5	Active labour market policies and employment insurance	59
5.6	Re-employment bonuses	63
<b>6</b>	<b>INTERNATIONAL STANDARDS AND THE DESIGN AND COST OF AN EMPLOYMENT INSURANCE SCHEME FOR INDONESIA</b>	<b>64</b>
6.1	Relevant ILO Conventions	65
6.2	Observations	68
6.3	Considerations for employment insurance	68
6.4	Costs of an employment insurance scheme	70
<b>7</b>	<b>CONCLUSION</b>	<b>74</b>
	<b>REFERENCES</b>	<b>76</b>
	<b>Appendix A. Distribution of firms, employment and GDP by firm size, 2016 and 2017</b>	<b>78</b>
	<b>Appendix B. Detailed data on the social security schemes managed by BPJS-TK, as of 31 December 2017 (in millions of rupiah)</b>	<b>79</b>
	<b>Appendix C. Summary of Malaysia's Employment Insurance System</b>	<b>80</b>
	<b>Appendix D. 2003 ILO proposal: A draft short period unemployment benefit scheme</b>	<b>81</b>

## ► Tables and figures

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### LIST OF TABLES

Table 1.	GNI per capita, 2017 (US dollars)	14
Table 2.	Annual growth of GDP per capita in Indonesia	15
Table 3.	GDP share by sector, Indonesia versus world (%), 2010 and 2017	16
Table 4.	Employment and real GDP growth in Indonesia, 2006 to 2017	18
Table 5.	Unemployment in Indonesia by age and sex, August 2018	19
Table 6.	Labour force size and participation rates by age and sex in Indonesia, August 2018	19
Table 7.	Formula for minimum wage increases, 2018 and 2019	22
Table 8.	Minimum monthly wages in Indonesia by province, 2018 (in rupiah)	22
Table 9.	Average number of employed workers by type of employment, 2018	24
Table 10.	Numbers of formal versus informal workers by province, August 2017, ranked in descending order of formality	25
Table 11.	Social security contributions in Indonesia	33
Table 12.	Social security coverage in Indonesia, 2017	34
Table 13.	Number of workers by main employment status, February 2018	36
Table 14.	Distribution of types of claims made under the JHT provident fund, 2016 and 2017	38
Table 15.	Severance pay according to years of service	46
Table 16.	Reward for working time according to years of service	46
Table 17.	Reasons for work termination and associated benefits to be paid under the Labour Law (No. 13/2003)	47
Table 18.	Classification of labour market policies worldwide	61
Table 19.	Unemployment protection provisions in ILO Conventions Nos 102 and 168	66
Table 20.	Unemployment insurance parameters aligned to Conventions Nos 102 and 168	69

### LIST OF FIGURES

Figure 1.	Unemployment rates in Indonesia, February 2005 to August 2018	17
Figure 2.	Share of formal employment in Indonesia, 2010–2018	27
Figure 3.	Currency exchange rate, rupiah against the US dollar, 2010–2019	29
Figure 4.	BPJS-TK active wage earner membership, 2003–2017	35
Figure 5.	Reasons for withdrawal from the JHT provident fund, January 2014 to October 2016	37
Figure 6.	Months of severance pay for worker dismissed for economic causes, by years of service by worker, 1986, 1996 and 2003	49
Figure 7.	Comparison of severance pay in selected Asian countries, by months of wages paid	50

## ► Abbreviations and acronyms

<b>ALMP</b>	active labour market policy
<b>Asabri</b>	Asuransi Sosial Angkatan Bersenjata Republik Indonesia (Armed Forces of the Republic of Indonesia Social Insurance)
<b>ASEAN</b>	Association for Southeast Asian Nations
<b>BPJS</b>	Badan Penyelenggara Jaminan Sosial (National Social Security System)
<b>BPJS-TK</b>	BPJS Ketenagakerjaan (BPJS Employment)
<b>BPJS-K</b>	BPJS Kesehatan (BPJS Health)
<b>BPS</b>	Badan Pusat Statistik (Statistics Indonesia)
<b>EI</b>	employment insurance
<b>ESDC</b>	Employment and Social Development Canada
<b>GDP</b>	gross domestic product
<b>IMF</b>	International Monetary Fund
<b>JHT</b>	Jaminan Hari Tua (old age savings fund/provident fund)
<b>JKK</b>	Jaminan Kecelakaan Kerja (work injury benefit)
<b>JKm</b>	Jaminan Kematian (death benefit)
<b>JP</b>	Jaminan Pensiun (pension)
<b>PPP</b>	purchase power parity
<b>Taspen</b>	Tabungan dan Asuransi Pegawai Negeri (Civil Servant Savings and Insurance)

## ▶ Executive Summary

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The present report was prepared and discussed with Indonesian stakeholders at a series of consultations, training workshops and other technical meetings in 2018 and 2019, and finalized as a knowledge product in 2020. Therefore, the contents include information and data collected mostly during 2018–19.

In January 2018, the Indonesian Minister of Manpower committed in the Parliament to consider the establishment of an employment insurance (EI) system<sup>1</sup>. During a high-level tripartite dialogue with the ILO, workers and employers confirmed their willingness to move this agenda forward under the Decent Work Country Program 2018–2022. The ILO's focus in this regard is to facilitate informed national discussions among stakeholders.

The present report provides the research and findings accomplished to date under this project. Conditions in Indonesia seem opportune for the adoption of an employment insurance scheme. Yet stakeholders have still to reach a consensus or even, in some quarters, an informed view about the possible need for and parameters of such a scheme. It is clear to most people that the current rules for employment protection and for termination benefits are insufficient. They do not in fact provide adequate protection, and most workers have no protection at all in case of unemployment. The rules on termination benefits are complex and costly and have led to an increase in part-time arrangements and outsourcing. Further enforcement by public authorities would not, in our opinion, overcome current problems with those rules.

Despite the progress achieved over the last ten years or so, coverage of the social security system still has some way to go to reach all paid employees. Nevertheless, the basic schemes operated by Badan Penyelenggara Jaminan Sosial Ketenagakerjaan (BPJS-TK) – work injury benefits and death benefits – already cover some 25 million paid employees, and the system is constantly being expanded to more employers and workers. BPJS-TK already has a system of periodic payments in place for injured workers and should be able to build on it to offer EI benefits.

Indonesia now stands in a strong economic position. However, a downturn is always possible, as in 1997–98. Such events always seem to happen unexpectedly and sometimes with unexpected severity. It is best to install the machinery for unemployment protection when economic activity is strong, so that if a downturn occurs, that machinery can be set in motion and expanded as necessary.

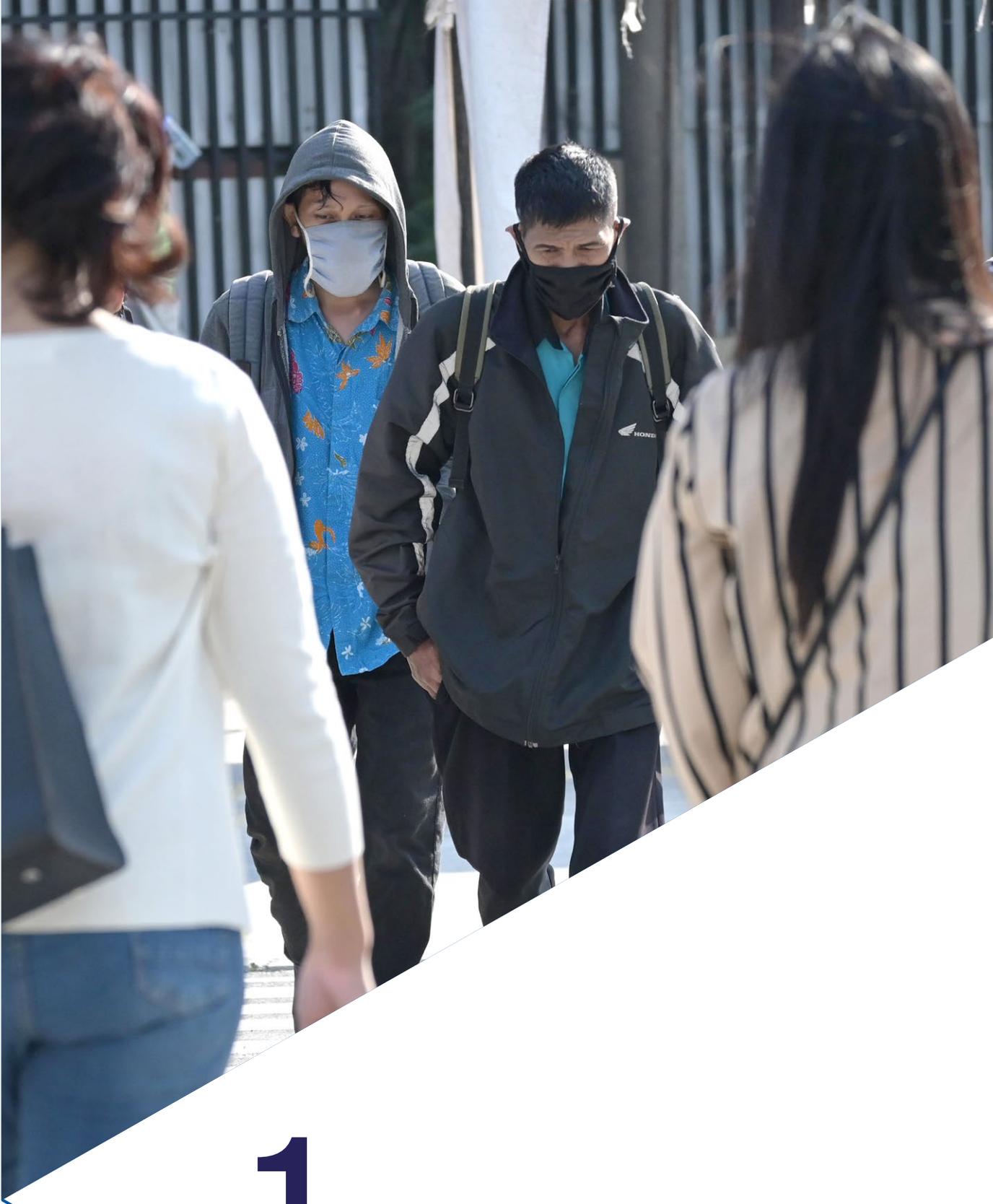
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<sup>1</sup> In most countries “employment insurance” is more commonly referred to as “unemployment insurance”. However, this report utilizes the term “employment insurance” (or EI), as it is the preferred terminology of the Indonesian Government.

The costs of EI for Indonesia, as in other countries, will be relatively modest. They will depend on the specific design of an eventual EI scheme and might vary from 0.3 per cent of wages for a scheme meeting only the basic requirements of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102); to a high of around 1.0 per cent of wages for a more comprehensive scheme. Costs would depend mainly on benefit levels and duration.

The parallel implementation of required monitoring and labour market measures would be essential, building on systems already in place and expanding or improving them as necessary. Further consideration could be given to additional, more costly measures, such as skills development, along the lines of what has been called active labour market policies (ALMPs). This is matter for public debate and policymaking, noting that ALMPs vary widely among countries and must be integrated into a coherent and comprehensive model for the promotion of productive employment, as recommended by the ILO Employment Promotion and Protection against Unemployment Convention, 1988 No. 168.

Source: ILO/F. Latief



# 1

## Introduction

## Introduction

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Indonesia has been considering the introduction of an employment insurance scheme<sup>1</sup> and to this end has requested ILO support in the planning and feasibility stages, as well as in developing a national consensus around possible parameters. In response to this request, the ILO began providing technical assistance in early 2018 with the objective of assisting Indonesia to evaluate the implications and feasibility of introducing unemployment benefits. With external experts, the ILO first prepared a report to survey the international situation regarding employment insurance (EI) schemes, and to draw lessons for Indonesia from the experience of some 80 countries that offer unemployment protection.<sup>2</sup> Subsequently, the ILO conducted a series of fact-finding missions to Indonesia in 2018 to consult private sector and government stakeholders; to initiate a dialogue with employers and trade unions; and to build national knowledge with respect to EI design and to potential financial and administrative issues.

The present report brings together additional research and findings concerning the potential introduction of employment insurance in Indonesia. It provides background and context to the ongoing dialogue on the subject as well as some preliminary insights on what could be achievable.

Within the ten nations forming the Association of Southeast Asian Nations (ASEAN), four have already established EI schemes, namely Malaysia, the Philippines, Thailand and Viet Nam. Also, in the East Asia region, the Republic of Korea's employment insurance scheme has operated successfully since 1995, and Japan's since 1947.

The contents of this report were prepared and discussed with Indonesian stakeholders as part of the ILO/Japan Project on Promoting and Building Social Protection in Asia (Third Phase): Extending Social Security Coverage in ASEAN in 2018 and 2019, and edited and designed as part of the ILO/Fast Retailing Project on Unemployment Protection in Indonesia – Quality Assistance for Workers Affected by Labour Adjustments as a knowledge product in 2020; and therefore, the authors collected the information and data presented in this report in 2018 and 2019.

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<sup>1</sup> In most countries “employment insurance” is more commonly referred to as “unemployment insurance”. However, this report utilizes the term “employment insurance” (or EI), as it is the preferred terminology of the Indonesian Government.

<sup>2</sup> The report was prepared in 2018 and published in 2020 (Bedard, Carter and Tsuruga 2020).



Source: ILO/F. Latief

# 2

## The Indonesian economy and employment

# The Indonesian economy and employment

## 2.1. General overview

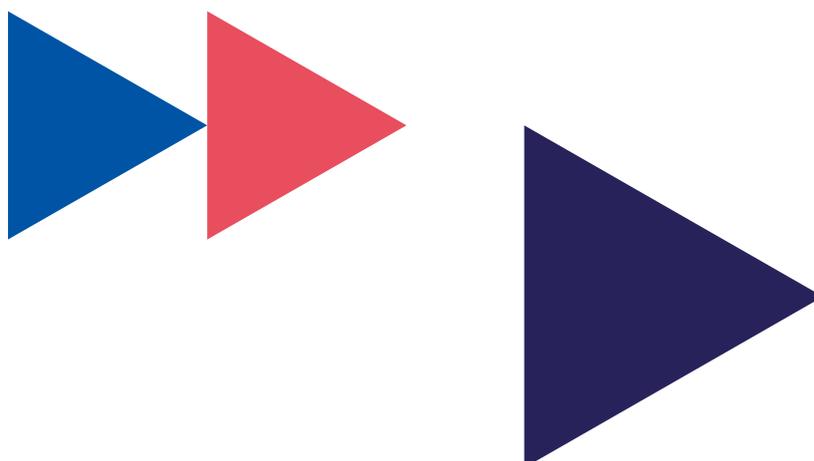
With a gross national income (GNI) per capita of US\$3,540 in 2017, Indonesia falls within the World Bank’s “lower middle-income” category and has been in that category since 2003. As seen in table 1 below, among surrounding countries, Indonesia’s per capita GNI stands at about the same level as the Philippines but well behind Malaysia.

**Table 1**

GNI per capita, 2017 (US dollars)

Country	GNI per capita
Indonesia	3 540
Cambodia	1 230
Viet Nam	2 170
Papua New Guinea	2 410
Philippines	3 660
Thailand	5 960
Malaysia	9 650

Source: World Bank n.d.



Indonesia has the fourth-largest population in the world, close to 270 million spread over a large and diverse area, making its economic development a challenge. Even so, the country's per capita gross domestic product (GDP) has put in a strong performance in recent years (table 2), with average annual growth around 4 per cent from 2011 to 2017.

**Table 2****Annual growth of GDP per capita<sup>1</sup> in Indonesia**

Year	Annual growth	Year	Annual growth	Year	Annual growth
1991	5.1%	2000	3.5%	2009	3.2%
1992	4.7%	2001	2.2%	2010	4.8%
1993	4.8%	2002	3.1%	2011	4.8%
1994	5.8%	2003	3.3%	2012	4.7%
1995	6.6%	2004	3.6%	2013	4.2%
1996	6.2%	2005	4.2%	2014	3.7%
1997	3.2%	2006	4.1%	2015	3.6%
1998	-14.3%	2007	4.9%	2016	3.8%
1999	-0.6%	2008	4.6%	2017	3.9%

**Average over select periods**

Period	Average annual growth
1991–2017	3.4%
2001–2010	3.8%
2011–2017	4.1%

<sup>1</sup> Constant international US dollar, purchase power parity (PPP) basis.  
Source: World Bank n.d.

The structure of GDP reflects the fact that, as a developing country, Indonesia still has a large share of its population engaged in agriculture. In 2017, Indonesia reported 35.9 million engaged in agriculture (including forestry, hunting and fisheries), or 30 per cent of the country's 121 million workers (Indonesia, BPS 2018a). Due to revenue being low in that sector, agriculture's contribution to GDP was well below its share of workers – only 13.7 per cent in 2017 – though it still was about three times the world average of 4.3 per cent. Industry contributed 41.0 per cent of Indonesia's GDP in 2017 (versus 27.9 per cent globally); while services contributed 45.3 per cent (compared to 67.8 per cent globally) (see table 3).

**Table 3**

GDP share by sector, Indonesia versus world (%), 2010 and 2017

Sector	Indonesia		World	
	2010	2017	2010	2017
Agriculture	14.3	13.7	3.9	4.3
Industry	43.9	41.0	28.8	27.9
Services	41.8	45.4	67.2	67.8

Source: Economist Intelligence Unit n.d.

Forecasters, such as the International Monetary Fund (IMF) or the Economist Intelligence Unit, expect real GDP per capita to continue to grow at about 4 per cent per annum. Inflation moderated to 3.2 per cent in 2018,<sup>3</sup> and the Economist Intelligence Unit (n.d.) expects the Consumer Price Index to rise at between 3 per cent and 4 per cent per year until 2023. Interest rates remain relatively high, with commercial loans featuring rates between 10 per cent and 11 per cent, and three-month deposits earning 6–7 per cent per annum.

Indonesia is a member of the G20 group of nations, and its economy is the seventh largest in the world, as measured by GDP at purchasing power parity. On the World Economic Forum's Global Competitiveness Index for 2018, Indonesia ranks 45th out of 140 countries, but only 95th on the Health Index – mainly due to low life expectancy. Scoring a poor 82nd rank on the Labor Market Index, Indonesia placed 111th in labour market flexibility and 134th for redundancy costs (when terminating employment). Some of the other poor rankings include those for research and development (91st), broadband Internet subscriptions (104th) and women's labour force participation (97th) (WEF 2018).

The number of poor people, based on Indonesia's national poverty line, was 26.0 million in February 2018 – 15.8 million in rural areas and 10.1 million in urban areas. Not unexpectedly, the poverty rate in rural areas was almost double the rate for urban areas: 13.2 per cent and 7.0 per cent, respectively, for a national average of 9.8 per cent (Indonesia, BPS 2018b). This represents significant improvement from 20 or 30 years ago, when the national poverty rate was above 20 per cent.

<sup>3</sup> Calculated by dividing the average Consumer Price Index (CPI) for 2018 by the 2017 CPI average. CPI information taken from Statistics Indonesia (BPS) data.

## 2.2. Employment and unemployment in Indonesia <sup>4</sup>

Although the Indonesian labour market faces challenges in providing more and better employment opportunities, its overall record over recent years has shown notable improvements. In particular, the unemployment rate has been more than cut in half since 2005, when it peaked at 11.2 per cent, to stand at 5.3 per cent in August 2018 – as shown in figure 1.

**Figure 1**

**Unemployment rates in Indonesia, February 2005 to August 2018**



Source: Indonesia, BPS. 2018a.

The fall in the unemployment rate in Indonesia has been the result of employment growth outpacing labour force growth, and has, not surprisingly, been accompanied by steady growth in real GDP. Table 4 shows that employment has grown by an average of 2.2 per cent each year over the 13 years ending in 2018, bringing an average of 2.4 million net new jobs each year; while the labour force grew by 1.7 per cent annually, or 2.0 million potential new workers. As shown in the last column of table 4, each percentage point of growth in real GDP has, on average, corresponded to employment growth of one-half percentage point. The remaining half point should mainly reflect productivity growth, and lead to improving living standards.

With sustained economic growth expected over the coming years, Indonesia's economy is in a favourable position, but two aspects bear special mention. First is the existence of high unemployment among youths, especially those below the age of 25 and to a lesser extent those in the 25–29 age group. Second is the low engagement of women in the workforce, with only 51.9 per cent of women currently participating in the labour force,

<sup>4</sup> This section draws mainly on statistics issued by Statistics Indonesia (BPS), the Government's official statistical agency (Indonesia, BPS. 2018a.).

as compared to 82.7 per cent of men.

As Table 5 shows, about 60 per cent of unemployed individuals are between the ages of 15 and 24. The unemployment rate among youths aged 15–19 exceeds 25 per cent, and affects one in 6 persons in the 20–24 age group. The situation is less dire among those aged 25–29, with unemployment around 7 per cent, but that rate is still higher than the national average across all ages, which stands at 5.3 per cent.

One of the reasons for high youth unemployment may be mismatches between education and skills demand. Indonesia’s education system has recorded significant progress in terms of access to secondary and tertiary education over the past decade, but it has not kept pace with the changing nature of labour demand in the economy. The Government of Indonesia has reinforced its support to school-to-work transition by emphasizing job-relevant vocational education and by promoting work-based learning. Yet challenges remain in aligning education and training with the human resource needs of today’s economy.

**Table 4**

Employment and real GDP growth in Indonesia, 2006 to 2017

Year	Labour force			Employment			% Change in real GDP per capita (B)	Ratio of (A) to (B)
	Year average	Annual change	% change	Year average	Annual change	% change (A)		
2006	106 335 365	505 353	0.5%	95 317 019	863 766	0.9%	4.1%	0.22
2007	109 036 209	2 700 844	2.5%	98 756 679	3 439 661	3.6%	4.9%	0.74
2008	111 712 356	2 676 148	2.5%	102 301 304	3 544 625	3.6%	4.6%	0.78
2009	113 788 844	2 076 488	1.9%	104 678 054	2 376 750	2.3%	3.2%	0.72
2010	116 262 804	2 473 960	2.2%	107 806 670	3 128 616	3.0%	4.8%	0.62
2011	118 261 731	1 998 927	1.7%	109 731 094	1 924 425	1.8%	4.8%	0.37
2012	120 834 774	2 573 043	2.2%	113 283 425	3 552 331	3.2%	4.7%	0.69
2013	121 671 256	836 483	0.7%	114 345 342	1 061 917	0.9%	4.2%	0.22
2014	123 594 961	1 923 705	1.6%	116 398 974	2 053 632	1.8%	3.7%	0.48
2015	125 340 805	1 745 844	1.4%	117 833 010	1 434 036	1.2%	3.6%	0.34
2016	126 557 809	1 217 004	1.0%	119 529 835	1 696 825	1.4%	3.8%	0.37
2017	129 803 429	3 245 620	2.6%	122 780 636	3 250 801	2.7%	3.9%	0.69
2018	132 472 370	2 668 942	2.1%	125 536 393	2 755 757	2.2%	n.a.	n.a.
Average	n.a.	1 997 785	1.7%	n.a.	2 360 615	2.2%	4.2%	0.52

n.a. = not applicable; Source: BPS n.d.; World Bank n.d.

**Table 5****Unemployment in Indonesia by age and sex, August 2018**

Age group	No. of unemployed persons			Distribution			Unemployment rate		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19	963 309	686 559	1 649 868	22.2%	25.8%	23.6%	25.6%	28.3%	26.7%
20-24	1 506 941	943 466	2 450 407	34.7%	35.5%	35.0%	16.8%	16.6%	16.7%
25-29	738 438	368 974	1 107 412	17.0%	13.9%	15.8%	7.4%	6.3%	7.0%
30-34	340 841	199 714	540 555	7.9%	7.5%	7.7%	3.5%	3.5%	3.5%
35-39	228 040	167 631	395 671	5.3%	6.3%	5.7%	2.3%	2.7%	2.5%
40-44	176 417	102 204	278 621	4.1%	3.8%	4.0%	1.9%	1.7%	1.8%
45-49	137 652	85 778	223 430	3.2%	3.2%	3.2%	1.6%	1.5%	1.6%
50-54	114 878	50 618	165 496	2.6%	1.9%	2.4%	1.6%	1.1%	1.4%
55-59	84 413	28 392	112 805	1.9%	1.1%	1.6%	1.5%	0.8%	1.2%
60+	49 040	27 386	76 426	1.1%	1.0%	1.1%	0.6%	0.6%	0.6%
<b>Total</b>	<b>4 339 969</b>	<b>2 660 722</b>	<b>7 000 691</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>5.3%</b>

Source: BPS n.d.

As noted by the World Bank (2018), there is an imbalance in men and women's participation in the labour market. In broad terms, the participation rate of Indonesian women is about 40 per cent lower than that of men, as seen in table 6. As a result, there are 30 million fewer women than men in the Indonesian labour force.

**Table 6****Labour force size and participation rates by age and sex in Indonesia, August 2018**

Age group	Labour force			Participation rate		
	Male	Female	Total	Male	Female	Total
15-19	3 756 868	2 428 840	6 185 708	33.0%	22.3%	27.8%
20-24	8 964 977	5 679 130	14 644 107	80.7%	52.9%	67.0%
25-29	9 997 990	5 843 660	15 841 650	93.9%	55.6%	74.9%
30-34	9 873 561	5 687 793	15 561 354	96.0%	55.4%	75.7%
35-39	9 745 566	6 137 351	15 882 917	97.2%	60.3%	78.6%
40-44	9 296 190	6 128 824	15 425 014	96.8%	64.1%	80.5%
45-49	8 449 627	5 659 519	14 109 146	96.8%	65.3%	81.1%
50-54	7 084 850	4 758 931	11 843 781	94.5%	63.1%	78.7%
55-59	5 447 715	3 580 539	9 028 254	88.9%	57.6%	73.1%
60+	7 782 077	4 701 633	12 483 710	66.0%	36.2%	50.4%
<b>Total</b>	<b>80 399 421</b>	<b>50 606 220</b>	<b>131 005 641</b>	<b>82.7%</b>	<b>51.9%</b>	<b>67.3%</b>

Source: BPS n.d.

An additional issue for the Indonesian economy concerns the large number of workers who are not registered with public authorities, and are thus not covered or only partially covered by social security schemes operated by Badan Penyelenggara Jaminan Sosial Ketenagakerjaan (BPJS-TK) <sup>6</sup>. According to national labour force surveys, out of 125.5 million individuals reported to be working in 2018 <sup>7</sup>, 48.8 million were recorded as being employees, with the remainder being self-employed, employers with temporary or unpaid workers, casual workers and unpaid family workers. About 10 million of this employee group were covered by two other public schemes: Taspen (for civil servants) and Asabri (for army and police) <sup>8</sup>. However, BPJS-TK (2017b) reported that coverage of wage earners was extended to only 24.5 million workers in 2017, or about 63 per cent of the 38.8 million who should be covered. The National Social Security System Law (2004) stipulates that coverage for basic social security protection (work injury and death benefits) should apply to all private enterprises and wage earners.

Furthermore, out of the 24.5 million workers covered by BPJS-TK, there were 8.5 million construction workers covered on a bulk basis without individual registration, which means that the individual employees that were fully accounted for under the scheme only numbered 16.0 million, or about 41 per cent of private sector employees. It is noted here that employment insurance coverage, the subject of this report, could in practice only be applied to this group, which represent just one-eighth of all workers in Indonesia.

Section 4 below will report on existing rules and regulations that provide Indonesian workers with extensive job protection, through a combination of detailed dismissal procedures and costly severance payments. Since those rules only apply to permanent employees, they have led many employers to circumvent them by using labour outsourcing, namely the hiring of workers through labour agencies. This practice and its consequences were described as follows in 2012:

Labor outsourcing was legalized in 2003 with the enactment of Labor Law No. 13/2003. That law came from an agreement between the government and the International Monetary Fund. Labor outsourcing is now widespread and has detrimental effects for workers and unions. Labor outsourcing practices have created a new actor in industrial relations: the labor agency. It has also created a highly complicated and difficult labor relations situation, fragmenting workers by work status and bringing harsh confrontations between labor unions and community members. Labor outsourcing practices have also presented tough challenges for the Indonesian labor movement in developing alternative strategies for organizing (Tjandraningsih 2012, 403).

<sup>6</sup> Badan Penyelenggara Jaminan Sosial Ketenagakerjaan translates to the National Social Security System for Employment.

<sup>7</sup> Average of February and August 2018 employment values.

<sup>8</sup> Taspen is an acronym for Tabungan dan Asuransi Pegawai Negeri (or Civil Servant Savings and Insurance), and is operated by the state-run enterprise PT Taspen. Similarly, Asabri is an acronym for Asuransi Sosial Angkatan Bersenjata Republik Indonesia (or Armed Forces of the Republic of Indonesia Social Insurance), which is operated by the state-run enterprise PT Asabri.

## ▶ 2.3. Diversity of minimum wages

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The economic diversity of Indonesia shows up in minimum wages, which are different not only for each of the 34 provinces, but also for cities and regencies within certain provinces as well as for certain industries.

A new formula adopted in the 2015 Government Regulation No. 78 on Wages specifies annual minimum wage increases based on a formula of the inflation rate plus GDP growth (see table 7). Minimum wage increases for the coming year are to be announced by the governor of each province by November 1. Firms that claim difficulties paying the increased wages may be allowed to postpone the increases, but are “encouraged” to make them up later.<sup>9</sup>

As the formula is currently applied, real GDP is taken on an overall basis, unadjusted for population growth, which is likely to produce inflationary wage increases over time. For example, the stipulated minimum wage increase for 2019 was 8.03 per cent, based on a 2018 inflation rate of 2.88 plus a 2018 GDP growth rate of 5.15 per cent (table 7). However, the GDP growth rate was higher than labour productivity growth, estimated by the Economist Intelligence Unit (n.d.) at 4.2 per cent for 2018. Before 2015, minimum wages had even been growing by double digit percentages in some years, based on the concept of “decent standard of living”. That standard had been criticized as being open to political pressure but was strenuously defended by trade unions on the grounds that it allowed Indonesian wages to rise to more acceptable levels. Nevertheless, the Indonesian Government has been firm in implementing the new formula adopted in 2015.

Even though article 42 of Regulation No. 78 specifies that minimum wages only apply to workers with less than one year of service<sup>10</sup>, it is taken for granted that, in practice, the specific minimum wages apply to all workers. One possible avenue for this interpretation is that, in addition to article 42, article 14 of Regulation No. 78 requires the employer to prepare a “wage structure and scale” that must consider “category, position, years of service, education, and competence”. It would not seem reasonable in such a wage structure to establish wages for experienced workers that are lower than those for new workers.

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<sup>9</sup> For example, in West Java, 43 companies were allowed in January 2017 to postpone wage increases until the second half of the year (*The Jakarta Post* 2017).

<sup>10</sup> This section draws mainly on statistics issued by Statistics Indonesia (BPS), the Government’s official statistical agency (Indonesia, BPS. 2018a.).

**Table 7**Formula for minimum wage increases,<sup>1</sup> 2018 and 2019

Sector	2018	2019
Real GDP growth <sup>2</sup>	4.99%	5.15%
Inflation <sup>3</sup>	3.72%	2.88%
<b>Mandated minimum wage increase</b>	<b>8.71%</b>	<b>8.03%</b>

<sup>1</sup> The statutory minimum wage increase is determined by taking the sum of annual real GDP growth and the annual rate of inflation;

<sup>2</sup> Real GDP growth figures for the four quarters ending in June;

<sup>3</sup> The inflation rate is based on the Consumer Price Index for the 12 months ending in September.

A sampling of the wide variety in minimum wage rates appears in table 8.<sup>11</sup> The 2018 provincial minimum monthly wages vary from a low of 1.4 million Indonesian rupiahs in the Special Region of Yogyakarta to a high of 3.6 million rupiahs in the capital city of Jakarta, the country's economic heartland. Thus, Jakarta's minimum wage is 2.6 times what applies in Yogyakarta. The arithmetic average of the 34 rates in the table is 2.3 million rupiahs, with 19 provinces falling below that figure and 15 provinces above.

As a further illustration, minimum wage rates within West Java varied among its 27 cities and districts, from 1.6 million rupiahs in Banjar City and Pangandaran District, to 3.9 million rupiahs in Bekasi City and Karawang District (Gajimu.com 2019).

A possible avenue of inquiry could be the extent to which minimum wage rates are enforced. Data from the Ministry of Manpower showed only 3,186 minimum wage violations in the second quarter of 2017, and 3,501 in the third quarter. Enforcement may vary in different provinces; eight of the 34 provinces did not report any violations.

**Table 8**

Minimum monthly wages in Indonesia by province, 2018 (in rupiah)

Province	Minimum monthly wage	Province	Minimum monthly wage
1. Yogyakarta	1 454 154	8. Central Sulawesi	1 965 232
2. Central Java	1 486 065	9. West Kalimantan	2 046 900
3. East Java	1 508 894	10. Lampung	2 074 673
4. West Java	1 544 360	11. Banten	2 099 385
5. East Nusa Tenggara	1 660 000	12. West Sumatra	2 119 069
6. West Nusa Tenggara	1 825 000	13. Bali	2 127 157
7. Bengkulu	1 888 741	14. North Sumatra	2 132 188

<sup>11</sup> Table 8 does not showcase a comprehensive list of minimum wages because rates can also vary within a province and by industry.

Province	Minimum monthly wage	Province	Minimum monthly wage
15. Southeast Sulawesi	2 177 052	25. North Kalimantan	2 559 903
16. West Sulawesi	2 193 530	26. Riau islands	2 563 875
17. Gorontalo	2 206 813	27. South Sumatra	2 595 995
18. Maluku	2 222 220	28. South Sulawesi	2 647 767
19. Jambi	2 243 718	29. West Papua	2 667 000
20. North Maluku	2 320 803	30. Aceh	2 700 000
21. Central Kalimantan	2 421 305	31. Bangka-Belitung	2 755 443
22. South Kalimantan	2 454 671	32. North Sulawesi	2 824 286
23. Riau	2 464 154	33. Papua	2 895 650
24. East Kalimantan	2 543 331	34. DKI Jakarta	3 648 035
<b>National average</b>		<b>1 912 307</b>	

Source: WageIndicator.org n.d.

## ▶ 2.4. Religious Holiday Allowance

Beyond the statutory minimum wages, there is one additional mandatory payment that workers are to receive called the THR Keagamaan<sup>12</sup>, which loosely translates as “Religious Holiday Allowance”. The THR Keagamaan is a yearly bonus for every employee (Indonesian or foreign) and must be paid in cash at least seven days before the main religious celebration of each employee. The minimum amount is the equivalent of one month’s wage (based on basic salary plus any fixed allowances) for workers who have at least 12 months of service, or a prorated amount if the worker has been employed for less than 12 months.

The THR payment may have some impact on hiring and job termination decisions, as noted by the following advice to employers offered by the business consulting firm Emerhub (n.d.): “[T]he worst time to recruit people is before they are waiting for their THR payment. It’s just not economically wise to resign from your previous job before you are about to receive a big bonus. On the other hand, the best time to hire is right after Ramadan because the prospective candidates have just received their bonuses and are more eager to look for a new job.”

<sup>12</sup> Short for Tunjangan Hari Raya Keagamaan.

## 2.5. Formal versus informal employment

BPS, the Indonesian statistical agency, publishes an indicator of formal employment that counts all paid employees as well as employers with permanent employees. All other employed persons are treated as informal workers, including self-employed individuals, employers with temporary or unpaid help, casual workers and unpaid family workers. Table 9 gives a breakdown of the number of workers in each category for 2018.

**Table 9**

Average number of employed workers by type of employment, 2018

Type of employment	No. of workers
A. Self-employed	23 619 182
B. Employer assisted by temporary unpaid workers	20 242 857
C. Employer assisted by permanent paid workers	4 481 731
D. Employees	48 826 311
E. Casual workers in agriculture	4 894 069
F. Casual workers in non-agriculture	6 656 593
G. Family worker / unpaid	16 815 651
H. Total	125 536 393
I. Formal employment (C + D)	53 308 041
J. Informal employment (A + B + E + F + G)	72 228 352
<b>Rate of formal employment (I divided by H)</b>	<b>42.5%</b>

Source: BPS n.d.

The BPS definition of formal employment has the advantages of simplicity and of easy monitoring over time, but it does not strictly align with international usage. Many paid employees are in fact in informal employment and are not reported to BPJS-TK or to tax authorities.

As already noted, actual coverage of paid, private sector employees by BPJS-TK came to 24.5 million individuals in 2017, falling to just 16.1 million after subtracting the 8.5 million construction workers covered on a bulk basis (and for whom there is no individual data). In the public sector, paid employees are covered by two different schemes – Taspen for civil servants and Asabri for armed forces and police personnel – which account for 4.2 million and 1.2 million individuals, respectively (PT Taspen 2017; PT Asabri 2016). As a result, the effective coverage of paid employees by all public schemes (BPJS-TK + Taspen + Asabri) can be estimated at about 21.5 million individuals out of 48.8 million employees, or about 44 per cent.

According to BPJS-TK (2017b, 199), the scheme's 2018 target for social security coverage of wage earners was set at 39.8 million individuals. It is difficult to reconcile this number with the average of 48.8 million paid employees reported by BPS for that year (including the 6.4 million persons covered by Taspen and Asabri). In any case, available data do indicate that BPJS-TK coverage of wage earners still stands at no more than 40 per cent (16.1 million out of about 40 million).

As additional information, table 10 following shows the proportion of formal workers for each of Indonesia's 34 provinces as of August 2017, using the BPS measure as a proxy for formal and informal employment. On that basis, Indonesia would have had 43.0 per cent of workers engaged in formal employment in August 2017, including 45.7 per cent of men and 38.6 per cent of women. The city of Jakarta had the highest share of formal workers at 71.6 per cent, followed closely by the Riau Islands at 68.5 per cent. Three other regions stand out: Kalimantan Timur at 60.0 per cent; Banten at 58.1 per cent; and Kalimantan Utara at 57.7 per cent. Other regions showed less formality, with Papua sitting at just 21.8 per cent.

**Table 10**

Numbers of formal versus informal workers by province, August 2017, ranked in descending order of formality

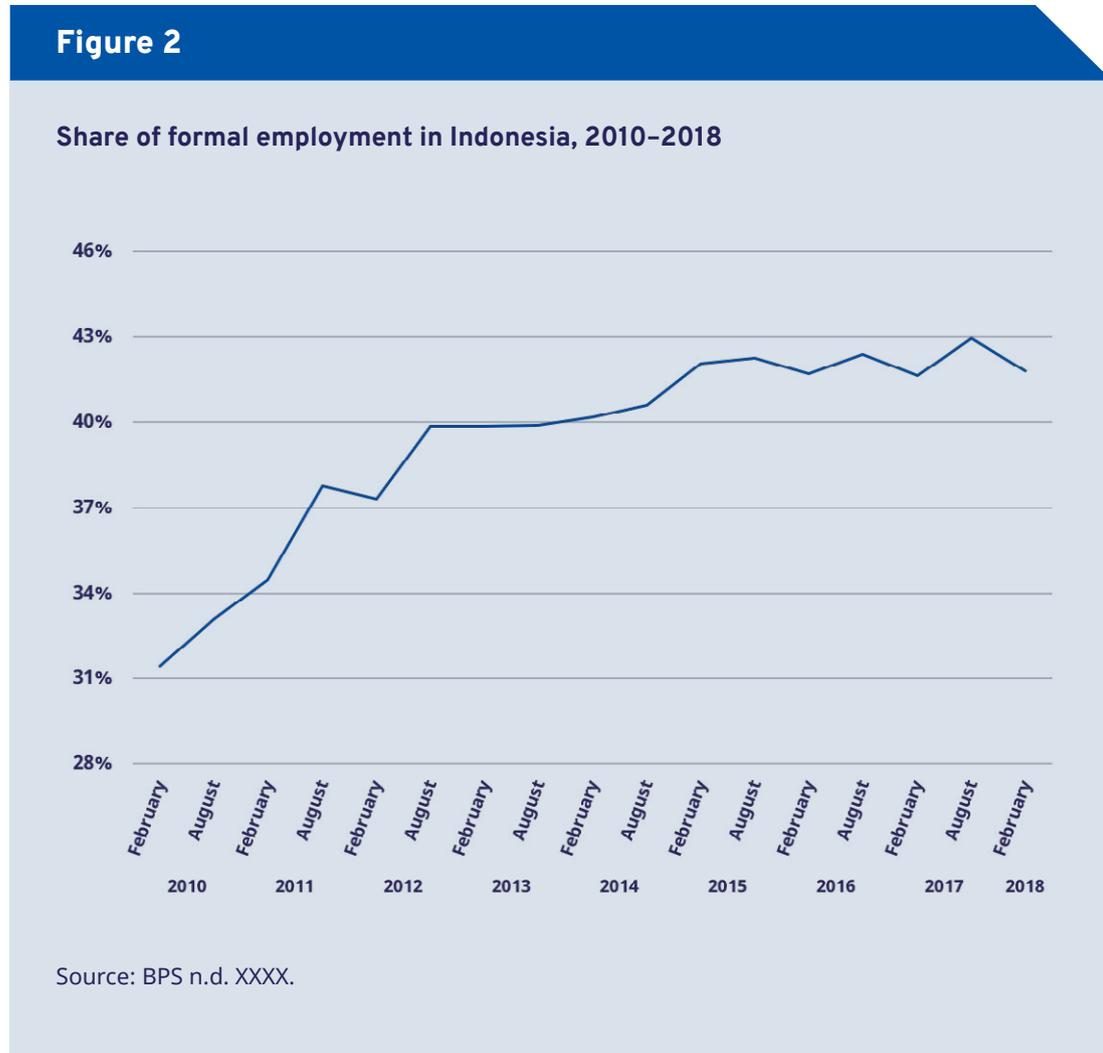
Province	No. of workers			% Formal
	Formal	Informal	Total	
DKI Jakarta	3 226 500	1 282 700	4 509 200	71.6%
Kepulauan Riau	614 500	282 400	896 900	68.5%
Kalimantan Timur	923 800	616 900	1 540 700	60.0%
Banten	2 948 400	2 129 000	5 077 400	58.1%
Kalimantan Utara	180 400	132 000	312 400	57.7%
Kepulauan Bangka Belitung	347 200	325 400	672 600	51.6%
Jawa Barat	10 321 500	10 230 100	20 551 600	50.2%
Bali	1 203 900	1 194 400	2 398 300	50.2%
Riau	1 315 400	1 465 600	2 781 000	47.3%
Kalimantan Tengah	558 400	664 300	1 222 700	45.7%
Sulawesi Utara	463 600	577 300	1 040 900	44.5%
DI Yogyakarta	892 200	1 161 000	2 053 200	43.5%
Sumatera Utara	2 673 800	3 692 200	6 366 000	42.0%

Province	No. of workers			% Formal
	Formal	Informal	Total	
Jambi	687 500	970 300	1 657 800	41.5%
Papua Barat	164 600	237 900	402 500	40.9%
Aceh	864 500	1 274 000	2 138 500	40.4%
Jawa Tengah	6 825 300	10 361 300	17 186 600	39.7%
Gorontalo	207 100	317 200	524 300	39.5%
Kalimantan Selatan	770 000	1 205 200	1 975 200	39.0%
Jawa Timur	7 767 500	12 331 700	20 099 200	38.6%
Kalimantan Barat	888 300	1 414 900	2 303 200	38.6%
Maluku Utara	185 900	302 800	488 700	38.0%
Sulawesi Selatan	1 354 200	2 244 500	3 598 700	37.6%
Sumatera Selatan	1 482 400	2 460 200	3 942 600	37.6%
Maluku	238 700	403 400	642 100	37.2%
Sulawesi Tenggara	421 300	739 700	1 161 000	36.3%
Sumatera Barat	834 900	1 510 000	2 344 900	35.6%
Bengkulu	313 500	619 400	932 900	33.6%
Sulawesi Tengah	439 000	935 200	1 374 200	31.9%
Sulawesi Barat	187 900	407 100	595 000	31.6%
Lampung	1 157 700	2 738 500	3 896 200	29.7%
Nusa Tenggara Barat	611 200	1 705 600	2 316 800	26.4%
Nusa Tenggara Timur	560 200	1 759 900	2 320 100	24.1%
Papua	370 500	1 328 600	1 699 100	21.8%
<b>Indonesia</b>	<b>52 001 700</b>	<b>69 020 700</b>	<b>121 022 400</b>	<b>43.0%</b>

Note: Formal workers are defined by BPS as paid employees and employers with paid employees; informal workers are all others, that is, self-employed, employers with unpaid or temporary employees, agriculture workers, and unpaid family workers.

Source: BPS. n.d.

The share of formal employment, according to the BPS metric, has trended upwards in Indonesia since 2010, although gains have been slight since August 2012 (figure 2).



An increase in formal employment will increase tax revenues as well as the consequential provision of public services. It will also allow for the expansion of social security coverage. As stated in the Preamble of the ILO's Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204):

[T]he high incidence of the informal economy in all its aspects is a major challenge for the rights of workers, including the fundamental principles and rights at work, and for social protection, decent working conditions, inclusive development and the rule of law, and has a negative impact on the development of sustainable enterprises, public revenues and governments' scope of action, particularly with regard to economic, social and environmental policies, the soundness of institutions and fair competition in national and international markets.

Recommendation No. 204 goes on to recommend the implementation of integrated legal and policy frameworks, comprehensive employment policies, as well as incentives and compliance measures, all of which should be pursued in dialogue with workers and employers.

## ▶ 2.6. A concern: The declining value of the Indonesian rupiah

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In January 2018, one US dollar would buy about 13,200 rupiahs, but that grew to approximately 15,200 rupiahs towards the end of October 2018. Following actions taken by public authorities, the rupiah recovered some of its value in subsequent months and was trading at about 14,100 rupiahs to one US dollar in February and early March 2019. News reports in the fall of 2018 had highlighted the fact that the national currency was close to equalling its all-time low, recorded in mid-1998<sup>13</sup>. However, analysts pointed to Indonesia's stability, strong economic performance and reserves as factors differentiating the current situation from the financial panic that occurred in 1997 and 1998. More recently, one analysis cited policy responses by the central bank (Bank Indonesia) and external developments as positive factors, but remained cautious on future risks to the currency (QNB 2019).

The overall trend in the value of the Indonesian currency has been controlled but negative; that is, it has gradually taken more and more rupiahs to obtain an equivalent amount of US dollars. Figure 3 traces the currency's history since 2010.

As noted by Bank Indonesia (2017, 106): "A stable exchange rate will have a positive effect on the confidence of market actors. It will also mitigate risks for business from excessive transmission of rupiah depreciation, an event that in turn could impair Indonesia's ability to meet its inflation target." Loss of confidence is always a risk. Investments could falter and the economy suffer. Job losers would then need effective protection against loss of income.

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<sup>13</sup> On 17 June 1998 the exchange rate reached 17,300 rupiahs to US\$1, but bounced back overnight with trading on the next day opening at 16,000 rupiahs to US\$1.

**Figure 3****Currency exchange rate, rupiahs to purchase one US dollar, 2010–2019**

Source: Investing.com n.d.

## 2.7. Observations

With a diverse population, geography and economy, Indonesia faces development challenges. The recent decline of its currency might serve as a warning that the country needs to reform some of its institutions and infrastructure, including the organization of its labour market.

The IMF (2018, 29) has outlined what it sees as priorities for Indonesia: “In Indonesia, the priorities are to enhance infrastructure, streamline regulations to boost competition and competitiveness, improve education quality, and ease labour market regulation to support employment.” Nevertheless, the IMF still sees sound growth ahead and even modest improvement in the Indonesian unemployment rate. Real GDP growth is expected to continue at about the same rate as in recent years – around or just above 5 per cent.

This perspective keeps the window open for the country to deal with its labour market issues, including the introduction of at least a basic employment insurance scheme.

A note of caution: in its 2018 World Economic Outlook, the IMF acknowledges that forecasting downturns is difficult: “Statistical models generally have limited success in accurately predicting recessions – a decline in the level of GDP. ... [O]ut of the 313 recessions in a sample of 117 economies, only 47 have been anticipated” (IMF 2018, 48).

Since, for now, the Indonesian economy is expected to keep on a steady growth path for 2018 and the next few years, there may be an opportunity to address some of the outstanding issues. Labour market rules and regulations are among those issues, including the provision of unemployment protection for the day when a downturn will occur – it being understood that such a downturn may happen unexpectedly.

## ▶ 2.8 Considerations for employment insurance

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Regarding employment insurance (EI), the diversity of the labour market in Indonesia supports adopting a scheme that is both simple and flexible. The proposed EI scheme should provide periodic cash benefits as a percentage of workers’ earnings – not as a fixed monthly amount, as such an approach would have to reflect varying wage levels within regions and industries and would need to be constantly reviewed to account for inflation. EI coverage should have minimal limitations, and not depend, for example, on employer size, type of activity, assets or turnover, all of which can fluctuate.

A recurring dilemma in many countries, as in Indonesia, is the issue of informal employment. On a practical level – and setting aside theoretical definitions – formal employment in Indonesia currently applies to about 30 million of the country’s employed persons, namely those who have at least basic social security protection in the form of work injury benefits (JKK) and death benefits (JKm)<sup>14</sup>, plus the civil service (including police and defense forces). This accounts for only about one quarter of working Indonesians. In addition to wage earners, self-employed workers can also opt in for coverage: 1.7 million self-employed workers were temporarily covered<sup>15</sup> under JKK and JKm at the end of 2017, but only 143,000 were covered under BPJS-TK’s old age fund, known as the Jaminan Hari Tua (JHT).

There may be ways to encourage the growth of formal employment and by consequence the expansion of social security coverage. A review prepared for the European Commission’s “European Platform tackling undeclared work” identified more than 20 preventative measures for tackling undeclared work, and ranked them alongside deterrence measures according to their perceived effectiveness as follows:

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<sup>14</sup> Jaminan Kecelakaan Kerja (JKK) work injury benefits and Jaminan Kematian (JKm) death benefits are administered by BPJS-TK.

<sup>15</sup> “Temporarily covered” best describes coverage for this group, given that coverage terminations for self-employed workers numbered 2.42 million in 2017.

- ▶ Deterrence: penalties;
- ▶ Deterrence: measures to improve detection;
- ▶ Incentives to operate in the declared economy: supply-side;
- ▶ Awareness-raising campaigns;
- ▶ Incentives to operate in the declared economy: demand-side;
- ▶ Changing formal institutions (Williams 2018) <sup>16</sup>.

Preventative measures and incentives might be preferred over deterrence, but the focus has usually been on the latter, despite their limited success.

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<sup>16</sup> Also worth exploring is an earlier report by the same author: Colin C. Williams, "The Informal Economy and Poverty: Evidence and Policy Review" (2014, Joseph Rowntree Foundation).



Source: ILO/Asrian Mirza

# 3

## Social security in Indonesia

# Social security in Indonesia

## 3.1. General overview

There are currently five social security schemes in Indonesia:

- ▶ Jaminan Kecelakaan Kerja (JKK), which provides work injury benefits;
- ▶ Jaminan Kematian (JKm), which provides death insurance/death benefit;
- ▶ Jaminan Hari Tua (JHT), an old age savings fund;
- ▶ Jaminan Pensiun (JP), which provides a pension; and
- ▶ Jaminan Kesehatan Nasional (JKN), the national health insurance scheme.

Table 11 provides a look at employer and employee contribution rates for each of the five schemes. Social security contributions in Indonesia currently stand at a combined average total of 15 per cent of salaries, with employers paying 11.0 per cent and workers paying 4.0 per cent.

**Table 11**

### Social security contributions in Indonesia

Social security scheme	Contributions as percentage of salary <sup>1</sup>	
	By employer (%)	By employee (%)
<b>Administered by BPJS-TK</b>		
Work injury (JKK) <sup>2</sup>	0.24 – 1.74	–
Death insurance (JKm)	0.3	–
Old age fund (JHT)	3.7	2.0
Pension (JP)	2.0	1.0
<b>Administered by BPJS-K <sup>3</sup></b>		
Healthcare (JKN)	4.0	1.0
<b>Total</b>	<b>10.24 – 11.74</b>	<b>4.0</b>

– = nil.

<sup>1</sup> Salaries include fixed allowances of up to 7,335,300 rupiahs per month (in 2017).

<sup>2</sup> Five categories depending on risk (as specified in Appendix I of Regulation 44/2015 on Work Accidents).

<sup>3</sup> BPJS-K = Badan Penyelenggara Jaminan Sosial Kesehatan (National Social Security System for Health).

Source: Government Regulations.

Contribution rates for work injury (JKK), death insurance (JKm) and the old age fund (JHT) have remained the same since at least 1992. The defined-benefit JP pension scheme was initiated in 2015, adding to the four pre-existing schemes. Another scheme for public housing (BP Tapera, created through the 2016 Law on Public Housing Savings) is being launched in 2019 for members of the civil service and within five years for private sector workers, as discussed later in this section.

The coverage rules and attained coverage for each scheme are as follows in table 12:

**Table 12**

**Social security coverage in Indonesia, 2017**

Managing agency	Benefit package	Legal coverage of workers	Actual coverage
BPJS-TK	JKm, JKK, JHT, JP	Medium/large enterprises	10.6 million workers
	JKm, JKK, JHT	All formal enterprises (incl. SMEs)	14.6 million workers
	JKm, JKK	Formal and informal enterprises	26.2 million workers <sup>1</sup>
BPJS-K	JKN	Mandatory for all Indonesians	219.7 million citizens**

SMEs = small and medium enterprises.

<sup>1</sup> Detailed as: 16.1 million wage earners, 1.7 million non-wage earners, and an estimated 8.5 million construction workers.

<sup>2</sup> JKN coverage for benefits as of 24 April 2019 (coverage of wage recipients was 50.5 million at the same date).

Source: BPJS-TK 2017b; BPJS K n.d.; and information provided by BPJS-TK to the authors.

Project-based construction workers are only covered on a bulk basis and only for the JKK and JKm, with employer contributions assessed according to the estimated value of the construction projects. BPJS-TK does not collect or in any way access individual worker records for such projects. Once projects are completed, workers do not retain any coverage. <sup>17</sup> These project-based workers are distinct from the permanent employees of construction enterprises, who are covered on the same basis as all other regular wage earners.

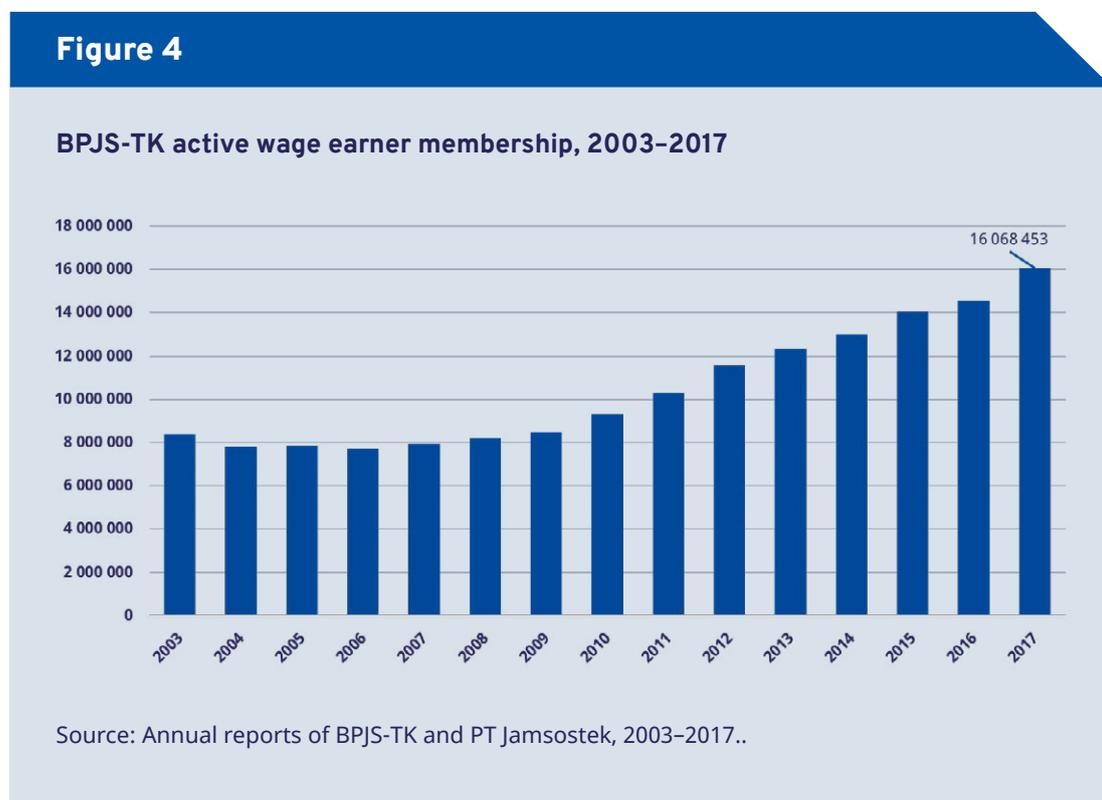
The JKK work injury scheme has among its benefits a periodic payment for workers temporarily unable to work, as follows: the first six months are paid at 100 per cent of wages' the second six months are paid at 75 per cent of wages; and any further payments are made at a rate of 50 per cent of wages.

For the schemes administered by BPJS-TK, the Government plans to later expand coverage to include civil servants and the armed forces by 2029. Coverage of micro/small and medium/large enterprises is governed by Presidential Decree No. 109/2013, with the scope of each category set out in the Law on Micro, Small and Medium Enterprises, No. 20 of 2008 (see Appendix A). Law No. 20/2008 defines the size of enterprises based

<sup>17</sup> The temporary or revolving nature of this coverage is apparent in the fact that terminations of coverage for construction workers numbered 7.45 million in 2017, almost as many as were shown to be covered (8.5 million).

on their net assets and annual sales. The values used in this regulation do not appear to have been updated since 2008, which should have the effect of gradually shifting firms into higher categories. In any case, the relevance of sales volume and asset values to social security coverage could be questioned, since they can vary widely among firms with similar numbers of workers. This issue is addressed later.

BPJS-TK (and its predecessor PT Jamsostek) has been successful in increasing its membership over the years, especially after 2009. Coverage hovered close to 8 million members from 2003 to 2009, but enrolment of regular wage earners picked up from 2010 to 2017 (see figure 4). By 2017, enrolment had doubled from earlier levels, reaching 16.1 million active wage earners. Only active wage earners are considered here, since this group constitutes those whose individual characteristics and longitudinal records are kept by BPJS-TK.



The coverage achieved by BPJS-TK, as shown in table 13 and figure 4, is still far from universal, since the number of employed persons in Indonesia was estimated at 127.1 million in the February 2018 labour force survey. Even the number of paid employees – the most relevant target for coverage – was much higher, at 48.4 million. The full employment distribution is shown in table 13. Perhaps, at some future time, even casual workers could be targeted for coverage, but the priority for now should be permanent workers.

**Table 13**

Number of workers by main employment status, February 2018

Main employment status	Number of workers	Distribution
Self-employed	23 615 000	18.6%
Employer assisted by temporary/unpaid workers	20 938 000	16.5%
Employer assisted by permanent/paid workers	4 673 000	3.7%
Employees	48 421 000	38.1%
Casual workers in agriculture	4 582 000	3.6%
Casual workers in non-agriculture	6 340 000	5.0%
Unpaid family workers	18 498 000	14.6%
<b>Total employment</b>	<b>127 068 000</b>	<b>100.0%</b>

Source: BPS n.d.

With civil servants accounting for 4.2 million workers (covered by Taspen) and military and police for another 1.2 million (covered by PT Asabri), the residual target for BPJS-TK basic coverage (that is, JKK and JKm) should be about 43 million wage earners.<sup>18</sup>

Although the services offered by BPJS-TK have been criticized in some quarters, the results of an independent customer satisfaction survey seem favorable to the institution. BPJS-TK’s 2017 annual report presents a customer satisfaction index of 90.17 per cent, reportedly based on a survey conducted by an independent consultant (BPJS-TK 2017, 386).

Indonesia’s employment structure makes it challenging to expand contributory coverage. In 2017, the latest year for which data is available, an estimated 62.1 million micro firms each employed 1.73 workers on average, accounting for 89.1 per cent (107.2 million) of all employed workers in the country and 36.8 per cent of GDP (Ministry of Cooperatives and SMEs 2017; see Appendix A for details). These figures offer an indication of the significant role of micro business in Indonesia.

### ▶ 3.2. JHT provident fund

There are two social security schemes targeting old age in Indonesia:

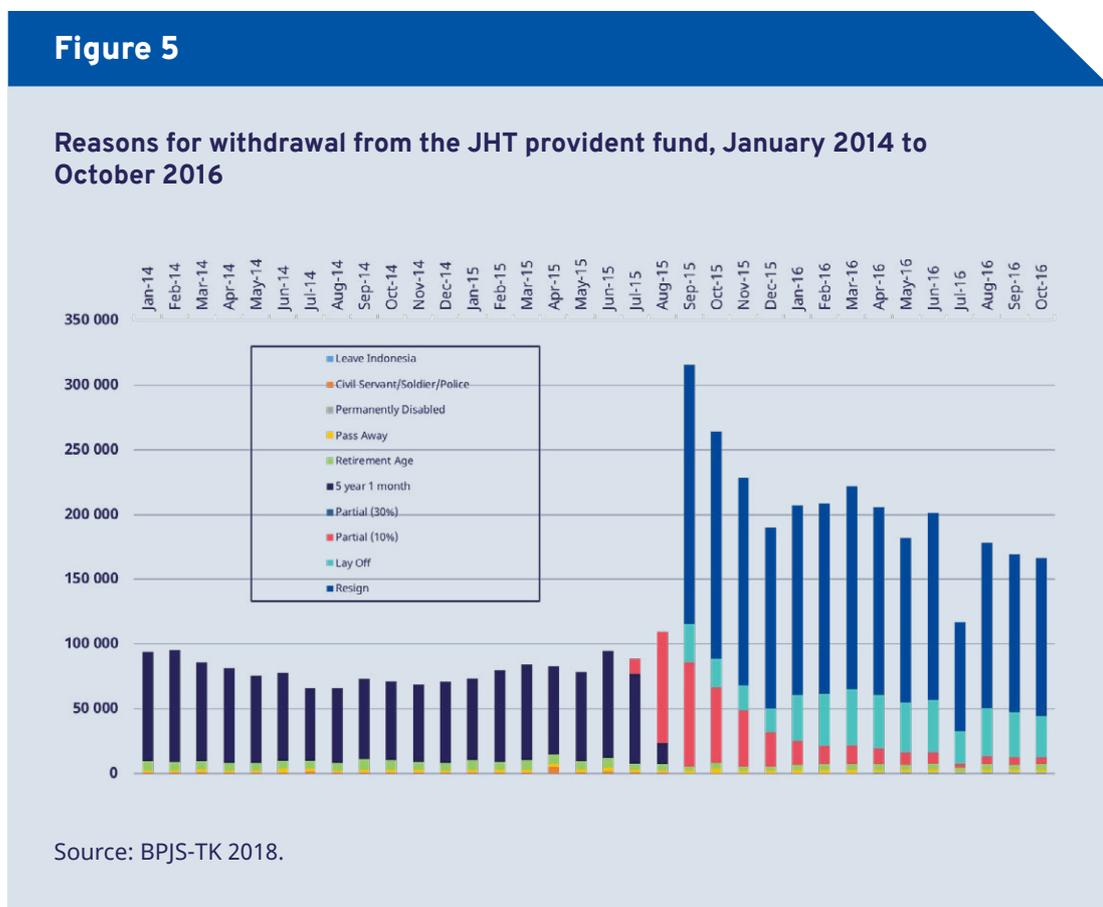
- ▶ the JHT provident fund, under which the balance in individual accounts can be withdrawn under various circumstances; and
- ▶ the JP defined benefit pension scheme, introduced in 2015.

<sup>18</sup> Based on authors’ own calculations, since neither BPS nor BPJS-TK provide such classifications.

Under both schemes, the retirement age was set at age 56, but will increase to 57 in 2019 and then by an additional year every three years until it reaches 65 in 2043.

Under the JHT provident fund, all accumulated savings can be withdrawn at retirement, but also for permanent disability, death or leaving the country and, since mid-2015, in cases of job termination (after being unemployed for at least one month). Before then, withdrawals for job termination were only allowed after five years of contributions (plus one month of being out of work).

Figure 5 below shows the impact of the 2015 amendments: (1) the total number of lump sum withdrawals doubled, even more than doubling at first; (2) the main reasons for this doubling of withdrawals were resignations and layoffs.



Some other withdrawals are allowed – most notably a 10 per cent partial withdrawal while still working, after 10 years of work, to prepare for retirement; as well as a little used provision for a 30 per cent partial withdrawal for housing. Choosing either of these options freezes the remainder until retirement or job termination as previously described.

Annual JHT statistics for 2016 and 2017 show a disturbing trend. As seen in table 14, over 90 per cent of claims are reported as a result of resignations or layoffs, most of them resignations. However, analysis by BPJS-TK indicates that many claimants returned to work for the same employer soon afterwards, indicating that such resignations or layoffs were arranged and artificial, and the possible complicity of employers. As a result, while the JHT scheme is supposed to be focused on retirement needs, less than 3 per cent of claims were for retirement situations during 2016 and 2017.

**Table 14**

Distribution of types of claims made under the JHT provident fund, 2016 and 2017

Type of claim	2016	2017
Resignation	72.1%	76.4%
Layoff	19.4%	17.2%
Leaving Indonesia	0.1%	0.2%
Death	1.3%	1.0%
Retirement	2.2%	2.8%
Partial claim	4.9%	2.5%
<b>Total claims</b>	<b>2 169 767</b>	<b>1 855 180</b>

Source: BPJS-TK 2018.

Therefore, for many workers the JHT provident fund is serving as a short-term savings scheme. For example, after one year of work, the savings that workers can access is equivalent to about two thirds of a month’s pay (12 times 5.7 per cent), which many may find attractive. Alternatively, in the absence of effective unemployment protection, the JHT also serves as a kind of unemployment benefit.

Though this situation was made worse by the 2015 amendments, it is not new. An ILO assessment previously flagged this concern back in 2003:

One of the ways for unemployed workers to adjust to their need for money to fund their expenses is to withdraw Jamsostek old age benefit [JHT] balances. This can be done once a member has been a provident fund contributor to the old age benefit fund for five years or more, plus an additional wait period of 6 months, and has become unemployed. Total early withdrawal claims prior to the age of 55 because the workers were laid off were 241,760 in 1997, 493,131 in 1998, 610,791 in 1999, and 632,055 in the year 2000. In the same years, withdrawals made because the person had reached the age of 55 were only 28,612, 33,657, 33,650, and 34,085 respectively. In effect the Jamsostek retirement savings scheme [JHT] is being used mainly for purposes other than financing individual retirement savings (ILO 2003, 6).

### ▶ 3.3. JP defined benefit pension

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The JP defined benefit pension scheme, introduced in 2015, will provide regular monthly pension payouts, paid at normal retirement age to those who have contributed for at least 15 years. Benefits will be modest, pegged at 1 per cent of the career average indexed salary per year of service. The ILO previously commented that these benefits fall below the minimum requirements of the Social Security (Minimum Standards) Convention, 1952 (No. 102) (ILO 2017a).

Whether or not JP benefits are improved, the current contribution rate of 3.0 per cent will not be enough to sustain the scheme in the long-term. A first step could be to terminate the JHT scheme and switch its contributions into the JP scheme. Even then, the contribution rate might eventually have to be raised further.

### ▶ 3.4. Apparent liquidity reserves

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Other features of the Indonesian social security system are relevant to the EI discussion, especially since it has been proposed to divert some surpluses or reserves from the JKK and JKm schemes to fund either EI or a skills development fund.

Detailed financial data as of 31 December 2017 is provided on the four funds managed by BPJS-TK in Appendix B. According to those audited statements, the net assets of each scheme are:

- ▶ JHT scheme, net assets of 235 trillion rupiahs, or US\$15.5 billion;
- ▶ JP scheme, net assets of 25 trillion rupiahs, or US\$1.7 billion;
- ▶ JKK scheme, net assets of 21 trillion rupiahs, or US\$1.4 billion;
- ▶ JKm scheme, net assets of 7.5 trillion rupiahs, or US\$500 billion (BPJS-TK 2017a).

The assets of the JHT scheme are held against equivalent liabilities, namely the deposits of contributors; while those of the JP scheme are held against future pension obligations. The JKK's reported liquidity was equal to 263 months (nearly 22 years) as of 31 December 2017; while the JKm's liquidity was equal to 148 months (12 years). "Liquidity" is defined in the BPJS-TK (2017a) financial statements as "the number of months the social security fund will be able to pay its obligations" and is based on the fund's net assets.

However, in the absence of further analysis, the size of any excess in the JKK or JKm reserves is uncertain. Past reviews and current experience indicate that work injury claims are underreported, so that costs would be expected to increase as public knowledge about the scheme improves.<sup>19</sup> It also appears that some of the costs that should be supported

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<sup>19</sup> See for example: ILO, Restructuring of the Social Security System (Part 3) – Employment Injury and Benefits, ILO/TF/Indonesia/R.21 (3) (2003).

by JKK are in fact being paid for by the JKN national health insurance programme, a programme that had accumulated a deficit of 23 trillion rupiahs as of 31 December 2017.

Possible actions to take could be, first, to conduct a comprehensive analysis to determine the amount of any excess funds in the JKK and JKm funds; second, if appropriate, to reduce contribution rates for those schemes, or improve benefits; and third, to reallocate any available contribution space to fund EI and skills development. However, contribution rates under both JKK and JKm are already so low as to make it unlikely that any reallocation could be very large.

As a matter of sound governance, the direct appropriation of JKK and JKm funds for EI or skills development should be avoided – and is currently specifically prohibited by law. In practice, depending on costs, any re-appropriated funds might only be enough for a few years.

### 3.5. Tapera: Law of Public Housing Savings

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The Law on Public Housing Savings, known as the Tapera Law, was passed by the Indonesian House of Representatives on 23 February 2016. The Tapera scheme established by the law might be viewed as an extension of the social security system of Indonesia, since access to shelter is a recognized human right. The responsible ministry is, however, the Ministry of Public Works and Public Housing.

The law set up the BP-Tapera savings fund for affordable housing, with an initial capital of 2.5 trillion rupiah (about US\$165 million) from government funds. BP-Tapera is intended to collect contributions from workers and their employers, at a rate of 2.5 per cent of salary and 0.5 per cent of salary, respectively. Disbursements would go to low income workers to assist them in buying, building or improving a first house, apparently at favorable interest rates. Funds not taken by the time someone has retired, died or ceased to contribute for five years would be refunded to individual contributors.

The Tapera Law should in principle take effect in 2019 but will for now only apply to the civil service plus state-owned and region-owned enterprises – about 4.3 million workers – effectively replacing the previous housing scheme for this group (BAPERTARUM-PNS) (Aldin 2018). During 2018, individual savings accounts under that former scheme were refunded to inactive employees or their estates, the remainder being held for BP Tapera. The armed forces and police (over 1 million individuals) have for now been exempted from joining the Tapera scheme (Prihatini 2018).

After a maximum of five to seven years, the law would in principle be extended to all workers (aged at least 20 or married) and all employers in Indonesia. Uncertainty remains, pending the issuance of comprehensive regulations for the new scheme and due to ongoing resistance from employer organizations.

For now, there does not seem to be any overlap of the Tapera provisions with those of JHT that allow for 30 per cent housing withdrawals, since the JHT scheme does not cover civil servants. In the future, the issue might have to be revisited, even if few people apply for housing funds under the JHT scheme, no more than 10 per month.

The more significant impact of the Tapera scheme would come if and when it is extended to the private sector, and thereby adding to payroll deductions, mostly for workers.

### ▶ 3.6. Observations

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The above overview of the social security system of Indonesia suggests a need for a review and rationalization of all public schemes requiring payroll deductions. In particular, authorities could examine whether the JHT defined contribution scheme and the JP defined benefit scheme should both be maintained. It would be more effective and less burdensome to maintain a single scheme. A single old-age scheme would also be more transparent and easier to understand for workers, employers and public authorities, as well as avoid duplication of administrative procedures for all parties.

BPJS-TK operates its own system for the collection of contributions, subject to collaboration with tax authorities and other government departments or agencies for the acquisition of potential contributors. BPJS-K<sup>20</sup>, the agency responsible for the JKN national health insurance scheme, has its own separate system for collecting contributions. It is unknown whether BP-Tapera could also set up its own contribution system if the public housing savings scheme eventually expands to the private sector. An integrated collection system for all contributions and taxes would be more effective, less costly and less of a burden for employers and workers. In such an environment, any employer or worker registered under one programme or scheme should be automatically registered under all programmes and schemes.

### ▶ 3.7. Considerations for employment insurance

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For an employment insurance scheme, coverage should apply to as many employees as possible, whether they work for small, medium or large employers. As in other countries, coverage should be limited to paid employees. Self-employed individuals should not be covered for EI, since their status in or out of work – as well as their earnings – would be difficult if not impossible to verify.

A significant factor is that BPJS-TK already provides periodic benefits to workers temporarily unable to work (under the JKK work injury scheme); so administrative procedures for ongoing payments are already in place and could presumably be adapted to the payment of periodic EI benefits.

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<sup>20</sup> BPJS-K is short for Badan Penyelenggara Jaminan Sosial Kesehatan, which translates to National Social Security System for Health.

Based on current data, maximum coverage could apply to about 16.1 million workers, namely those individual employees currently covered by the JKK and JKm schemes (work injury and death) <sup>21</sup>. Consideration could also be given to including civil service employees (about 4.3 million individuals) as is done in some other countries. Though civil service employees should have lower risks of becoming unemployed, some might still be subject to layoffs or workforce adjustments. Their inclusion could also be argued for on grounds of solidarity and risk-sharing.

Efforts by BPJS-TK to expand coverage under its schemes to all paid employees in Indonesia – numbering approximately 43 million according to labour force surveys <sup>22</sup> – should be continued and would make the EI scheme even more effective in protecting workers. Efforts by public authorities to bring a larger proportion of Indonesia’s 130 million or so employed persons into formal employment would be even more beneficial.

We would not recommend exempting the employees of small- or medium-sized employers from EI coverage. The sectors in which they operate may in fact be some of those that are most in need of unemployment protection.

From a financial perspective, maximum risk pooling and sustainability would be achieved by extending coverage to as large a group of employees as practicable. Even employers with the most stable employment history would benefit from the widest possible application of the EI scheme, given the effect the scheme would have on their own business through general economic stabilization and through preventing local or regional disturbances.

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<sup>21</sup> As noted above, this figure excludes the approximately 8.5 million construction workers who are only insured on a bulk basis, without individual registration or records.

<sup>22</sup> As noted above, this figure excludes civil servants, armed forces and the police.



Source: ILO/Better Work Indonesia

# 4

## Employment termination in Indonesia

# Employment termination in Indonesia

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## ▶ 4.1. General overview

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The primary source of protection against unemployment in Indonesia is the Labour Law (Act No. 13 of 2003), which makes the firing of employees difficult and termination benefits expensive. Governments with limited resources have often tended to use this approach to protect workers, perhaps because it allows them to discharge their responsibility at minimal or no cost to public funds. However, employers may not be able or willing to fulfill the obligations imposed upon them. And public authorities may be reluctant or unable to strictly enforce such laws. Such is the case in Indonesia.

The Labour Law (Act No. 13 of 2003) distinguishes between two types of employment: (1) employment for a fixed term, and (2) permanent employment of indefinite duration. A written contract is required only for fixed-term employments, which are in theory – though not always in fact – restricted to certain activities and cannot be for more than two years. Despite that two-year rule, such contracts can be extended once for a third year, or after one month without employment, renewed once for another two years. If the employer wishes to continue employing the worker at that point, the worker must be employed under a permanent work agreement. Contracts of employment for permanent employees can be in writing or verbal but, in the latter case, should be accompanied by a letter of appointment.

Many companies in Indonesia sub-contract their production to third-party firms which rely largely on fixed-term employment. The advantage of fixed-term employment is that, if the contract is terminated early, the employer only has to pay compensation for the unexpired term of the contract, or no compensation at all if the contract has expired. In fact, if not in law, fixed-term employment contracts are not subject to the complex and extensive termination benefits that are described below. The 2003 Labour Law does not appear to exempt employers from paying termination benefits for fixed-term contracts, but such an exemption appears to be widely accepted. For workers, those jobs are generally of lower quality and at lower wages.

Termination of a permanent contract, or early termination of a fixed-term contract, must first be approved by authorities, namely by the Industrial Relations Court. In most cases of indefinite employment, termination benefits must be paid to former workers, the type and amount of which will vary depending on the circumstances under which employment was ended. The amounts that should be paid, according to legal stipulations, can be quite high – but compliance with those requirements is low.

### 4.1.1. Allowed reasons for termination of employment

There are broadly speaking eight reasons that allow employers to end a worker's employment:

- ▶ Grave wrongdoings, such as stealing from the employer or drunkenness;
- ▶ Not reporting to work for six months due to legal proceedings unrelated to the employer;
- ▶ Violating company regulations or the work agreement, after three warnings;
- ▶ A change in corporate status;
- ▶ Bankruptcy, rationalization, force majeure or closure due to continual losses for two years;
- ▶ Reaching retirement age, death, or illness for 12 months;
- ▶ Unexplained absence for five consecutive days; and
- ▶ End of a fixed-term contract.

Employees can also validly resign from employment with 30 days' notice, or in the event that the employer did not pay the wages owed, or asked workers to perform illegal or dangerous work or work that was not agreed to in the employment contract.

These rules, along with the intricacies related to dismissal payments (discussed in section 4.3 below), place Indonesia as one of the countries with the most complex procedures in the world when it comes to terminating employment. Again, however, compliance with those requirements is often inadequate.

### 4.1.2. Termination benefits: Components

Under article 156 of the 2003 Labour Law, a terminated employee may be entitled to four kinds of benefits:

- ▶ severance pay (*UP – uang pesangon*);
- ▶ reward for working time (*UPMK – uang penghargaan masa kerja*);
- ▶ compensation fee (*UPH – uang penggantian hak*); and
- ▶ voluntary (or negotiated) separation pay (*SP – uang pisah*).

UP (severance pay) is calculated as being equivalent to one month of pay for each partial year of service, up to a maximum of nine months' pay after eight years of service (table 15).

UPMK (reward for working time) starts at two months' worth of pay after completing three years of service, plus one month's pay for each additional three years of service, up to eight months' pay after 21 years of service. Then, upon attaining 24 years of service, UPMK is set at its maximum value of 10 months of pay (table 16).

UPH (compensation fee, or rights replacement) deals with unpaid annual leave, agreed benefits plus 15 per cent of UP and UPMK, depending on eligibility.

SP (uang pisah) depends on what has been agreed upon in the hiring contract or may be stipulated in company regulations.

**Tabel 15**

Severance pay according to years of service

Years of service	Months of severance pay
Less than 1 year	1 month's pay
1 year to less than 2 years	2 months' pay
2 years to less than 3 years	3 months' pay
3 years to less than 4 years	4 months' pay
4 years to less than 5 years	5 months' pay
5 years to less than 6 years	6 months' pay
6 years to less than 7 years	7 months' pay
7 years to less than 8 years	8 months' pay
8 years or more	9 months' pay

Source: Labour Law (No. 13/2003), article 156(2).

**Tabel 16**

Reward for working time according to years of service

Years of service	Months of reward
3 years to less than 6 years	2 months' pay
6 years to less than 9 years	3 months' pay
9 years to less than 12 years	4 months' pay
12 years to less than 15 years	5 months' pay
15 years to less than 18 years	6 months' pay
18 years to less than 21 years	7 months' pay
21 years to less than 24 years	8 months' pay
24 years or more	10 months' pay

Source: Labour Law (No. 13/2003), article 156(3).

### 4.1.3. Definition of pay

The pay that is used for the calculation of termination benefits is the basic monthly wage/ salary plus any fixed allowances, namely any allowance that is not related to performance nor absenteeism. Fixed allowances – not exceeding 25 per cent of total wages – could, for example, be for food, lodging or transportation.

Since 23 October 2017, employers are required to formulate and apply a wage structure and wage scale for their employees and inform them of these details. In preparing the wage structure and wage scale, employers should consider factors such as classification, position or title, years of service, education, and competency of the employees.

#### 4.1.4. Termination benefits: Amounts

The amounts of each kind of termination benefit that are to be paid will vary depending on the reason why employment was terminated. Table 17 sets out the main provisions in this regard.

**Table 17**

Reasons for work termination and associated benefits to be paid under the Labour Law (No. 13/2003)

Reason for work termination	Benefits paid
Within probation period	No compensation
End of contract	No compensation
Resigned without notice	No compensation
Resigned with 30-day notice	UPH + SP
Employee fired due to grave wrongdoings	UPH + SP
Unexplained absence for 5 consecutive days	UPH + SP
Employee fired for contract breaches, 3 warnings	(1 x UP) + (1 x UPMK) + UPH
Resigned because company broke agreement	(2 x UP) + (1 x UPMK) + UPH
Force majeure, bankruptcy, losses for 2 years	(1 x UP) + (1 x UPMK) + UPH
Lay off due to rationalization ("efficiency")	(2 x UP) + (1 x UPMK) + UPH
Merger, acquisition: employee chooses to leave	(1 x UP) + (1 x UPMK) + UPH
Merger, acquisition: company terminates employee	(2 x UP) + (1 x UPMK) + UPH
Employee dies	(2 x UP) + (1 x UPMK) + UPH
Employee was sick and experienced injury for 12 months	(2 x UP) + (2 x UPMK) + UPH
Retirement age, no corporate lump sum pension	(2 x UP) + (2 x UPMK) + UPH
Retirement age, equivalent corporate lump sum pension	No compensation
Employee detained by authorities	6 months' partial wages for dependents
Employee legally guilty and jailed	(1 x UPMK) + UPH

Note:

UP = severance payment;

UPMK = reward for working time;

UPH = compensation fee, or rights replacement;

SP = negotiated or agreed separation pay.

Source: Adapted from ILO and analysis by national expert.

The box below presents a theoretical example to demonstrate how matters are meant to work in practice.

▶ **Box 1**

**Termination benefits: A case example**

Mr Edi has worked for 14 years for a firm making medical equipment in Jakarta. Over the last two years, the company has been downsizing its operations and effecting layoffs, of whom the latest is Mr Edi.

The last monthly salary received by Mr Edi was 4,300,000 rupiahs with the following details:

- 1. Basic Salary: 2,400,000 rupiahs
- 2. Fixed allowances (not to exceed 25 per cent of total wage):
  - a. Family responsibilities: 400,000 rupiahs
  - b. Length of service: 400,000 rupiahs
- 3. Non-fixed allowances:
  - a. Meal allowance: 550,000 rupiahs
  - b. Transport allowance: 550,000 rupiahs
- Total: 4,300,000 rupiahs

Mr Edi also still has a week of paid leave that he has not used (seven days). The reason for termination of Mr Edi is the employer downsizing for efficiency reasons. Based on the preceding, the severance pay (UP), reward for working time (UPMK), and compensation fee (UPH) to be received by Mr Edi are calculated as follows:

- a) Severance pay:  $2 \times UP = 2 \times 9 \text{ months} = 18 \text{ months' pay}$
- b) Reward for working time:  $1 \times UPMK = 1 \times 5 \text{ months} = 5 \text{ months' pay}$
- c) Compensation fee:  $15 \text{ per cent of } (a + b) + 7 \text{ days paid leave}$

The pay used for the calculations is the basic monthly wage plus fixed allowances:  
 $2,400,000 + (400,000 + 400,000) = 3,200,000 \text{ rupiahs}$

Thus:

- a) 18 months' severance pay =  $18 \times 3,200,000 = 57,600,000 \text{ rupiahs}$
- b) 5 months' reward =  $5 \times 3,200,000 = 16,000,000 \text{ rupiahs}$
- c) Compensation fee =  $15\% \text{ of } (a + b) = 11,040,000 \text{ rupiahs}$

**plus**

$7 \text{ days paid leave} = 3,200,000 \times (7 \div 30) = 746,600 \text{ rupiah}$

Then the total money paid to Mr Edi at the end of his employment is:

**a + b + c = 85,386,600 rupiahs**

In this example, the total money paid to Mr Edi is the equivalent of 27 times his basic wage plus fixed allowances. If, however, Mr Edi had been fired for contract breaches (after receiving three warnings), he would still have received 56.6 million rupiahs, or 18 times his monthly wages. Finally, if he was fired for grave wrongdoings, Mr Edi would only receive his unused days of paid leave: 746,600 rupiahs.

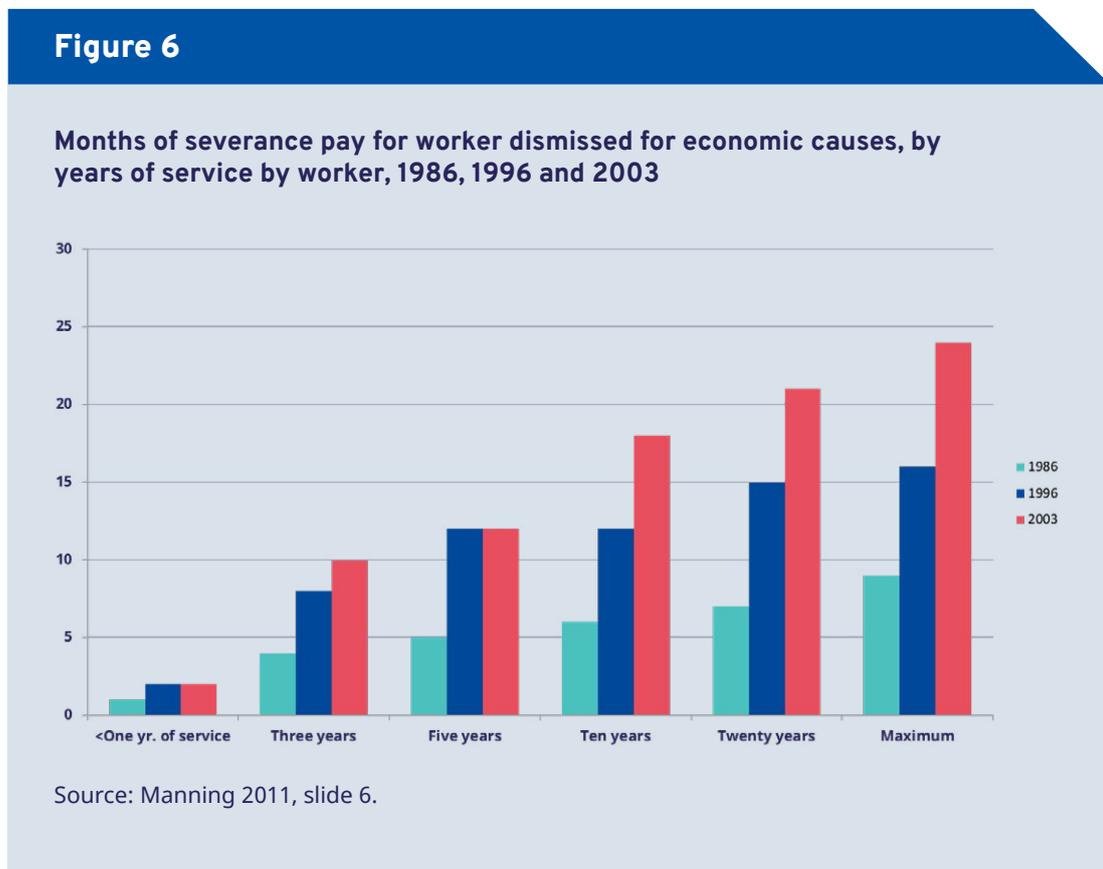
### 4.1.5. Disputes

Disputes on employment termination can have an impact on termination monies. These disputes must be settled through a step-by-step process that involves: (1) bargaining; (2) mediation; (3) conciliation; and (4) if the previous steps have failed, recourse to the Industrial Relations Court. Each of those steps has prescribed rules and timeframes as specified in Law No. 2 of 2004 concerning Industrial Relations Dispute Settlement. A further appeal to the Supreme Court could also, in principle, be made after the four enumerated steps.

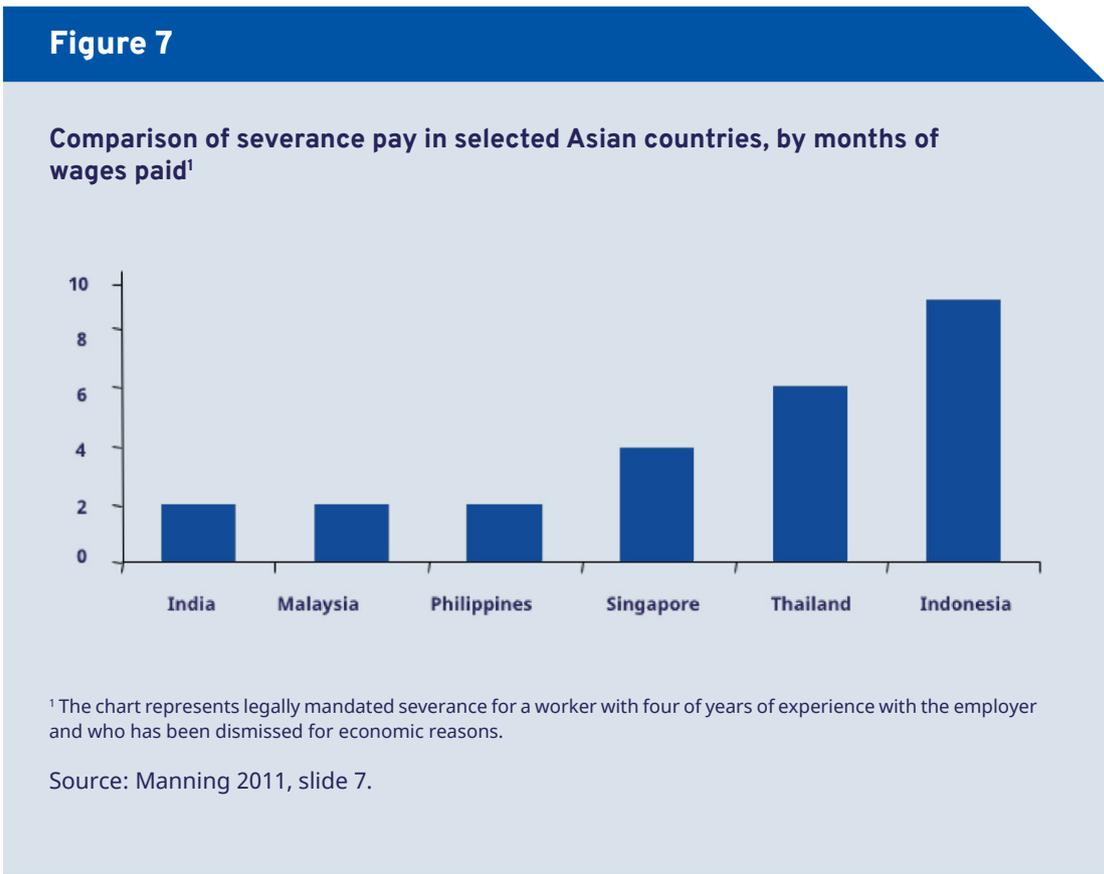
Unless a dispute is settled in the first few days or weeks, its resolution could involve considerable time and expense while it winds its way through the dispute mechanism.

## ▶ 4.2. Discussion

In the absence of other protection against unemployment, the severance pay mandate has been increased three times in Indonesia since the 1980s, under the pressure of trade unions. Figure 6 illustrates this trend.



The requirements for severance pay in Indonesia are more complex and expensive than in almost all other countries. Figure 7 below, for example, shows Indonesia having more expensive severance pay requirements than five other select Asian countries, in this instance for a worker with four years of experience at a firm.



According to the World Bank’s “Doing Business” website, out of 201 countries, only two rank higher (that is, are more costly) than Indonesia for redundancy payments, when considering their average value after 1, 5 and 10 years of service (World Bank 2019).

According to a 2012 World Bank study, compliance with existing regulations is very low: “Approximately one-third of legally-eligible employees actually receive severance pay after a job separation occurs. ... On average, the ratio of the severance pay received to the legally-entitled amount is below 40 percent. The product of these two ratios yields a wage-loss protection share of between 10 to 14 percent of eligible severed workers’ monthly wages” (Brusentsev, Newhouse and Vroman, 2012, 10 and 15).

A 2016 research paper jointly sponsored by the ILO and the Asian Development Bank similarly showed that a low proportion of workers had access to severance pay entitlements (Allen and Kyloh, 2016). Reporting on wage earners receiving social security benefits that should be universal, the authors stated that:

- ▶ 46.2 per cent of regular employees have health insurance provided by their employer;
- ▶ 32.0 per cent have workplace accident insurance;
- ▶ 19.8 per cent have access to a provident fund (old age savings);
- ▶ 18.7 per cent have a private pension;
- ▶ 19.0 per cent have life insurance; and
- ▶ 21.4 per cent have access to severance pay entitlements.

The last finding is the most important one for the current discussion: that just over 20 per cent of all wage earners stated being entitled severance pay, a finding that was based on the February 2016 national labour force survey. At that time, wage earners represented 38 per cent of all employed persons in Indonesia (still about the same in 2018). A graph in the same report (figure 17) indicated that approximately 32 per cent of workers with a written contract (both permanent and fixed-term) were eligible to receive severance pay, but this dropped to only about 10 per cent for those with a verbal contract or no contract. However, in the case of fixed-term employment, such eligibility is mostly theoretical since it only applies in situations of early termination.

The report's conclusion was that: "The law thus creates a major financial incentive for the employer to use workers on a series of short-term contacts and avoid any chance of incurring the significant costs that should apply if they need to dismiss a worker on a cont[r]act [sic] without limit of time" (Allen and Kyloh 2016, 86).

As noted in the same research and in other sources, Indonesian accounting standards, in line with international standards, require that enterprises make provisions to avoid financial difficulties in the case of mass dismissal: "However, in the vast majority of enterprises, no resources are allocated for severance or long service payments in the balance sheet. This means that the overwhelming majority of enterprises do not have the financial resources to meet their legal obligations when mass dismissals are required" (Allen and Kyloh 2016, 87).

There is no accepted consensus on the costs of the current termination benefits, but one estimate put such costs at about 7–8 per cent of payrolls costs, but noted that "actual costs can vary depending on the causes of termination and the distribution of the labour force" (Guérard and Tanner 2018, 314).

The issue of termination benefits in Indonesia is highly charged. For trade unions, these benefits, having been won after long and hard battles, including mass demonstrations, must be preserved. From the unions' perspective, non-compliance issues should be dealt with by stricter enforcement. Whether authorities have the capacity to do so, however, is uncertain.

Employers consider termination benefits and regulations as imposing excessive costs and rigidity, and thus hurting investment as well as hampering hiring, human resource planning and skills development for employees.

Most of the economic literature acknowledges that when termination benefits are too high or the rules that surround them too rigid, firms will limit their long-term investments and plan their human resources in order to minimize, as much as possible, their obligations. In Indonesia, this appears to be borne out in the high prevalence of outsourcing arrangements (arrangements where workers are engaged through third-party employment agencies or labour supply firms).

### 4.3. Observations

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In the debate over employment insurance, the issue of termination benefits must inevitably arise. One approach, followed by Viet Nam when introducing its EI scheme in 2009, was to freeze severance pay entitlements. In other words, workers who became covered by EI kept their accrued entitlements, but stopped earning any additional credits.

The issue of termination benefits also arose in Malaysia when discussing possible approaches to EI starting in 2012, and until a final plan was adopted in 2017. The rules for termination benefits are simpler and less costly in Malaysia than in Indonesia (topping off at a maximum of 20 days per year of service, see figure 7 above), and the final decision was to leave these termination benefits unchanged, though perhaps at the cost of setting up only a minimal EI scheme<sup>23</sup> – thereby gaining some acceptance from both trade unions and employers.

According to ILO standards, termination benefits, also called retrenchment benefits or severance pay, are compensation that is independent of and complementary to EI benefits.<sup>24</sup> However, this complementarity should not lead to overlap in compensation for unemployment. Article 22 of the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) recommends that either the EI benefit period or the amount of severance pay be reduced. Article 20(g) of Convention No. 168 provides that EI benefits may be refused, withdrawn, suspended or reduced if the claimant is in receipt of another income maintenance benefit.<sup>25</sup> Article 69(c) of Convention No. 102 has similar wording.

Termination benefits can be valuable for long-term employees – if they are paid in full – but not for those with broken or irregular work patterns. The latter are the most vulnerable to lay-offs and in most cases are not even eligible to receive such benefits.

<sup>23</sup> A brief summary of the Malaysian EI scheme is provided in Appendix C.

<sup>24</sup> See Article 22 of the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168).

<sup>25</sup> For a more extensive discussion, see the section entitled “How should existing retrenchment benefits be phased out?” in ILO, *Design of an employment insurance system for Malaysia* (2015).

## ▶ 4.4. Considerations for employment insurance

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For the design and implementation of an employment insurance scheme, there is a lesson to be learned from the rules and regulations on termination and termination benefits, and from the difficulty of achieving a fair and universal application of those rules. The lesson is that simpler and more effective rules may be preferable. Eligibility for EI benefits should not, for example, depend on whether an employment contract is for a fixed or an indefinite period. Generally, all that is needed for EI purposes is an individual's employment record, along with verification that they are unemployed and that they continue to actively look for a job.

Contrary to the passive nature of termination benefits, a principal advantage of EI is the continuous assistance that unemployed individuals can receive after losing their jobs, in addition to cash benefits. That assistance can be provided in many ways, such as advice on how to find a new job, prepare a resume, or prepare for job interviews; referrals to available jobs; or assistance in developing new skills.



Source: ILO/Jakarta/Leo M

# 5

## Administrative considerations

# Administrative considerations

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## ▶ 5.1. Policy development and leadership

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As with any social security program, there is a need for good governance as an essential element to establish an effective employment insurance system. Article 71 of ILO Convention No. 102 recommends that countries assume responsibility for sound governance, including consultations with and involvement of employers and workers in the operation of these schemes.

Sound management will also require the effective development of legal requirements and overall monitoring of the new EI programme. However, the development and implementation of the legal framework for the EI programme will involve consultations among several technical departments as well as other line ministries.

For policy development and overall leadership of their EI systems, most countries identify a ministry involved with social insurance affairs or labour. In Canada, for example, Employment and Social Development Canada (ESDC) is the department responsible for developing, managing and delivering social programmes and services. Service Canada is the operations arm of ESDC and is charged with administering EI benefit claims, along with other programmes for Canadians. In Viet Nam, the Ministry of Labour, Invalids and Social Affairs assumes responsibility for overall responsibility and management of the EI system, with the Bureau of Employment responsible for the processing of benefit claims.

A similar arrangement in Indonesia exists between the Ministry of Manpower and BPJS-TK. However, several stakeholders expressed the need for improvements in both ministries and departments prior to the implementation of a EI system in Indonesia. The upcoming feasibility study will seek to address those concerns.

## ▶ 5.2. Administration of claims for employment insurance benefits

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The three main functions of a EI programmes are collection of contributions, processing of EI applications and payment of benefits.

Generally, tax authorities or social insurance bodies will be charged with the responsibility of collecting EI contributions (some are also involved in the payment of EI benefits, such as in Bahrain and Viet Nam). Government departments of social insurance and/or

labour will normally be responsible for the receiving and processing of EI benefit claims (some are also involved in the payment of EI benefits, such as in Argentina, Canada, France and the Republic of Korea). Mongolia has three separate entities involved in the implementation of its EI scheme: (1) the Social Insurance General Office for collection of contributions; (2) the Labour and Social Welfare Service Office, which accepts and processes EI claims; and (3) the Ministry of Social Welfare and Labour for payment of benefits.

In Denmark, EI coverage and benefits are provided by private funds, according to rules set by the State. The fees charged by these funds vary, but are maintained at very low levels. The National Labour Market Authority is responsible for most EI regulations. Finally, the Danish Pensions Agency monitors the EI scheme by exercising control, compliance and audit functions over the individual funds to ensure that they are managed in accordance with public policy, objectives, rules and directives.

In Canada, unemployed workers are not required to report to regional or district offices, as almost all claims are received and processed via the internet. Virtual employment services are offered to unemployed workers once they have completed their electronic application for benefit.

In Indonesia, BPJS-TK currently processes the four types of social security benefits, including JKK worker injury benefits, which has a similar workflow to those for EI benefits in other countries. BPJS-TK could also administer EI benefit claims, but several stakeholders have concerns about its services. Those concerns need to be identified and addressed. A less desirable solution would be the creation of a new department for processing EI claims.

To maximize efficiency, EI contributions should be collected by a single department along with all other social security contributions. Indonesia could explore the feasibility of using internet technology for this purpose, a practice that has become common in many countries. BPJS-TK already has a mobile application and online registration system.



### **5.3. Workflow of employment insurance system in comparison to existing social security programmes**

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While we have seen identical comparisons in terms of functions such as the registration of employers and collection of contributions, the processing of claims for benefit and the payment of benefits. However, there are new and distinct functions and processes that will need to be introduced to administer EI claims for benefit, which include:

**Letters of termination or record of employment (ROE) by employer:** In most cases throughout the world, upon termination an employer will issue a notice of termination of employment and the unemployed person is required to complete an application for benefits and submit that notice to the local EI office. Alternatively, other countries have a booklet or ROE providing insurable earnings and length of employment, which is completed by the employer and provided to the unemployed worker on or shortly after separation from employment. The booklet or ROE is also required by the processing agency to assess the unemployed worker's eligibility for EI benefits as well as the rate and duration of those benefits. The ROE is also used to identify any additional monies paid upon separation in order to allocate monies on separation and prevent the start date of the claim for benefit (avoid double indemnity).

**Requirement of the unemployed person to register for employment immediately after termination:** Interviews are to be conducted by the ministry/department involved in employment activities to aid unemployed persons in finding suitable employment as quickly as possible. The implementation of EI will cause a significant increase in the number of interviews and staff requirements.

**Eligibility requirements and reason for separation:** EI benefits are usually paid to insured persons who involuntarily lose their employment, normally due to layoff or expiry of a contract. If a person quits without just cause or is fired due to their own misconduct, the unemployed person will not be entitled to EI benefits or the benefits will be reduced. Some "voluntary" resignations should, however, be accepted, for example, in cases of harassment or non-payment of wages. EI staff will be required to investigate reasons for separation, including justified resignations, requiring the development of expertise and staff resources.

**Ongoing monthly jobseeking interviews:** Ongoing entitlement interviews or enquiries will have to be conducted by unemployment officers, as there is a requirement for unemployed persons collecting EI benefits to report once a month on their jobseeking activities.

In addition, beyond the new processes that would need to be instituted, the introduction of a EI scheme would likely result in a massive increase in the number of claims that would need to be processed. In 2017, BPJS-TK processed roughly 1.8 million requests for lump sum payments under the JHT old age savings scheme and approximately 120,000 JKK worker injury benefit claims, which combined accounted for 97.6 per cent of all claims processed. Depending on the specifics of the EI scheme, there could be upwards of 1 million claims for unemployment benefits in any given year, and each accepted claim would set in motion a stream of payments for as long as the person is entitled to benefits, requiring monitoring, follow-up and payment actions, as well as requirements for resourcing and funding.

## ► 5.4. Implementation plans and issues

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Over 80 countries have implemented EI schemes, including four in South-East Asia: the Lao People's Democratic Republic, Malaysia, Thailand and Viet Nam. Our assessment is that conditions in Indonesia seem opportune for the adoption of an employment insurance scheme. However, uncertainty remains, as stakeholders, both private and public, have yet to reach a consensus or even, in some quarters, an informed view about the possible need and parameters for such a scheme.

Nevertheless, most people understand that the current rules around employment protection and termination benefits are insufficient. Regarding the unemployed, the existing arrangements do not in fact provide adequate protection – and for most workers, provide no protection at all.

Though Indonesia now stands in a strong economic position, a downturn is always possible, such as in 1997–98. An economic slowdown is always just around the corner and tends to happen at an unexpected time and sometimes with unexpected severity. The best time to install the machinery of an employment insurance system is when economic activity is strong; so that if and when a downturn occurs, that machinery can be set in motion and even expanded if necessary.

Indonesia already has a work injury scheme (JKK) and a national network of offices that could be used to process claims for unemployment benefits. However, given the size of the population and its dispersal over the archipelago, and also given the current lack of experience with a scheme as complex as EI, it could be recommended to proceed in steps. One approach could be to initially limit the implementation of the EI scheme to one or a limited number of large urban areas; another could be to establish pilot sites in regions with different characteristics. The experience gained in those localities or pilot sites could then be used for a gradual national implementation. Discussions with Indonesian officials suggest that this type of approach could be practical and feasible.

BPJS-TK has 11 regional offices, 122 main branch offices and 203 sub-branch offices. Branch and sub-branch offices are close to local governments, which could cooperate in setting up effective monitoring, employment and training programmes. In addition to existing external partnerships constituted by the 2,309 Service Point Offices, other external partnerships could be envisaged, for example, with PT Taspen or PT Asabri.

Discussions with stakeholders could identify which approach seems preferable and potentially identify appropriate urban areas or pilot sites. In either case, partial implementation should be designed to fully test the required linkages, systems and resources needed. Once partial implementation has been tested and evaluated, Indonesia would be able to expand the EI scheme by province or nationally. Experience would also by then have been gained with respect to EI claim volumes and cost levels, allowing contribution rates and perhaps other scheme parameters to be adjusted as might be necessary.

By proceeding in a methodical and careful manner, Indonesia should also be in a better position to determine how much to invest in subsidiary programmes and labour market measures that may be costly and more difficult to manage effectively, such as training and counselling.

## 5.5. Active labour market policies and employment insurance

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Many countries link cash payments with active labour market policies (ALMPs) in order to help unemployed workers find and keep permanent work. To this end, ILO Convention No. 168 recommends:

Each Member shall endeavor to establish, subject to national law and practice, special programmes to promote additional job opportunities and employment assistance and to encourage freely chosen and productive employment for identified categories of disadvantaged persons having or liable to have difficulties in finding lasting employment such as women, young workers, disabled persons, older workers, the long-term unemployed, migrant workers lawfully resident in the country and workers affected by structural change (Article 8).

By its nature, a properly designed and managed EI scheme meets the definition of an ALMP. An active job search is a condition for receiving unemployment benefits, along with regular reporting, attendance at counselling and monitoring interviews, and acceptance of suitable job offers. EI can thus be contrasted, for example, with passive severance payments or JHT provident fund withdrawals, which are unconcerned with whether recipients pursue any job action, participate in training initiatives or register at an employment office.

ALMPs in a broader sense imply an additional layer of assistance to unemployed workers. That additional layer must be viewed and managed carefully and critically, given evaluations around the world showing inherent difficulties in properly targeting labour market measures and making them cost effective.

As briefly noted above, most countries refer to their unemployment protection programmes as providing “unemployment insurance”, which can inadvertently hold negative connotations. However, three of the four countries that use the term “employment insurance” to describe their unemployment protection programmes are in Asia – namely Japan, Malaysia and the Republic of Korea – with the fourth being Canada. Indonesia might also choose to follow their example and use the term “employment insurance” to stress the scheme’s focus on helping workers return to productive employment.

In studying the Asian nations that have implemented mandatory EI schemes, one becomes aware of the complementary nature of linking EI with other ALMPs. The main goal of EI benefits is to provide temporary partial income replacement to insured workers who have lost their job involuntarily while they seek to obtain new gainful employment. Clearly, the objective is not to create new employment, but rather to provide income security and prevent individuals from falling into poverty when confronted with job loss. ALMPs, in the broadest sense, are intended to assist individuals to find suitable employment as quickly as possible, and to keep it. As with EI, they are not a solution to create new employment opportunities, but instead provide unemployed workers with additional tools to end their unemployment quickly and to participate as a productive member of society.

ALMPs are desirable in principle to support both workers and employers. There is a continuous debate worldwide over what types of ALMPs are most effective in assisting the unemployed. Virtually all countries have minimal employment interventions to assist unemployed workers and employers, such as job referrals, job banks, labour market information, and résumé and job search workshops. These low-cost interventions can provide effective assistance. Some countries require individuals to develop individual back-to-work plans, for example in the form of an agreement between a beneficiary and an employment office. Such a plan could outline the specific employment services, vocational rehabilitation services and other support services that the two parties determine are necessary to achieve the beneficiary's employment goal and provide a roadmap for financial independence. These approaches require administrative and professional expertise on behalf of the employment or manpower office, and may be more costly to implement.

The Organisation for Economic Co-operation and Development (OECD) promotes ALMPs to assist and motivate unemployed workers to find gainful employment. This was deemed especially important in the mid-2000s, an era of dwindling fiscal space and of financial crises both internationally and regionally. According to the OECD (2007, 208):

Over the past few years, strategies to 'activate' the unemployed with the help of high-quality employment services have loomed larger in the policy debate. If well designed, such strategies can help ensure that benefit recipients have a better chance of obtaining employment. They are also crucial to minimize the risk that high or long-lasting unemployment benefits reduce work incentives[.] ... [E]mployment services should have adequate resources to implement well-designed active labour market policies, while strictly enforcing work-availability criteria as a condition for benefit payment.

The development of effective linkages between the agency responsible for EI benefits and the institutions that can help to implement ALMPs can be critical to success. Primary linkages in Indonesia would be between BPJS-TK (for processing EI claims) and departments involved with employment and re-employment within the Ministry of Manpower, the Ministry of Education and regional governments.

The European Commission (2006) and the OECD (2009) have established statistical classification systems that distinguish three broad types of labour market policies (LMPs), namely LMP services, LMP measures and LMP supports. The first two are usually referred to as ALMPs (see table 18 and the discussion immediately below for additional information).

**Table 18****Classification of labour market policies worldwide**

Policy area	Main types	Sub-types
<b>Labour market services</b>	1. Public employment services and administration	1.1 Placement and related services 1.2 Benefit administration 1.3 Other
<b>Labour market measures</b>	2. Training	2.1 Institutional training 2.2 Workplace training 2.3 Alternate training 2.4 Special support for apprenticeship
	3. Job rotation and job sharing	3.1 Job rotation 3.2 Job sharing
	4. Employment incentives	4.1 Recruitment incentives 4.2 Employment maintenance incentives
	5. Supported employment and rehabilitation	5.1 Supported employment 5.2 Rehabilitation
	6. Direct job creation	n.a.
	7. Start-up incentives	n.a.
<b>Labour market supports</b>	8. Out-of-work income maintenance and support	8.1 Full unemployment benefits 8.1.1 Unemployment insurance 8.1.2 Unemployment assistance 8.2 Partial unemployment benefits <sup>1</sup> 8.3 Part-time unemployment benefits <sup>2</sup> 8.4 Redundancy compensation 8.5 Bankruptcy compensation
	9. Early retirement	9.1 Conditional 9.2 Unconditional

n.a. = not applicable.

<sup>1</sup> Partial unemployment benefits = Benefits for the loss of wage or salary due to short-time working arrangements, and/or intermittent work schedules, where the employer/employee relationship continues.

<sup>2</sup> Part-time unemployment benefits = Benefits paid to persons working part-time who have lost a full-time job or an additional part-time one and are seeking to work more hours.

Source: OECD 2009; European Commission 2006.

LMP services are those made available to jobseekers in their job search, primarily through public employment service. Examples include:

- ▶ referrals to job opportunities and job placement services;
- ▶ services that teach job search skills, CV preparation and interview skills;
- ▶ counselling and career planning;
- ▶ individualized return-to-work planning;
- ▶ mobility assistance;
- ▶ labour market information and self-employment assistance; and
- ▶ special assistance to disadvantaged groups, including:
  - disabled persons;
  - illiterate, low-education or low-skill individuals;
  - long-term unemployed;
  - minorities;
  - older displaced workers;
  - abused women; or
  - female heads of households.

LMP measures include training programmes as well as other measures to keep workers employed or bring them into employment. Training can take on different forms, either in an institution, in the workplace or a combination of both. It can address general or specific skills, and provide vocational or apprenticeship education, usually but not always resulting in a diploma. Other LMP measures could be used to:

- ▶ promote temporary job rotation or job sharing;
- ▶ provide wage subsidies or incentives to recruit new workers, or to ensure the continued employment of persons at risk of involuntary job loss;
- ▶ support the rehabilitation and employment of persons with reduced capacity to work; and
- ▶ fund temporary programmes of direct job creation or programmes to help individuals launch and sustain their own business.

LMP supports represent the third type of LMP measures. They usually refer to unemployment benefit schemes, but also to publicly funded severance schemes, bankruptcy or wage protection schemes, and early retirement schemes. The literature has often referred to unemployment benefit schemes as passive LMP measures, perhaps implying (whether it is stated or desired) that many or most unemployed recipients remain inactive while receiving those benefits. Such a characterization appears to be an unfair stereotype and, for that reason, will be avoided in this report.

The ILO's *World Social Protection Report 2017–19* discusses strengthening the link between unemployment protection, labour market measures and employment-generating macroeconomic policies:

In light of the persistent high levels of unemployment and working poverty in many countries, strengthening the link between income support and active labour market policies has become a recent global trend. This stems from the recognition that providing isolated income support may not improve individuals' employment or social situation when labour markets are rapidly changing or when individuals face barriers to (re-)employment. Such policies are considered effective in activating and motivating unemployed workers to find suitable employment quickly. ... In general, they consist of a combination of measures aimed at matching jobseekers, upgrading and adapting their skills and stimulating job creation; measures include direct job search assistance and career guidance, training and skills development and employment and wage subsidies (ILO 2017b, 55).

## ▶ 5.6. Re-employment bonuses

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EI schemes are specific to each country and depending on local unemployment features and labour market characteristics, but they uniformly seek to get unemployed workers back to suitable employment as quickly as possible. The main objective of a EI scheme should be kept as simple and straightforward as possible: namely, to provide temporary and partial income replacement to insured persons who lost their jobs involuntarily while they seek to obtain new employment.

Some countries employ re-employment bonuses for those who return to work prior to receiving full EI benefits. Under Malaysia's EI scheme, which started to pay benefits in 2019, eligible individuals who obtain new employment within six months will be eligible for a lump sum "re-employment allowance" equal to 25 per cent of their remaining entitlement. In Viet Nam, a similar measure had been in place from 2010 until the end of 2014, but it allowed individuals to receive 100 per cent of their remaining EI benefits in a lump sum after returning to work. This provision was cancelled in 2015 due to concerns about its cost and effectiveness.

The Republic of Korea also has a reemployment bonus for EI beneficiaries, paying 50 per cent of the remaining benefits (two-thirds for persons who are age 55 and over or handicapped), subject to four conditions:

- ▶ Remaining benefits must be for more than one month;
- ▶ Claimants must be reemployed in the new job for more than six months;
- ▶ The new job must not be with the previous employer or anyone closely related to the claimant; and
- ▶ The claimant must not have received a similar bonus in the last two years.

The Republic of Korea re-employment bonus has been estimated to "significantly shorten the duration of EI spells by 0.16 to 0.42 months" (Ahn 2018). It must be kept in mind that the Republic of Korea has an extensive set of reemployment programmes that have been developed incrementally since its EI scheme was adopted in 1995.



Source: ILO/A. Gromico

# 6

**International standards  
and the design and cost of  
an employment insurance  
scheme for Indonesia**

# International standards and the design and cost of an employment insurance scheme for Indonesia

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## ▶ 6.1. Relevant ILO Conventions

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This section goes into more detail on the eventual design and costs of a EI scheme for Indonesia, bearing in mind that there are two main ILO conventions applicable to unemployment protection:

- ▶ Social Security (Minimum Standards) Convention, 1952 (No. 102)
- ▶ Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168).

Convention No. 102 is described by the ILO (n.d.) as “the flagship of all ILO social security Conventions, as it is the only international instrument, based on basic social security principles, that establishes worldwide-agreed minimum standards for all nine branches of social security.” Those branches are:

1. medical care
2. sickness benefit
3. unemployment benefit
4. old-age benefit
5. employment injury benefit
6. family benefit
7. maternity benefit
8. invalidity benefit
9. survivors' benefit.

Convention No. 102 requires that only three of these branches be ratified by Member States, to allow for the gradual extension of social security coverage by ratifying countries. The Convention rests on four main principles:

- ▶ guarantee of defined benefits;
- ▶ participation of employers and workers in the administration of the schemes;
- ▶ general responsibility of the State for the due provision of the benefits and the proper administration of the institutions;
- ▶ collective financing of the benefits by way of insurance contributions or taxation.

The second applicable ILO Convention for unemployment protection is Convention No. 168. It proposes higher income protection standards for industrialized countries, which can also serve as a target for developing countries. In addition to enhanced unemployment benefits, Convention No. 168 places more emphasis than Convention No. 102 on the promotion of stable and productive employment. Ratifying States are therefore asked to coordinate their system of unemployment benefits with their employment policy.

The Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176) serves as a complement to Convention No. 168. It provides guidance on the promotion of productive employment, for example, through a national employment service, training or mobility grants. Recommendation No. 176 also discusses fair protection levels and suitable employment, while offering advice on administrative and technical difficulties and the need for national dialogue.

Table 19 below sets out the main conditions related to unemployment protection as specified in Conventions Nos 102 and 168.

Table 19	
Unemployment protection provisions in ILO Conventions Nos 102 and 168	
Convention No. 102	Convention No. 168
<p><b>Contingencies covered</b></p> <ul style="list-style-type: none"> <li>▶ Loss of earnings due to inability to obtain suitable employment for a person who is capable of, and available for, work.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In addition, specifies that person must actually seek work.</li> </ul>
<p><b>Coverage</b></p> <ul style="list-style-type: none"> <li>▶ 50% of all employees.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 85% of all employees, including public employees and apprentices; States to take account of special categories of persons seeking work, as first-time jobseekers.</li> </ul>
<p><b>Work needed to qualify</b></p> <ul style="list-style-type: none"> <li>▶ Qualifying period not longer than necessary to avoid abuse of EI system.</li> </ul>	
<p><b>Nature and amount of the benefit</b></p> <ul style="list-style-type: none"> <li>▶ Periodical payment of at least 45% of former earnings.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Periodical payment of at least 50% of former earnings.</li> </ul>
<p><b>Maximum insured earnings</b></p> <ul style="list-style-type: none"> <li>▶ At least cover the average earnings of a skilled manual employee.</li> </ul>	<ul style="list-style-type: none"> <li>▶ May be related, for example, to the wage of a skilled manual employee or to the average wage of workers in the region.</li> </ul>

Convention No. 102	Convention No. 168
<p><b>Duration of payment of EI benefit</b></p> <ul style="list-style-type: none"> <li>▶ At least 13 weeks each year.</li> </ul>	<ul style="list-style-type: none"> <li>▶ At least 26 weeks for each unemployment spell, 39 weeks over any two years.</li> </ul>
<p><b>Waiting period for receiving EI benefit</b></p> <ul style="list-style-type: none"> <li>▶ Maximum of seven days.</li> </ul>	
<p><b>Circumstances for suspension or refusal of the benefit</b></p> <ul style="list-style-type: none"> <li>▶ Fraudulent claim.</li> <li>▶ Refusal to accept suitable employment.</li> <li>▶ Refusal to use placement services.</li> <li>▶ Entitlement to other income maintenance benefit.</li> <li>▶ Deliberate contribution to dismissal or leaving voluntarily without just cause.</li> </ul>	
<p><b>Definition of suitable employment</b></p> <ul style="list-style-type: none"> <li>▶ Reference, but no definition.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider age of unemployed person, length of service, experience, length of unemployment, labour market situation and impact of employment on personal situation.</li> </ul>
<p><b>Unemployment benefit – Principles of Conventions Nos 102 and 168</b></p> <ul style="list-style-type: none"> <li>▶ Appeal procedures in cases of disagreement.</li> <li>▶ Guaranteed, defined benefit.</li> <li>▶ Participation of insured persons in the administration of the scheme.</li> <li>▶ General responsibility of the State for benefits and proper administration.</li> <li>▶ Equality of treatment between national and non-national workers.</li> <li>▶ National dialogue.</li> </ul>	
<p><b>Financing of EI scheme</b></p> <p>Collective financing:</p> <ul style="list-style-type: none"> <li>▶ Insurance contributions or taxation</li> <li>▶ Employers and workers (and/or state)</li> <li>▶ Employees not to pay more than 50 % of costs of scheme</li> <li>▶ Avoid hardship on low income workers.</li> </ul>	<p>No mention.</p>

## ▶ 6.2. Observations

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The requirements under Conventions Nos 102 and 168 are in many respects similar. Principal differences are the more expansive coverage required by Convention No. 168: 85 per cent of all employees instead of 50 per cent, and the longer duration of benefits that must be provided – six months instead of only three months. The benefit rate required under Convention No. 168 is also slightly higher at 50 per cent, instead of 45 per cent. Most of the other stipulations add some specificity, but would have little or no impact on a EI scheme's costs.

Convention No. 168's requirement for longer and higher benefits would make a EI scheme somewhat more costly, maybe by 20 per cent to 25 per cent, depending on the characteristics of the unemployed in Indonesia. The expansion of coverage to a larger group of workers should in principle have a positive impact by reducing the contribution rate otherwise needed to finance the EI scheme. This would be due to the inclusion of workers with a lower risk of becoming unemployed, whose contributions would thus subsidize the riskier groups. Such social solidarity or sharing of risks is indeed the fundamental basis on which EI schemes are constructed: the larger the covered group, the lower the contribution rate. For Indonesia, however, Convention No. 168 would require coverage of 85 per cent of 48 million employees, which might not be feasible at this time.

ILO Recommendation No. 176 provides more details than Convention No. 168 regarding measures that could be adopted to promote productive employment. Although desirable, those measures are optional and their cost will depend on the specific budget that any country would choose to apply to those issues. In general, labour market measures can cover a wide range of approaches and their costs can vary accordingly: from low-cost measures that constitute the basic framework needed for sound EI management, to much more costly measures such as training and skills development, job creation, mobility grants, wage subsidies, intensive case management and follow-up, self-employment support and so on.

## ▶ 6.3. Considerations for employment insurance

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What EI policy packages could be proposed for Indonesia considering ILO Conventions on unemployment protection? What follows is necessarily tentative, since national discussions are still under way.

There are only two parameters that should vary depending on whether the model is Convention No. 102 or Convention No. 168: benefit rate and benefit duration, since coverage at 85 per cent of paid employees is not feasible at this time. The proposals in table 20 below first set out the rules for those two parameters. Following the table, there is a list of provisions which would be common under both models.

**Table 20****Unemployment insurance parameters aligned to Conventions Nos 102 and 168**

Parameter	Convention No. 102	Convention No. 168
Benefit rate	45% of insured earnings	50% of insured earnings
Benefit duration	3 months/year	6 months per unemployment spell, at least 9 months over any 2-year period

The proposed EI rules common to both models follow:

- ▶ **Coverage:** All paid employees currently registered with BPJS-TK.
- ▶ **Financing:** Equal contributions from employers, workers and government.
- ▶ **Contributory base:** Contributions based on the same earnings used to determine JKm and JKK contributions.
- ▶ **Eligibility for benefits:** Unemployed persons who previously worked in insured employment for at least 12 out of the last 18 months.
- ▶ **Covered contingency:** Being involuntarily out of work and not finding a new job; persons who quit their jobs could also qualify if they had a good reason for doing so, for example, dangerous working conditions, non-payment of wages, sexual harassment, etc.
- ▶ **Continuing entitlement:** Unemployed persons must be capable of working and must look for a job on their own, and not just await job referrals from the public employment office; proof of job search must be provided on a regular basis to the employment office, in a form to be determined.
- ▶ **Consequences of job refusals:** Unemployed individuals will be disqualified from receiving further benefits if they refuse to take up two suitable job offers.
- ▶ **Non-compensable waiting period:** The first seven days of unemployment are not compensated; monthly payments will start one month after those seven days have gone by.
- ▶ **Subsequent or repeat claims:** If an unemployed individual presents a second claim, they will again have to have worked 12 months out of the last 18 to be eligible; for a third or subsequent claim, the work requirement will be 18 out of the last 24 months.
- ▶ **Other earnings:** Unemployed persons will be allowed to earn up to 50 per cent of their benefits without affecting their benefits; any additional amount will be deducted on a one-for-one basis from those benefits; if a retirement pension starts to be paid or an amount for employment injury, no EI benefits can be paid.
- ▶ **Fraud or abuse:** Penalties will be imposed on any individuals or enterprises who knowingly make false declarations, or obtain or seek to obtain benefits fraudulently, or knowingly avoid the payment of any contributions due.

- ▶ **Administration:** A separate EI fund will be established under the authority of BPJS-TK, with an actuarial review to be conducted every three years.
- ▶ Responsibilities:
  - a. **Unemployed persons:** Use prescribed forms and procedures when applying, provide all information required, and file promptly; be capable of working, available at all times, and actively look for work; follow all directives for training, counselling or other employability measures; report any changes in their situation promptly.
  - b. **Employers:** Report accurate information on insured wages; provide all required information promptly when a job terminates; report all new hires promptly; report job vacancies as they occur; cooperate with public employment agency on the development and implementation of effective training and placement programmes.
  - c. **Public authorities:** Provide complete and timely information on employee and employer rights and responsibilities, including rights of appeal; render prompt and fair decisions; provide for an accessible and rapid appeal system when persons wish to challenge any decision.

The discussion about EI in Indonesia has also been concerned with labour market measures, and in particular with skills development, for unemployed persons and for workers who need to upgrade their skills. Skills development is but one type of a broader set of labour market measures, sometimes referred to as active labour market policies (ALMPs). ALMPs can vary widely between countries, as can their costs. Virtually all countries have minimal low-cost employment interventions to support the EI scheme and to help unemployed workers and employers, such as job referrals, job banks, labour market information, resume preparation and job search workshops. Beyond those basic services, ALMPs such as training or employment incentives tend to be more costly and more difficult to implement effectively, and thus to have narrower, more targeted application. Decisions on such matters are generally the domain of public debate and policymaking.

## ▶ 6.4. Costs of an employment insurance scheme

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The costs of a EI scheme for Indonesia can only, at this time, be established as an order of magnitude. A full statistical analysis would be needed to determine the number of unemployed persons who were previously engaged in formal employment and subject to social security contributions. The required information would include the length of their previous employment, their monthly earnings, the reason they lost their job and how long they were unemployed. Information would also be required on the group of

workers to be insured under the EI scheme. For now, we assume that EI coverage would include all wage earners currently registered with BPJS-TK as well as civil servants, police and armed forces. This would come to approximately 21.5 million insured wage earners.

Such information could be obtained from the regular labour force surveys conducted by the Indonesian statistical agency (BPS) and complemented by contributor data under the schemes managed by BPJS-TK, in particular the two schemes with the widest scope of coverage, work injury (JKK) and death benefits (JKm). For now, only rough estimates can be produced, as follows.

The August 2018 labour force survey reported an unemployment rate of 5.3 per cent, representing 7 million unemployed individuals out of a labour force of 131 million. More than half of the unemployed (59 per cent) were aged less than 25 years, with an unemployment rate of 19.7 per cent. The unemployment rate dropped sharply after that age, to 7.0 per cent at ages 25 to 29 and to only 1.9 per cent at higher ages. It is not possible to say what proportion of the unemployed could qualify for EI, but there would certainly be lower qualification rates among young workers than among older workers.

A conservative estimate of the number of claimants can be produced by assuming that 5 per cent of insured workers would make a EI claim each year. This is based on Canada's experience of a 6 per cent claim rate, or 1,431,000 claims in 2015–16 out of about 21.5 million contributors. The Canadian scheme accepts claims for 14 to 20 weeks, depending on the regional unemployment rate. Assuming 21.5 million insured workers in Indonesia (counting all currently registered wage earners, including civil servants, the armed forces and police), there could be 1,075,000 EI claims annually. A lower estimate could be in the order of about 860,000 claims annually, or a 4 per cent claim rate.

BPS reported an average monthly wage of 2,829,000 rupiahs in August 2018. Since unemployment tends to be concentrated among lower-paid individuals, this report assumes that a typical claimant would have been earning about 75 per cent of the average monthly wage, or 2.1 million rupiahs. The monthly benefits under a 45 per cent benefit rate would then come to 955,000 rupiahs on average – or 1.1 million rupiahs at a 50 per cent benefit rate. These estimates do not, for now, consider the impact of a maximum limit on insured earnings.

The duration of claims for these claimants would vary depending on whether they could receive a maximum of three months or six months of EI benefits. This report assumes that the average duration would be 2.5 months out of a three month maximum, or five months out of six months maximum.

The estimated costs based on the preceding values would be:

1. For a 45 per cent benefit rate and three-month maximum duration:
  - ▶ Low estimate:  $(860,000) \times 2.5 \times (955,000 \text{ rupiahs}) = 2.053 \text{ trillion rupiahs}$   
=> total contribution rate = 0.31 per cent
  - ▶ High estimate:  $(1.1 \text{ million}) \times 2.5 \times (955,000 \text{ rupiahs}) = 2.566 \text{ trillion rupiahs}$   
=> total contribution rate = 0.38 per cent
2. For a 50 per cent benefit rate and six-month maximum duration:
  - ▶ Low estimate:  $(860 \text{ thousand}) \times 5 \times (1,061,000 \text{ rupiahs}) = 4.562 \text{ trillion rupiahs}$   
=> total contribution rate = 0.68 per cent
  - ▶ High estimate:  $(1.1 \text{ million}) \times 5 \times (1,061,000 \text{ rupiahs}) = 5.702 \text{ trillion rupiahs}$   
=> total contribution rate = 0.85 per cent

The total contribution rates shown above were found by dividing the estimated costs by the estimated insured earnings of contributors, assuming that the 21.5 million insured workers worked 11 months on average at the stated average monthly wage of 2,829,000 rupiahs:

$$(21.5 \text{ million}) \times 11 \times (2,829,000 \text{ rupiahs}) = 669.059 \text{ trillion rupiahs}$$

In addition to the above, further estimates can be provided for a more generous EI scheme. Such a scheme would provide a higher benefit rate than under the previous options – for example, a constant 60 per cent benefit rate throughout the covered period of three or six months. That rate could also be arrived at as the average of declining benefit rates. For example, under a three-month scenario, the first month could be compensated at 70 per cent, the second month at 60 per cent and the third month at 50 per cent. Under a six-month scenario, the first month might be at 75 per cent, the second month at 70 per cent and so on, reaching a rate of 50 per cent in the sixth month (actually producing an average of 63 per cent in this particular example).

Low and high costs under such a EI scheme, hereafter called the “Enhanced+ EI scheme”, could be as follows:

- ▶ Low estimate:  $(860,000) \times 5 \times (1,273,000 \text{ rupiahs}) = 5.474 \text{ trillion rupiahs}$   
=> total contribution rate = 0.82 per cent
- ▶ High estimate:  $(1.1 \text{ million}) \times 5 \times (1,273,000 \text{ rupiahs}) = 6.843 \text{ trillion rupiahs}$   
=> total contribution rate = 1.02 per cent

The preceding estimates should be considered as conservative and only as orders of magnitude, not as definitive estimates of any kind. In addition to those costs, a 5 per cent loading for administration costs might be considered as a sufficient margin and would not change the relevant orders of magnitude:

- ▶ Basic EI scheme: a contribution rate of 0.30 per cent to 0.40 per cent, per ILO Convention No. 102.
- ▶ Enhanced EI scheme: a contribution rate of 0.70 per cent to 0.90 per cent, per ILO Convention No. 168.
- ▶ Enhanced+ EI scheme: a contribution rate of 0.90 per cent to 1.10 per cent (60 per cent benefit rate).

Different parameters for the EI scheme can be proposed, and the above illustrations do not exclude any other set of rules. An alternative though similar set of rules had been proposed in 2003 as part of a ten-volume comprehensive review of Indonesia's social security system by the ILO. The 2003 proposal is copied in Appendix D for historical reference. The estimated total contribution rate at the time had been 2 per cent, reflecting the higher prevailing unemployment rate, which stood at 9.0 per cent in 2003 and peaked at 11.2 per cent during 2006 – well above the current rate of 5.3 per cent in August 2018.

The current estimates show the potential costs of a EI scheme in Indonesia at this time, and how those costs might range, particularly in response to two fundamental characteristics: the benefit rate and the maximum duration of benefits.

Our estimates do not make any provision for labour market measures. Policy decisions would have to be made on the type and costs of such measures and how they would be paid for. Our recommendation would be that any labour market measures be charged to general government revenues rather than to the EI scheme, so that the scheme's objective and mission be clearly defined as temporary income replacement for unemployed workers.

Our recommendation would also be that contributions be shared equally among stakeholders, namely workers, employers and government. Tripartite sharing best protects the right of each party to express its views and opinions.



Source: ILO/Better Work Indonesia

# 7

## Conclusion

## Conclusion

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Conditions in Indonesia seem opportune for the adoption of an employment insurance (EI) scheme. Stakeholders, private and public, have yet to reach a consensus or even, in some quarters, an informed view about the possible need and parameters for such a scheme.

Yet it is clear to most people that the current rules for employment protection and for termination benefits are insufficient and do not in fact provide adequate protection – and for most workers provide no protection at all in case of unemployment. The rules governing termination benefits are complex and costly, and have led to an increase in part-time arrangements and outsourcing. No enforcement actions by public authorities would, in our opinion, be likely to overcome current problems with these rules.

Coverage of the social security system still has some way to go to reach all paid employees. Nevertheless, BPJS-TK's basic schemes (JKK work injury benefits and JKm death benefits) already do cover some 25 million out of 48 million paid employees, and the system is being rapidly expanded to more employers and workers. BPJS-TK already has a system of periodic payments in place for workers temporarily unable to work and should be able to build upon that system for EI purposes.

Indonesia stands in a strong economic position in 2019. However, a downturn is always possible, such as in 1997–98. Such events always seem to happen at an unexpected time and with unexpected severity. The best time to install the machinery of an employment insurance system is when economic activity is still strong, so that if a downturn occurs, that machinery can be set in motion and expanded as necessary.

The costs of EI for Indonesia, as in other countries, will be relatively modest. Those costs of course depend on the design of an eventual EI scheme, and could vary from a low of 0.3 per cent of wages for a scheme meeting only the basic requirements of ILO Convention No. 102, to a high of around 1.0 per cent of wages for a more comprehensive scheme. Final costs would depend mainly on benefit levels and duration.

Parallel implementation of monitoring and labour market measures needed for the proper management of EI claims would be essential, and should build on systems already in place, expanding or improving them as necessary. Further consideration could be given to additional, more costly measures, such as skills development, along the lines of what has been called active labour market policies (ALMPs). This is a matter for public debate and policymaking, as ALMPs vary widely among countries and must be integrated into a coherent and comprehensive model for the promotion of productive employment, as recommended by ILO Convention No. 168.

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## ► Appendix A. Distribution of firms, employment and GDP by firm size, 2016 and 2017

	2016 <sup>1</sup>		2017 <sup>2</sup>		Average firm size	
	Number	Distribution	Number	Distribution	2016	2017
<b>Number of firms</b>						
A. SMEs	61 651 176	99.99%	57 895 721	99.99%	1.83	1.97
- Micro	60 863 578	98.71%	62 106 900	107.26%	1.71	1.73
- Small	731 047	1.19%	757 090	1.31%	7.39	7.53
- Medium	56 551	0.09%	58 627	0.10%	63.44	63.73
B. Large	5 370	0.01%	5 460	0.01%	641.48	656.92
<b>Total (A+B)</b>	<b>61 656 546</b>	<b>100.00%</b>	<b>57 900 787</b>	<b>108.68%</b>	<b>1.89</b>	<b>2.03</b>
<b>Workers in firms (A+B)</b>						
A. SMEs	112 828 610	97.04%	114 144 082	96.99%	n.a.	n.a.
- Micro	103 839 015	89.31%	107 232 992	91.12%	n.a.	n.a.
- Small	5 402 073	4.65%	5 704 321	4.85%	n.a.	n.a.
- Medium	3 587 522	3.09%	3 736 103	3.17%	n.a.	n.a.
B. Large	3 444 746	2.96%	3 586 769	3.05%	n.a.	n.a.
<b>Total (A+B)</b>	<b>116 273 356</b>	<b>100.00%</b>	<b>117 681 244</b>	<b>102.19%</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Contribution to GDP (A+B)</b>						
A. SMEs	7 009 283	59.84%	5 440 008	60.34%	n.a.	n.a.
- Micro	4 292 288	36.65%	4 727 989	52.45%	n.a.	n.a.
- Small	1 128 057	9.63%	1 234 211	13.69%	n.a.	n.a.
- Medium	1 588 938	13.57%	1 742 436	19.33%	n.a.	n.a.
B. Large	4 703 168	40.16%	5 136 223	56.97%	n.a.	n.a.
<b>Total (A+B)</b>	<b>11 712 450</b>	<b>100.00%</b>	<b>9 014 951</b>	<b>142.44%</b>	<b>n.a.</b>	<b>n.a.</b>

n.a. = not applicable.

<sup>1</sup> Preliminary figures.

<sup>2</sup> Temporary figures.

Source: Ministry of Cooperatives and SMEs 2017.

### Classification criteria under the 2008 Law on Micro, Small and Medium Enterprises (No. 20/2008):

Micro enterprises: maximum net assets of 50 million rupiahs, exclusive of land and building of their place of business; or maximum annual sales of 300 million rupiahs.

Small enterprises: net assets of more than 50 million rupiahs up to a maximum of 500 million rupiahs, exclusive of land and building of their place of business; or annual sales of more than 300 million rupiahs up to a maximum of 2.5 billion rupiahs.

Medium enterprises: net assets of more than 500 million rupiahs up to a maximum of 10 billion rupiahs, exclusive of land and building of their place of business; or maximum annual sales of more than 2.5 billion rupiahs up to a maximum of 50 billion rupiahs.

Large enterprises: all others

## ► Appendix B. Detailed data on the social security schemes managed by BPJS-TK, as of 31 December 2017 (in millions of rupiah)

Social security scheme	Assets	Liabilities	Net assets	Contributions	Claims	Claims ratio	Liquidity <sup>1</sup>
Work injury (JKK)	24 115 055	2 849 549	21 265 506	4 649 778	971 953	21%	262.55
Death Benefit (JKm)	8 343 653	808 131	7 535 522	2 121 361	612 140	29%	147.72
Old age fund (JHT) <sup>2</sup>	254 188 501	19 149 741	235 038 760	37 322 310	23 235 011	62%	n.a.
Pension (JP) <sup>3</sup>	25 662 488	512 021	25 150 467	12 318 953	375 285	3%	n.a.

n.a. = not applicable.

<sup>1</sup> Liquidity = Net assets ÷ (Claims ÷ 12).

<sup>2</sup> For JHT, liabilities and net assets exclude the value of individual accounts.

<sup>3</sup> For pensions (JP), liabilities and net assets exclude actuarial reserves

Source: BPJS-TK 2017a.

## ▶ Appendix C: Summary of Malaysia's Employment Insurance System

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**Effective date:** 1 January 2019. For 2018, the Government provides an interim benefit funded by government revenue for workers who become unemployed during the year and who had contributed to employment insurance. The benefit is payable for up to three months with a maximum benefit of 600 Malaysian ringgit a month.

**Coverage:** Mandatory for all private sector workers aged 18 to 60, except: casual workers, foreign workers, domestic workers and spouses of business owners; also excluded: employees of the public service (of the Federation, states, local authorities or statutory bodies), members of the armed forces and police, self-employed persons and business owners.

**Financing:** Employers and employees each contribute 0.2 per cent of pay up to 4,000 ringgit per month.

### **Eligibility:**

- ▶ Eligible individuals are those separated from employment on an involuntary basis (including resignation under a formal voluntary separation plan).
- ▶ A first-time claimant must have been insured for at least 12 of the preceding 24 months, but for a second up to a 12th claim the qualifying period is increased by six months every time.
- ▶ Exclusions: No benefits are paid to individuals who retire, resign employment voluntarily, are terminated for gross misconduct, or were employed under a fixed-term or fixed-task employment contract.
- ▶ Accepted reasons for resigning: Under a voluntary separation plan pursuant to an agreement between the employer and employee; or caused by an employer's breach of contract; or due to employer threats or harassment; or due to employer demands to perform dangerous work; or due to riots or civil commotion or natural disaster; or due to unsafe workplace.

### **Benefit duration:**

- ▶ Increasing by one month from three to six months, depending on whether the first-time claimant worked for at least 12, 16, 20 or 24 months. Repeat claimants must fulfill longer work periods.
- ▶ Benefits end when reemployed, notice of which must be given within seven days.

**Benefits:**

- ▶ Monthly benefits paid for up to six months at 80 per cent of covered wages the first month, 50 per cent the second, 40 per cent the third and fourth, and 30 per cent the fifth and sixth months.
- ▶ Eligible individuals who obtain new employment within six months are eligible for a lump sum “re-employment allowance” equal to 25 per cent of the remaining unpaid entitlement.
- ▶ Eligible individuals being retrained are entitled to a modest daily training allowance equal to 25 per cent of their final daily wage up to 20 ringgit per day.
- ▶ Free career counseling and job training services.

**Collective redundancy benefits:** Amounts payable under the Employment Act or Labour Ordinances of Sabah and Sarawak will not affect unemployment benefits.

**Administration:** Annual accounts, reports and audits are tabled in Parliament; an actuarial valuation is prepared at least every five years.

## ▶ Appendix D: 2003 ILO proposal: A draft short period unemployment benefit scheme <sup>1</sup>

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1. **Type of scheme:** Unemployment insurance fund of a contributory social insurance type, financed by levies based on insured wages.
2. **Membership:** Compulsory for those groups now required to be members of the Jamsostek old age benefit programme. Voluntary for other groups. Membership coverage to be reviewed with the intention of expanding coverage as economic conditions make this feasible.
3. **Levy contribution rate:** 2 per cent of insured wages up to a ceiling of three times the average wage of insured fund members. The ceiling would be set annually based on the average of insured wages in the previous year. Levy rate to be reviewed once the fund has built up sufficiently to cover two years’ costs.
4. **Qualifying period of contributions:** 12 months in the previous 24 months.
5. **Qualifying event to receive benefit:** Involuntary loss of insured employment other than for specified list of employee misbehavior that merited dismissal. Would not include normal cessation of seasonal work.

<sup>1</sup> The contents of this appendix are based on ILO, *Restructuring of the Social Security System (Part 4) – The Feasibility of Introducing an Unemployment Insurance Benefit in Indonesia*, ILO/TF/Indonesia/R.21(4) (2003).

**6. Other qualifying criteria:**

- ▶ Willing to work
- ▶ Able to work
- ▶ Available for employment.

**7. Wait period:** One week from application date or date of cessation of employment, whichever is the later.

**8. Benefit rate:** 50 per cent of insured wage of member, based on average payments in the last 12 qualifying months.

**9. Other benefit entitlement:** Would retain right to death benefit and health insurance (if covered by Jamsostek for health insurance) during period on employment insurance benefit.

**10. Maximum period of coverage:** 13 weeks of unemployment (three months).

**11. Form of benefit payment:** Initial payment of one month's lump sum. Subsequent periodic payments of up to total of two further one-month payment amounts, subject to renewed application and evidence of continued unemployment plus participation in required active labour market programmes (ALMPs) and activities specified by the employment insurance fund. (Initially this may only be evidence of job search activity.)

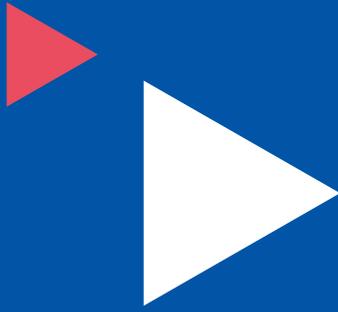
**12. Future extension of active labour market programmes**

- ▶ Could include job search assistance, job placement, job skill development.
- ▶ If pursued, these ALMPs could be contracted out.

**13. Administering agency:** Jamsostek.

**14. Form of employment insurance fund:** Trust fund.

**15. Management oversight:** Tripartite board representing employers, unions and government. This could be the same board as that of Jamsostek.



# Advancing social justice, promoting decent work

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