

Social Service Delivery and Social Security in the Decentralized Indonesian Context

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I. Outline of JICA's Study Proposal

1. Objectives

- 1) To provide policy implications on
 - (1) optimal government system of subsidization for Sub-National Governments ("**SNGs**") under decentralization;
 - (2) capacity development of SNGs' administration; and
 - (3) social security system
- 2) To identify suggestions for JICA's future cooperation in these areas

2. General TORs

Review and analyze

- (i) the public fiscal situation,
- (ii) current status of budget execution of SNGs, and
- (iii) quality of social services (social security in broad sense) delivery, in current decentralized Indonesia.

II. Policy Agenda: Background & Issues

1. Decentralization

(1) History & Legal Basis

SNGs becomes Key Players since 2001

- Drastic decentralization started in 2001:
one of outcomes produced by the regime change from Soeharto era
- Successful from the political perspective:
recent stability of the political scene and steady growth

II. Policy Agenda: Background & Issues

1. Decentralization (1) History & Legal Basis

(a) Provincial Authorities

Law no. 22/1999

- gives the province authority over inter-regency/municipality areas of responsibilities
- province to manage functions that the local governments are not able to conduct
- management of functions delegated to the province as administrative region

Law no. 32/2004

- management of 11 mandatory affairs at provincial scale
- management of optional affairs corresponding to local conditions

(b) Fiscal Equalization

Law no. 25/1999

- governs sharing of revenues between national, Provincial, and local governments

Law no. 33/2004

- adds stipulations on income tax revenue sharing
- accommodates slight changes in sharing of revenues. The province gets about 16% and regencies/cities get about 64% of all revenue sharing including property tax, except for the various mining revenues which are predominantly for the national government

(c) Provincial Authorities & Distribution

GR no. 25/2000

- the GR refers to Law no. 22/1999: provincial government manages cross regional affairs that are not performed by local governments and delegated administrative affairs of the national government
- the provincial government is responsible for 108 functions in 20 sectors (compared to 202 functions of the central government in 25 sectors)
- the provincial government is also responsible for other functions: those that cannot be accomplished by a regency/city

GR no. 38/2007

- the GR defines 31 shared areas of responsibilities to be co-managed by the national provincial and regency/city governments. Each sector to be regulated by the relevant ministry.
- the GR determines mandatory affairs and optional of affairs (optional affairs are those most relevant to local economic and political characteristics.)
- the GR specifies the possibility of the province to take over or return affairs to local governments

II. Policy Agenda: Background & Issues

1. Decentralization

(2) Fiscal Flow & Capacity of Sub-National Government

- Not sufficient in fiscal decentralization
 - (+) 65% of fiscal expenditure is executed by SNGs
 - (-) taxation power and authorities of SNGs are still weak
 - (-) share of the regional tax in the total revenue of SNGs is limited to 10%
- Fiscal Transfer from Central to SNGs
 - (a) DAU: general budgetary transfer without any conditions
(2/3 of fiscal transfer from central to SNGs)
 - (b) DAK: allocated to SNGs satisfying predetermined criteria for being used for specific purposes such as infrastructure, education and health that are needed as basic services (less than 10% of fiscal transfer to SNGs)
 - (c) Revenue Sharing
- SNGs Budget Execution Capacity: affects quality of social service delivery
 - (a) Most SNGs have budget surplus: total budget surplus Rps. 40 trillion
 - (b) Major causes of surplus: (i) lack of capacity of SNGs to handle planning and administration, (ii) delayed transfer of budget from Central to SNGs
 - (c) Importance to strengthen “participatory approach” in the budget planning, as well as implementation of projects

II. Policy Agenda: Background & Issues

1. Decentralization

(2) Fiscal Flow & Capacity of Sub-National Government

Fiscal Situations of Districts/Municipalities in 2001 & 2008

Revenue Sources	2001 (average of 274 Districts/Cities)	2008 (average of 434 Districts/Cities)
Own Revenues	6.65	6.28
Revenue Sharing (tax, natural resources)	13.21	25.01
General Allocation Fund (DAU)	69.63	57.77
Special Allocation Fund (DAK)	0.61	6.82
Other GoI/ Provincial Transfers	2.93	4.12
Balance from Previous Year	6.97	
Total Income	100.00	100.00

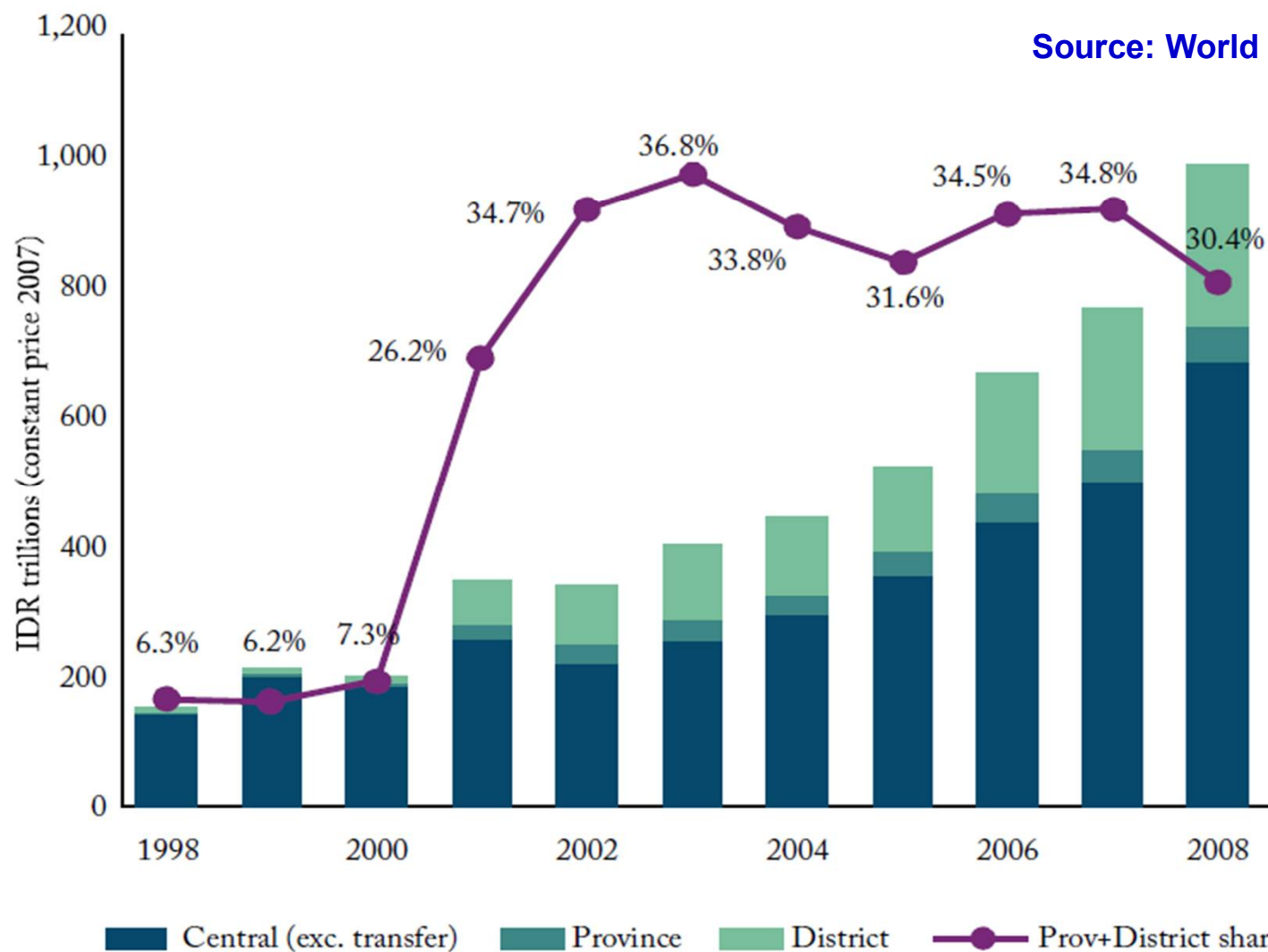
Source: UNDP (2009)

II. Policy Agenda: Background & Issues

1. Decentralization

(2) Fiscal Flow & Capacity of Sub-National Government

Government Expenditure Patterns

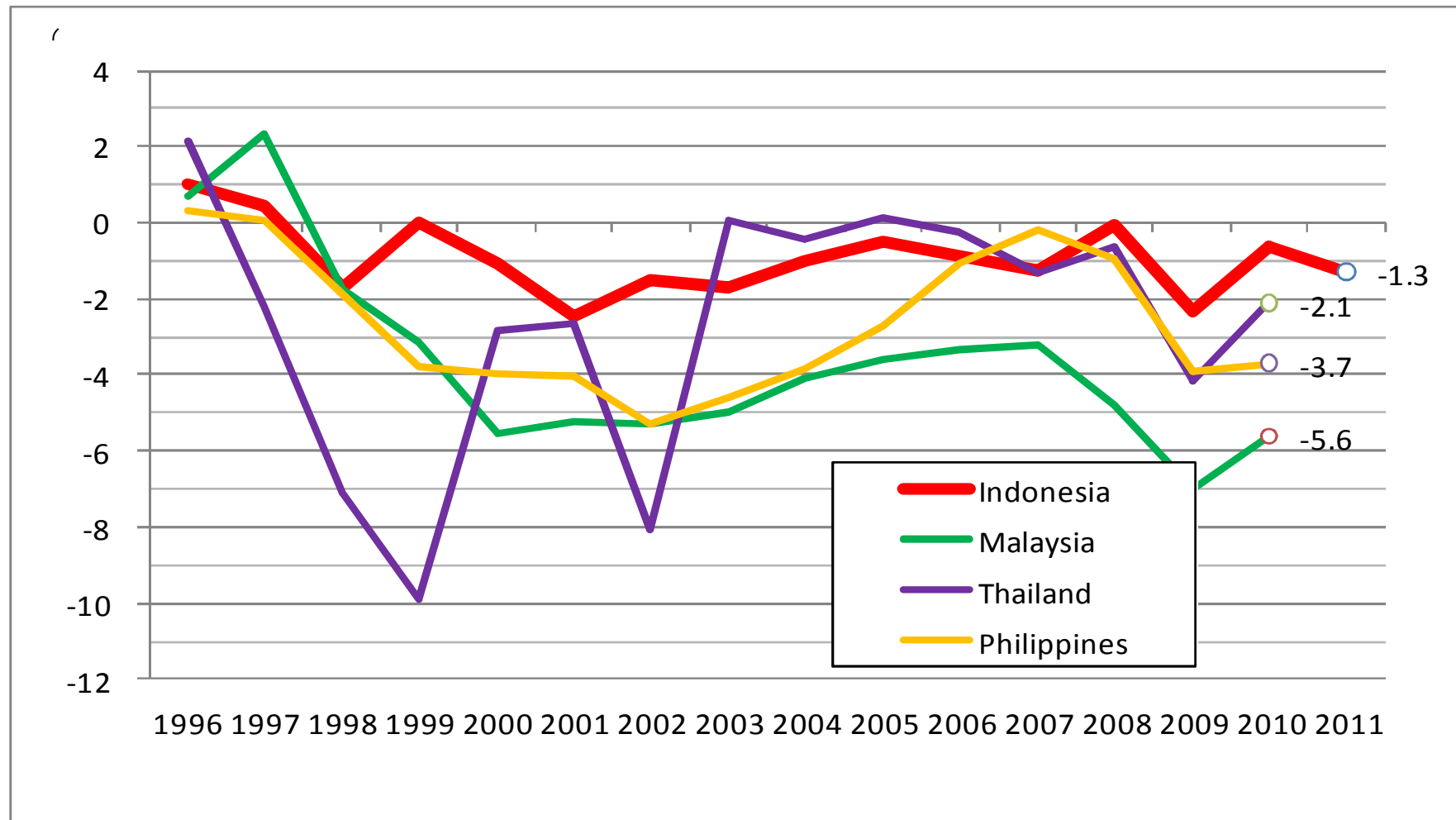


II. Policy Agenda: Background & Issues

2. Social Service Delivery (1) Disparity by Region

Macro: Heading Sound Fiscal Management vs Regional Disparity

Fiscal Balance to GDP (%)



Source: ADB (MOF-Indonesia for 2011 only)

II. Policy Agenda: Background & Issues

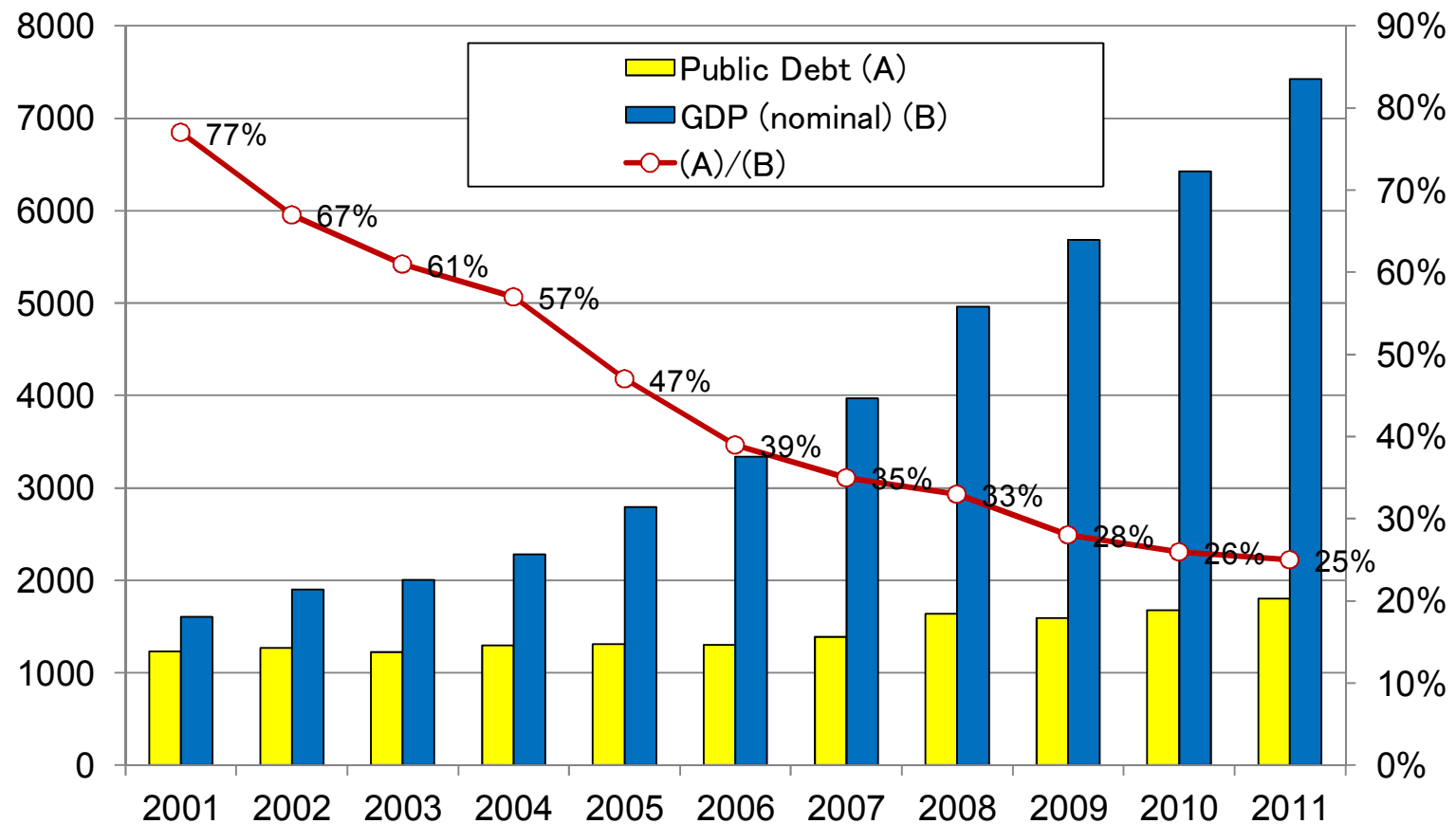
2. Social Service Delivery

(1) Disparity by Region

Macro: Heading Sound Fiscal Management vs Regional Disparity

Public Debt Outstanding to GDP

(Trillion Rp)



II. Policy Agenda: Background & Issues

2. Social Service Delivery

(1) Disparity by Region

Macro: Sound Fiscal Management vs Regional Disparity

Gini Index & Poverty Rate (%)

	Gini Index	Poverty Rate (%)
1996	0.35	17.5
1999	0.31	23.4
2002	0.33	18.3
2005	0.33	16.0
2006	0.36	17.8
2007	0.36	16.6

(Source: BPS Publications, Indonesia)

Inequality still exists. Can be linked to capacity of SNGs and labor market perspectives. 70% of workers in the informal sector.

II. Policy Agenda: Background & Issues

2. Social Service Delivery

(1) Disparity by Region

Macro: Heading Sound Fiscal Management vs Regional Disparity

Indicators of Non Income Poverty by Province in 2009 (%)

Indicator \ Province	Less than Primary School (Head of Household)	Illiterate (Head of Household)	None or Shared Toilet	Low Quality of Drinking Water Source	No Electricity
Aceh	21.34	6.62	44.13	32.95	9.98
Sulawesi Selatan	29.45	17.43	36.09	26.39	6.89
Papua	16.76	26.17	52.04	74.64	54.99
Yogyakarta	17.48	11.82	29.96	19.11	0.93
Jakarta	9.35	1.63	23.80	0.27	0.07
Nation Average	25.21	8.63	37.61	11.67	9.03

Linked to “Human Security” (*) issue, as well as SNGs capacity.

(*)Initiated mainly by Sadako Ogata, President of JICA & Amartya Sen, Professor of Harvard Univ.

II. Policy Agenda: Background & Issues

2. Social Service Delivery

(2) Relevant Policy Measures

<Introduction of Social Security Services>

On the way from the recovery of Asian Economic Crisis in late 1990s:

- Unconditional Cash Transfer (UCT): to compensate to the cut of subsidy to fuel
- Conditional Cash Transfer (CCT)
- BOS (assistance for school operation): for better school management involving broad stakeholders
- JAMKESMAS (Health Insurance for the poor): (i) JAMKESMAS funded by the central government with general budget revenue and (ii) JAMKESDA financed by SNGs.

<JICA's Cooperation>

- Budget Supports through Development Policy Loans (DPLs):
 - Improvement of fiscal management is one of the 3 major reform items.
 - Prep. for introducing Performance-based Budgeting.
- Capacity building of local administration, communities, schools and health facilities through strengthening participatory planning and management
- Participatory school management, so-called "REDIP model": came to be incorporated into the government system and led to introduction of BOS scheme
- Assistance to rural infrastructure projects with participatory planning was led to nationwide National Program for Community Empowerment (PNPM) programs.
- Technical Cooperation project for capacity development of local administration and communities in model areas in South Sulawesi intensively since 2007.

II. Policy Agenda: Background & Issues

3. Issues & Points to be Analyzed

(1) Decentralization Still in Transition Period (Bambang Brodjonegoro, 2009)

- Local Politics: cause delay in local budget ratification
- Slow Local budget absorption: not spent optimally for improving local public services
- Low Participation and Influence of local people during planning and budgeting process
- Necessity of Reform: Intergovernmental Transfer & Local Taxing
- Variety in SNGs

Profile of Four Tiers of Local Government

Tier	Type of Local Government	Number of Units(*)	Population Range
1st	Provincial	30	777,500 – 35,500,610
2nd	Districts and Municipals	348	23,650 – 4,147,000
3rd	Kecamatan	4,038	1,394 – 892,540
4th	Village / Leurahan / Desa	68,783	38 – 436,483

Source: Central Statistics Agency, Indonesia

(*) The number is in 2004. The number of Province is 33, and District/Municipality is 524 in 2011.

(2) Capacity of SNGs matters. Disparity in Social Service Delivery.

>>>>> Analyze correlation between SNGs Capacity and Social Indicators

III. Methodology

1. To collect relevant information and to review the following issues

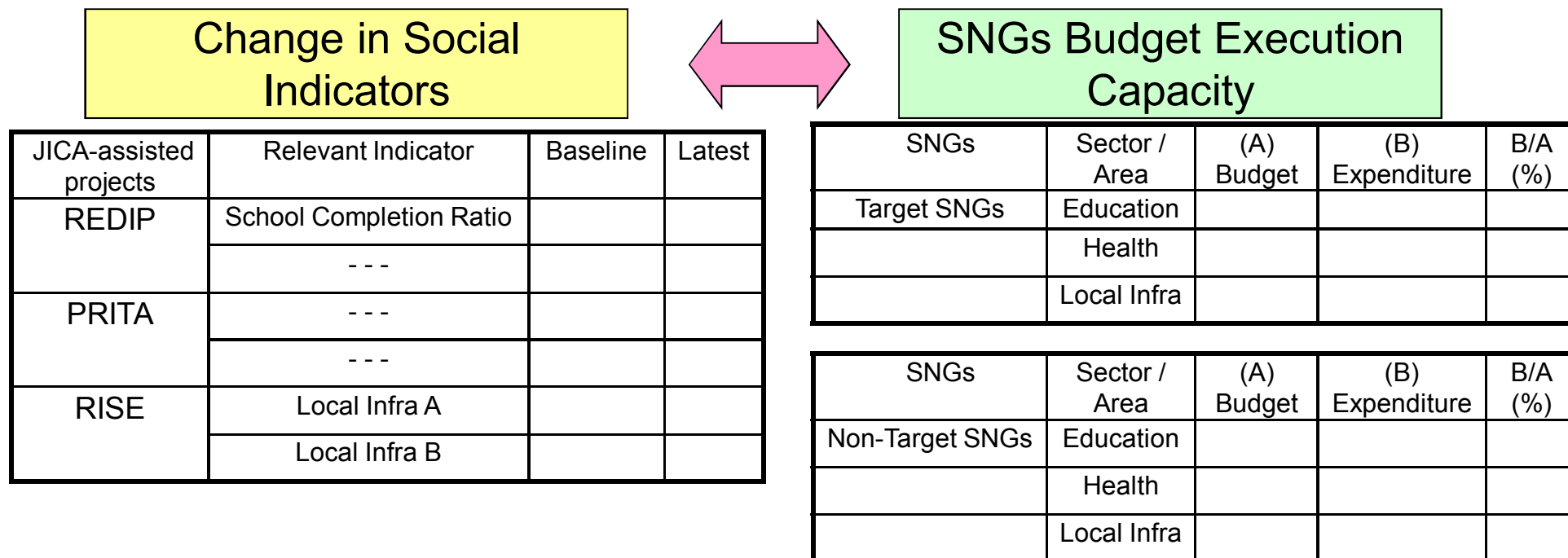
- (1) Structure & current situation of SNGs (province and district levels)
on fiscal aspects (including their own revenue and budgetary transfer)
after the decentralization
- (2) Situation of DAU, DAK & Revenue Sharing from macro-economic perspective
- (3) Performance of fiscal expenditure of SNGs &
SNGs capacity to execute the budget
- (4) Actual expenditure for the following social security program/areas
(current operational status of subsidy programs, micro-level analysis at selected
provinces, division of responsibilities between the central and SNGs)
 - Cash Transfer (both Unconditional and Conditional)
 - Health (including Health Insurance)
 - Education
 - Employment / Job Creation
 - Food Security

III. Methodology (Hypothetical)

2. To analyze correlation between the following aspects & to evaluate the result of their analysis

(1) Participatory Planning & Management and Effectiveness of Service Delivery

To confirm the effectiveness of participatory approach used in JICA-assisted projects, such as REDIP (basic education), PRITA (health), SNGs capacity development (CDP), analyze the correlation between change in social indicators and relevant budget execution through with-without project approach in South Sulawesi.

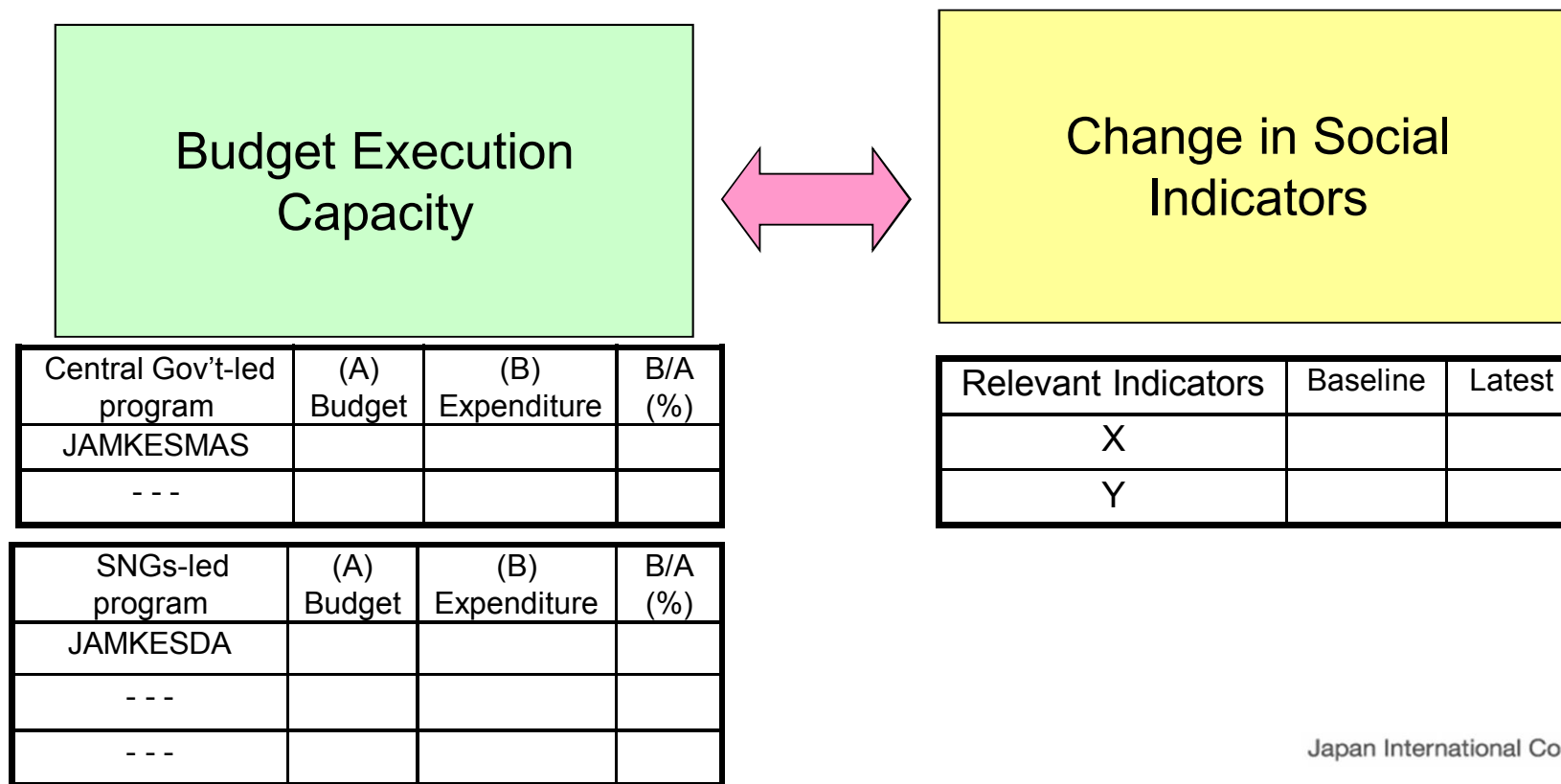


III. Methodology (Hypothetical)

2. To analyze correlation between the following aspects & to evaluate the result of their analysis

(2) Level of Delegating Authority & Budget Authorities and Effectiveness of Service Delivery

To compare the effectiveness of decentralization from fiscal point of view, analyze the correlation between social programs (indicated in change in relevant social indicators) of which ownership is delegated to provincial level (e.g. JAMKESDA) and more centralized one (e.g. JAMKESMAS).

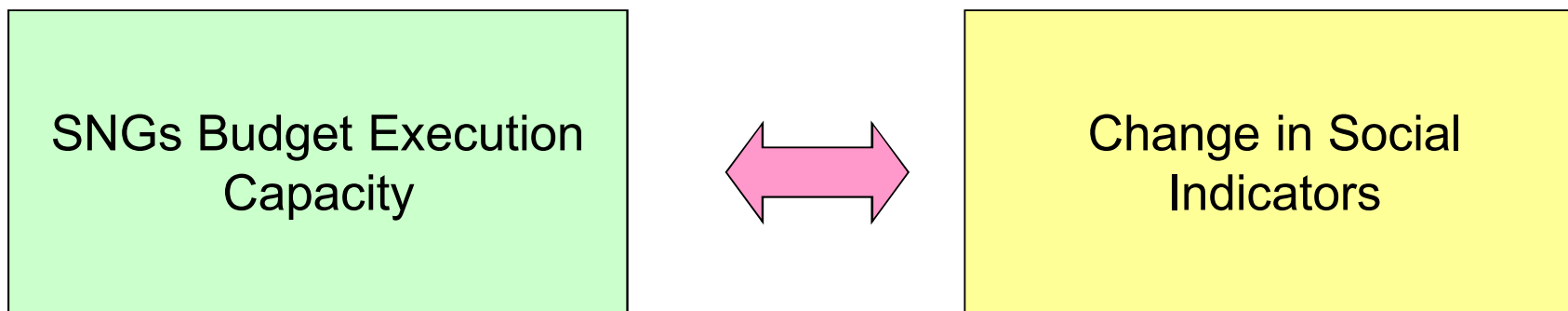


III. Methodology (Hypothetical)

2. To analyze correlation between the following aspects & to evaluate the result of their analysis

(3) Capacity of SNGs and Change in Social Indicators

To compare various SNGs from administrative point of view, analyze the correlation between SNGs budget execution capacity and change in social indicators there.



SNGs	Sector / Area	(A) Budget	(B) Expenditure	B/A (%)
Province A	Education			
	Health			
	Social Welfare			
Province B	Education			
	Health			
	Social Welfare			
District X	---			

Sector/ Areas	Indicator	Baseline	Latest
Education	Enrollment Ratio		
	Completion Ratio		
Health	Infant Mortality Ratio		

Employment	Unemployment Ratio		

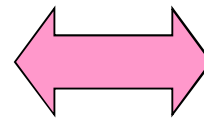
III. Methodology (Hypothetical)

2. To analyze correlation between the following aspects & to evaluate the result of their analysis

(4) Difference in execution incentives of SNGs by type of revenue

To compare the budget execution incentives of SNGs by type of revenue, analyze the correlation between performance of budget expenditure and its related revenue (own tax revenues, DAU, DAK, and revenue sharing from the central)

Performance of SNGs
Budget Execution



Related Revenue

Budget	(A) Budget	(B) Expenditure	B/A (%)
Education			
Health			
Social Welfare			
Local Infra			
- - -			

Related Revenue	Fund Source	Type of Revenue	%
Education	Central	DAU	
		DAK	
		Revenue Sharing	
	Local	Own Tax Revenue	
Health	Central	DAU	
		DAK	
		Revenue Sharing	
	Local	Own Tax Revenue	

IV. Significance

1. Comprehensiveness: Range of Scope

Example: Classification of Insurance/Protection Providers

	Private Sector	Public Social Insurance	Public Social Assistance
(Beneficiaries)	Non Poor	Poor / Non Poor	Poor
Health	JAMSOSTEK	JAMKESMAS	JAMKESMAS
Old Age	JAMSOSTEK	Yes	Non-existing
Unemployment	Severance pay	No Insurance	Non-existing
Education	(not targeted)	(not targeted)	BOS/Scholarship
Credit	SME Support	Deposit Insurance	(not targeted)
Food	(not targeted)	(not targeted)	RSKIN
Community	(not targeted)	(not targeted)	PNPM

JAMSOTEK: Jaminan Sosial Tenaga Kerja (Worker's Insurance)

JAMKESMAS: Jaminan Kesehatan Masyarakat (Public Health Insurance)

BOS: Bantuan Operasional Sekolah (School Operational Assistance)

SME: Small Medium Enterprise

RASKIN: Beras Miskin (Rice for the Poor)

PNPM: Program Nasional Pemberdayaan Masyarakat (National Community Empowerment Program)

(Source: JICA)

IV. Significance

2. Timeliness: Challenge but Chance for Indonesia

(1) Meet Policy Measures: Universal Coverage of Health Insurance

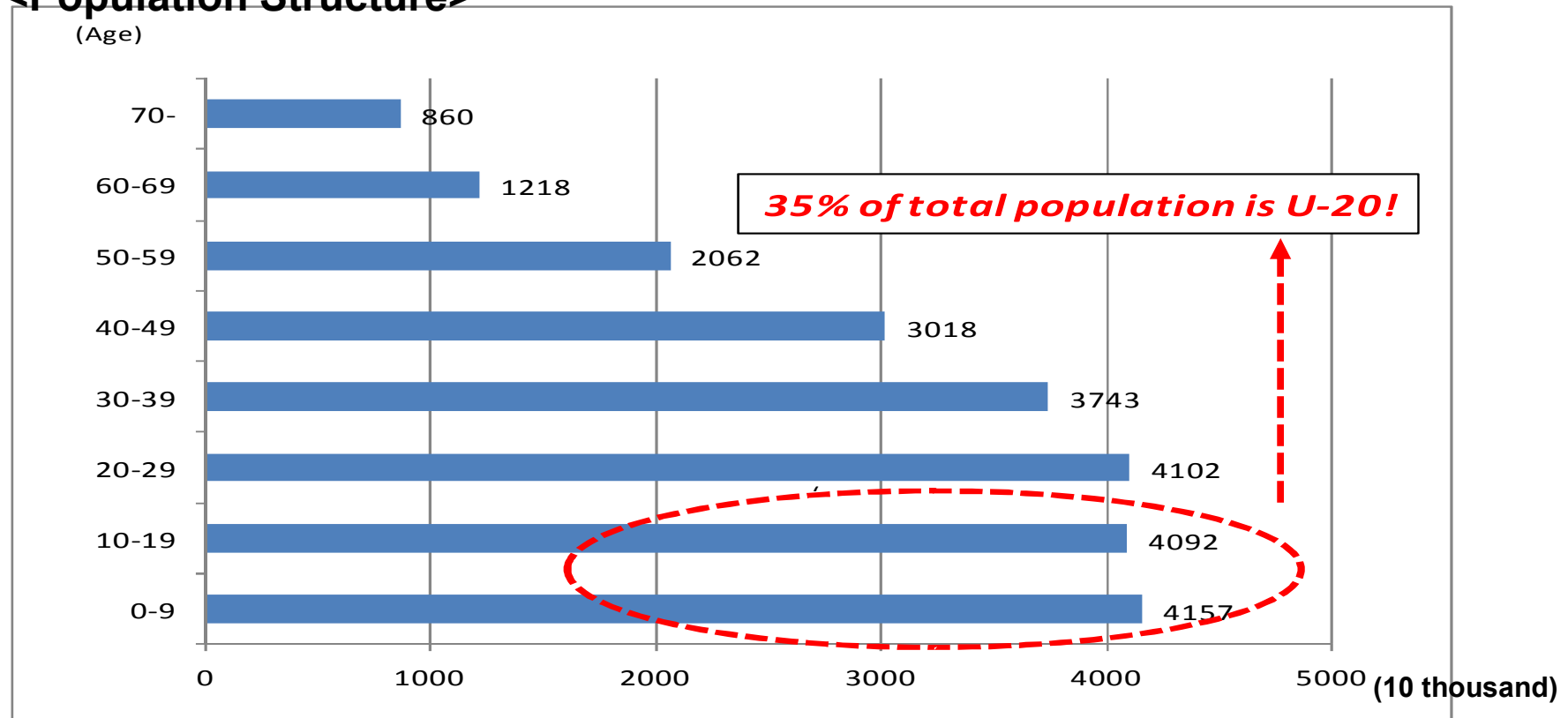
- Social Security Providers Bill (BPJS) approved by the Parliament on October 28, 2011.
- GOI is moving forward to universal coverage of the health insurance by 2014.

(2) Comprehensive Policy Design well before entering into “Aging Society”, while enjoying “Population Bonus”

Under Age 20: 35% of Total Population in 2010

Under Age 30: 53% of Total Population in 2010

<Population Structure>



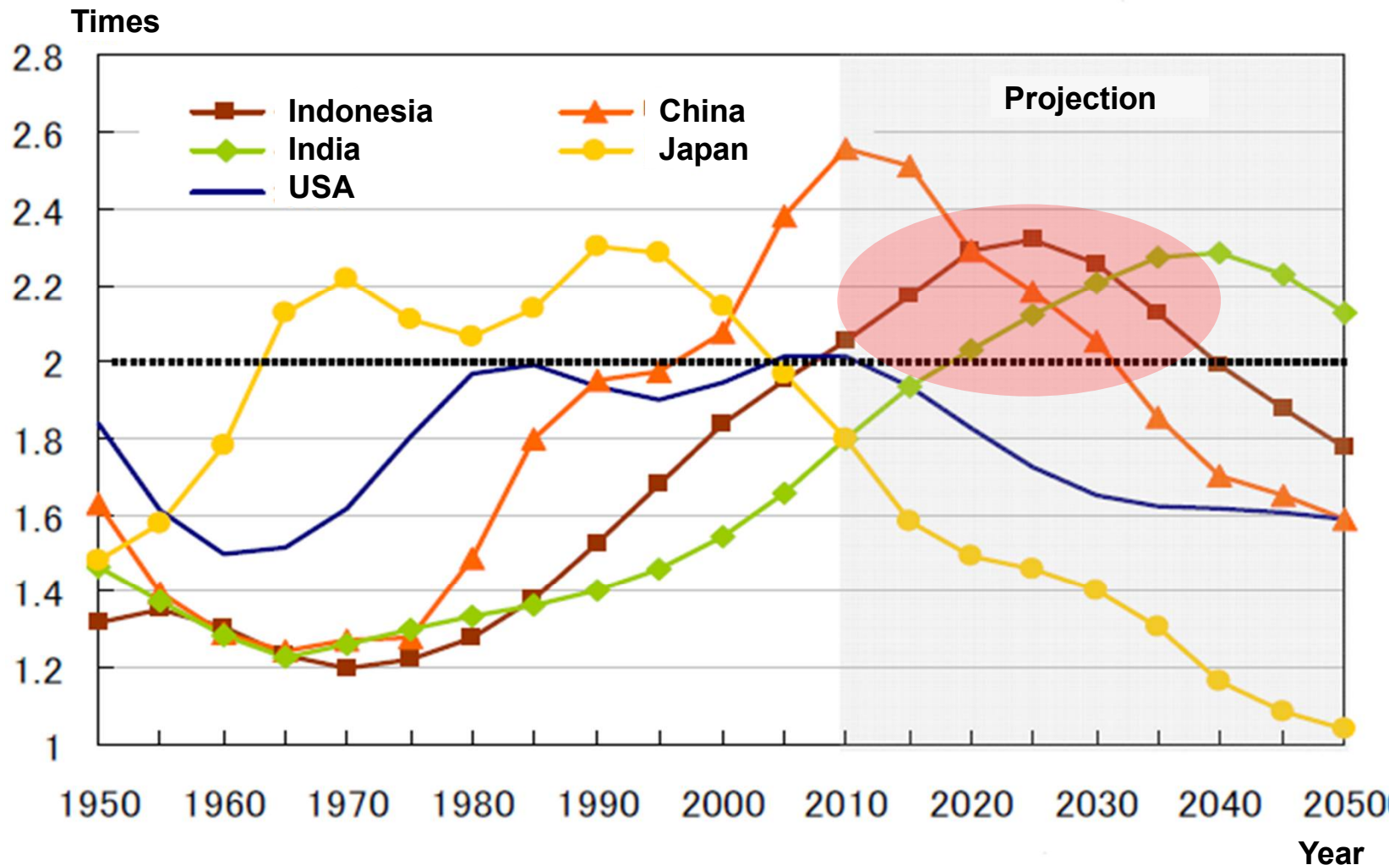
Source: UN World population prospects 2010

IV. Significance

2. Timeliness: Challenge but Chance for Indonesia

From 2010 to late 2030s: Production Population (15 – 64) will becomes more than 2 times than Dependent Population (0 – 14 & 65 -) in Indonesia

<Population Bonus>

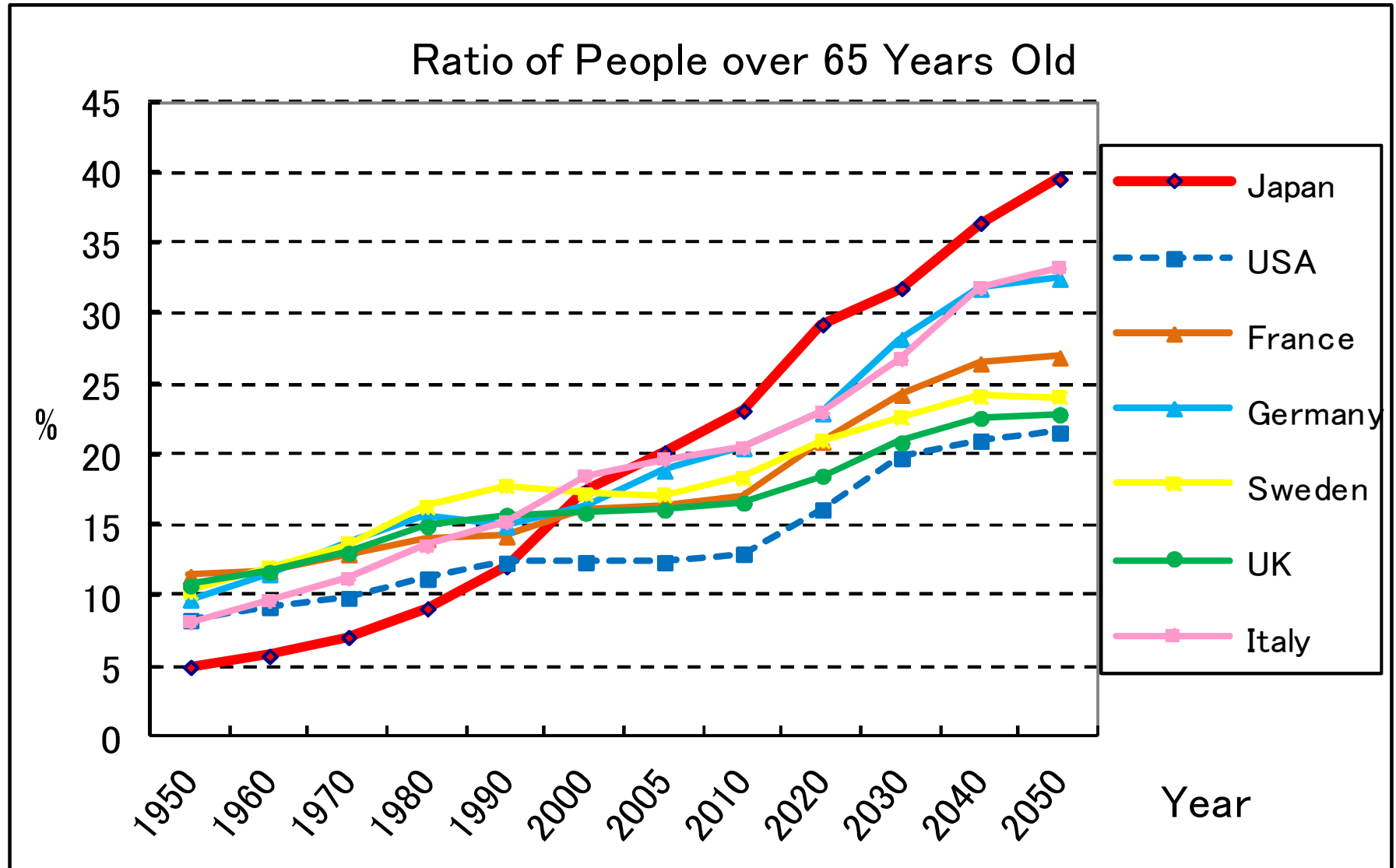


Source: UN World population prospects 2010

IV. Significance

2. Timeliness: Challenge but Chance for Indonesia

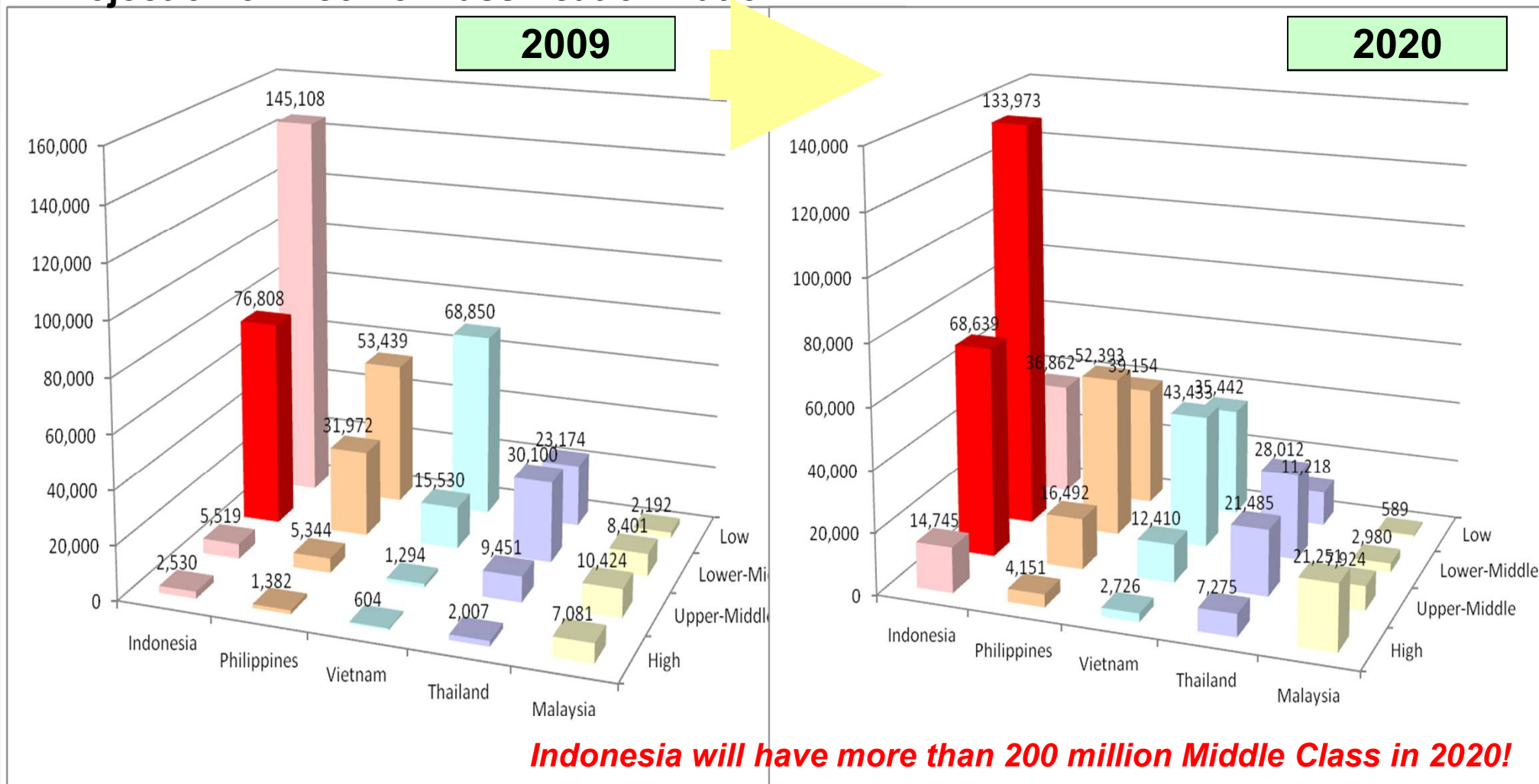
(reflection of Japan's Lesson: Japan as a "front runner" in Aging)



IV. Significance

2. Timeliness: Challenge but Chance for Indonesia Rapid Growth of Middle Class

<Projection of Income Classification Ratio>



Classification by Annual Household Income
 Low Income: US\$ 5,000 or below
 Lower-Middle: US\$ 5,000 – 15,000
 Upper-Middle: US\$ 15,000 – 35,000
 High: US\$ 35,000 or above

Source: JETRO (based on Euromonitor International 2010)

IV. Significance

3. Empirical Analysis to Identify Bottleneck

(1) Data Availability

- Based on the long-term partnership between GOI and JICA, rich project-related dataset is available
- Empirical Analysis could be possible by using panel data, result of baseline survey at the beginning stage of relevant projects.

(2) Reflection to Policy

- Collaboration with relevant Ministries and SNGs of GOI, as well as development partners is expected.
- Local research institutions will be mobilized.
- Reflect the findings into GOI's policy making through various dialogue.

V. Way Forward

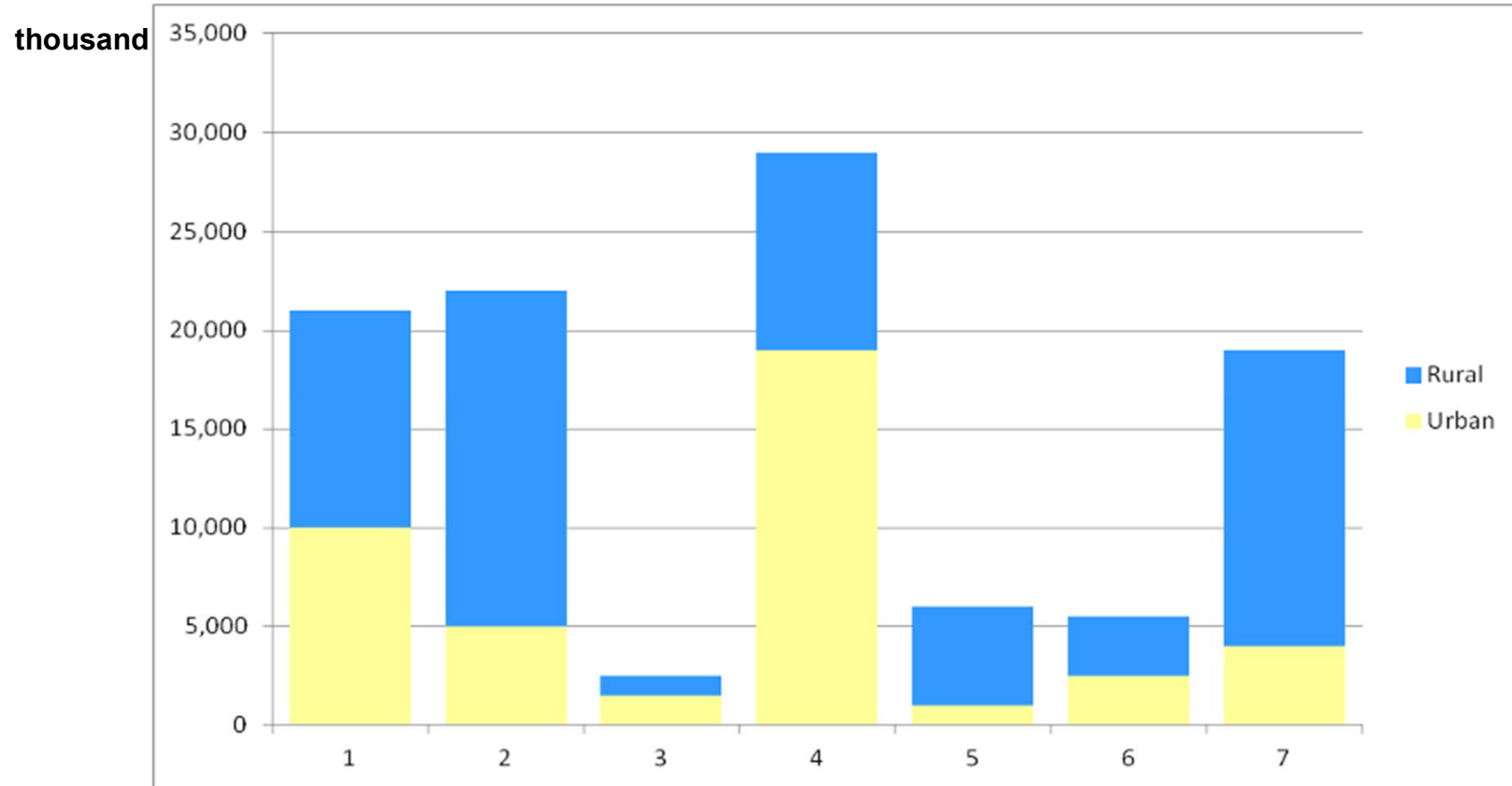
1. Study Structure (tentative)

- (1) Study Period: 12 months
- (2) JICA Indonesia Office: entrusts to research institute in Indonesia
- (3) JICA HQ (Southeast & Pacific Department): sets up Steering Committee in Japan composed of the Experts in Japan for review
- (4) Potential Partners in Indonesia
 - Fiscal Policy Office (FPO), Ministry of Finance
 - National Development Planning Agency (BAPPENAS)
 - Sub-National Governments
 - Others
- (5) Potential Partners Overseas (for review)
 - London School of Economics (LSE)
 - World Bank
 - Asian Development Bank
- (6) JICA holds opportunity to disseminate the result with inviting the above-mentioned partners

V. Way Forward

2. Points to be Considered

(1) Informal Sector: 70 % of workers are in informal sector



1. Own Account Worker (Informal)

2. Employer Assisted by Temporary / Unpaid Worker (Informal)

3. Employer Assisted by Permanent Worker

4. Employee

5. Casual Employee in Agriculture (Informal)

6. Casual Employee non-Agriculture (Informal)

7. Family Worker (Informal)

Source: BPS (2009)

(2) Presidential Election in 2014