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Microinsurance and Social Protection for Workers in the Informal Sector in Indonesia: A Study of the Social Welfare Insurance Program (SWIP/ASKESOS)

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By

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Professor James Midgley, Chair
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Professor Gillian Hart

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Abstract

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Contemporary social policy and development literature has recognized microinsurance as a new and promising avenue for extending social protection coverage to workers in the informal sector in developing countries. However, emerging research on the subject has focused narrowly on the roles of commercial insurance and community-based microfinance institutions and the relationships between the two. The roles of government in promoting community-based microinsurance have not been sufficiently examined.

Drawing from a case study by the *Asuransi Kesejahteraan Sosial* (ASKESOS), which can be translated as the *Social Welfare Insurance Program* (SWIP), this dissertation argues that government can contribute to the development of community-based microinsurance. In addition to the institutional aspects, this study also reveals that microinsurance can have social protections as well as social developmental effects. Initiated since 1996, SWIP was implemented under the sponsorship of the Ministry of Social Affairs of the Republic of Indonesia in partnership with Community-Based Organizations (CBOs). While the Ministry provides a social investment block grant and legal support, the CBOs are responsible for implementing SWIP at the community level. A qualitative case study design was used in which open-ended interviews were conducted with managers of 17 CBOs that implemented SWIP between 2003 and 2008 in West Java Province, Indonesia. Data collection procedures also included observations and document analyses.

This dissertation presents several key findings. The first finding suggests that SWIP has become part of a broader social protection reform in Indonesia during the last decade. SWIP policy emulates the predominant approach in the contemporary development and poverty reduction policies in Indonesia that emphasize local-level initiatives and community-based participations. Furthermore, contrary to other microinsurance models supported by private insurance corporations that utilize CBOs solely as marketing channels, the relationship between the Ministry of Social Affairs and CBOs is more dynamic and mutualistic in the form of creating two-levels of patron-client relationships. SWIP enables the Ministry of Social Affairs to recreate and sustain patron-client relations with CBOs on one level and reinforces patron-clients relations between CBOs with local communities on the other. Instead of avoiding elite capture, the implementation of SWIP leverages the privileged position of the CBOs within the

community. Respondents also reveal that previous relationships between the CBOs and the Ministry of Social Affairs were more important in determining the CBOs' participation in the program than their expertise in running microinsurance activities.

Regarding social protection, eleven out of 17 SWIP managers perceived that SWIP was effective and somewhat effective. The remaining respondents believed that SWIP was not effective in reducing the risks and vulnerabilities of the members. Nevertheless, although the amount of benefits (sickness, injury and survivor) were considered inadequate, respondents believed that SWIP has enabled CBOs to promote social development through facilitating access to microcredit and saving programs and supporting members to invest in both human and social capital. These productive economic activities were supported by 50% of social investment block grant they received from the Ministry of Social Affairs. However, the relatively small size of the grant put several CBOs in a difficult situation because the return on their investments barely covered administrative costs associated with running SWIP.

The study recommends that SWIP needs to pay more attention to the organizational and financial capabilities of the CBOs as well as on the size of the social investment block grant if it is to enhance both its social protection and social development impact. Effective use of participatory evaluation at the local level could provide useful insights, particularly when linked to wider national level outcome studies. It is also important that SWIP becomes more fully integrated with national efforts to expand social protection to the population as a whole and to address the challenges facing informal sector workers in the country. In turn, these programs need to be implemented and integrated with the government's antipoverty strategy.[]

Dedication

To my dearest brothers and sisters,
workers in the informal sector
and members of SWIP

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The completion of this dissertation has been made possible with the generous support of many wonderful individuals and institutions.

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love and sacrifices I am forever grateful. Finally, I also thank my parents and parents in laws who wholeheartedly blessed my decision to pursue my dream. My wife, children and I are always in their thoughts and prayers.

INTRODUCTION

The diffusion of the statutory social security model around the world after the second world-war period was nurtured by the assumption of the "dual economy" model where the traditional, rural-agricultural-based economy would be replaced gradually by more efficient modern urban-based industrialization. Rooted in modernization theories in both social sciences and the economy the path of progress and economic growth in developing countries was framed by the linear and gradual model of social change. Proponents of the modernization theory portrayed the world in a binary or dual model. The term "traditional" was regarded not only as obsolete and incompatible with the "modern" but also the use of the word "traditional" would have to be eliminated to give a way for the "modern" (Boeke, 1953). Progress and modernization would take place through the replacement of traditional culture, social structure and economic behavior. The path of industrialization that had helped sustain economic stability and growth that eventually gave way to the advancement of Western civilization was used as a reference to measure the stages of development in the new independent countries (Lewis, 1955; Rostow, 1960).

Policy scholars and international development agencies employed the dualistic economy model to draw the development path of the newly independent countries. Economists who used this approach were convinced that the expansion of the modern urban sector through investment in manufacturing industry would create employment and draw an "unlimited supply of labor" from the rural agrarian sector where many were engaged in rural farming and agriculture and take them into a modern economy. Consistent with the Keynesian economic model, governments in developing countries played substantial roles in stimulating modernization, expanding urban-based industrialization and generating employment. The roles of planning institution at both the central and provincial level of governments were central in ensuring the development processes (Midgley and Piachaud, 1984). As employment opportunities expanded, income rose and the demand for goods and services in the modern economy increased. This would stimulate more demand and pull more workers from the agrarian community into the modern sector. Eventually it was predicted that the bulk of the population would engage in wage employment in the modern sector and enjoy high standards of living. Similar to Western countries, workers in developing countries were expected to enroll in and be protected by formal contributory social insurance. As developing countries modernized their economies and created a more urban-based industrial sector, the labor forces would gradually participate in the social security system.

By 1970s the logic of the dual economy both as an explanatory framework and as a policy prescription to foster economic growth and employment development was being seriously questioned. The ILO's Kenya Report and Keith Hart's (1973) study on an informal sector in Ghana revealed a bleak employment situation in developing countries that posed a direct challenge to the core assumption of the dual economic model of growth. At the same time, it also questioned the relevance and appropriateness of the social insurance approach in meeting the problem of poverty, deprivation and the burgeoning number of workers in the informal sector. The *Basic Need* approach was proposed as an alternative to the likely failure of growth strategies in developing countries to absorb substantial number of labor force into regular wage employment. This approach required a substantial government investment and local-level participations. The Basic Need approach was consistent with the World Bank's priority in the same period on poverty reduction and basic needs. The Bank lending policy under President Robert McNamara focused on the issues of poverty and equality with special priorities on education, housing, health, water supply and rural development (Hall, 2007).

In 1980s, while Basic Need was still very much the driving social development agenda, the "*Social Fund*" was created to respond to debt default and a *Structural Adjustment Program* (SAP) in Latin America (Graham, 1992; Parker, 1995; Schady, 2000). The basic idea of the Social Fund put more emphasis on a particular component of a local-level development model that encouraged larger community participation in decision making, management and accountability of local-level development projects. Government devolved the responsibilities to meet basic needs to the community through providing development funds to be managed for financing local-level development projects that were needed to improve the conditions of a particular community. Although the Social Fund and Basic Need approaches were both intended to address the needs of the most vulnerable members of the population, the way the two programs were designed were different. The earlier *Basic Need* approach placed government as the driver of the program and the roles of community participation were complementary. In the later Basic Need approach or Social Fund, the roles of government were reduced and the responsibility to meet Basic Needs of the most vulnerable population was devolved to the local community.

In the same period, social policy scholars also began to question the appropriateness of the social security model that was based on the European social democratic welfare state model for developing countries (Midgley, 1984; Dreze and Sen, 1991). They warned that relying on insurance-based social security would not be an adequate response to the challenges facing social security in developing countries. Instead, the International Labor Organization' (ILO) statutory social security model risks perpetuating inequality and supports privileged groups within society (Midgley, 1984). Social insurance programs such as old-age, sickness, and disability insurance were adopted by authoritarian regimes and were used limited to serve very small numbers of their political constituencies (Mares and Carnes, 2009). Although some developing countries experienced rapid economic growth, according to Mares and Carnes (2009), many authoritarian governments kept the size of the program small. Other writers (Dreze and Sen, 1991; Platteau, 1991; Burgess and Stern, 1991) also noted the challenge of implementing social security schemes in developing countries to cope with the risks emanating from the sudden loss of expected income. The character of risk is more complicated, including chronic poverty, deprivation, and low living standards (Ahmad et.al. 1991). Therefore, according to these scholars, the contributory social insurance model is not appropriate to answer the burgeoning problem of chronic poverty and deprivation experienced by the very large number of people in developing countries.

These critics resonated among ILO experts later in the late 1990s. A team appointed to study the challenges and problems of extending social security coverage in developing countries (Gillion, 1999; van Ginneken, 1999a) identified several structural conditions that contributed to the low coverage of statutory social security in these areas. These conditions included a high percentage of workers employed in the informal sector, the emphasis on health, pensions and education, the low contributory capacity of the informal sector, legal restrictions, and administrative bottlenecks (ILO, 2001a; 2008; van Ginneken, 1993; 1999a; 1999; Reynaud, 2002).

One important point that has been formally recognized by the ILO is the economic and employment realities in developing countries that are dominated by the informal sector. In most developing countries the expansion of urban-based industrial growth cannot counterbalance the expansion of the informal sector economy (ILO, 2006a). By the end of the 1990s, the share of informal employment in non-agricultural sectors reached no less than 48% in North Africa, 72% in sub-Saharan Africa, 51% in Latin America, and 65% in Asia (ILO, 2006b. p. 19). Recent ILO's statistical report (ILO-Department of Statistics, 2012) summarized the latest picture of employment in the informal economy in 47 selected medium and low-income countries. Excluding informal employment in the agricultural sector, the report suggested that about 50% of the total sample included (24 countries), the proportion of workers in the informal sector ranging from 51.2% (Egypt) to 83.6% (India). This recent picture was not much different from a decade ago. Consequently, until the late 1990s, less than 10 percent of the labor force in Sub-Saharan and South Asian Countries were covered by social security. This development presents a stark contrast with most of the Western European countries. In these countries, the provision of statutory social security, particularly social insurance, was almost universal (Van Ginneken, 1999a; ILO 1993).

In recent times, efforts to extend social security coverage to the excluded majority have been on the ILO's agenda. A programmatic recommendation for extending social security coverage was adopted at the conclusion of the 89th Session of the International Labor Conference (2001) in Geneva (ILO, 2001a and 2001b). The twenty-one points of the ILO's recommendations covered a wide range of issues related to the ILO's commitments and strategies for extending social security coverage to those in need of social protection. Priority was placed on reaching out to the workers in the informal sector. Microinsurance was considered one of the two main strategies for achieving this goal. The other strategy is transforming the legal status of the informal economy to become a part of the formal economy.

Microinsurance is the activity of mobilizing financial resources among members of an association to be used in the event of contingencies (Midgley, 2011) and includes both the non-formal and generally not-for profit forms of mutual aid association and formal and for profit microinsurance. The non-formal form of microinsurance includes, but is not limited to, rotating savings and credit associations and burial societies that are practiced around the world. Research studies on traditional forms of mutual aid date back to the early 1950s and can be found in the work of Clifford Geertz (1956, 1962), Shirley Ardener (1964), and Kenneth Little (1957, 1965). Midgley and Hosaka's edited book, *Grassroots Social Security in Asia* (2011), recorded the most recent development of microinsurance activities in several Asian countries. The emerging interest in microinsurance also reflects the desire of multinational insurance corporations to access markets among low-income communities. In this view, microinsurance is defined as a down-scaled form of insurance tailor made for low-income communities by adjusting the size of premium and the value of the benefits and delivery mechanisms (Dercon, 2008; Churchill, 2006).

The renewed interest in microinsurance was also due, in part, to the endorsement of the ILO in the efforts to extend social protection coverage to workers in the informal sector. The 89th International Labour Conference in 2001 recognized the potential and recommended the exploration of microinsurance as a step toward including workers in the informal sector into the social security programs as defined by the ILO convention. Presently, microinsurance has been widely debated, researched and experimented. Since 2008 the ILO, with support from several donor agencies, has devoted systematic efforts to study, document and run pilot projects to test and identify new innovations in microinsurance. The *UsAID* and *Zurich Foundation* have now joined forces with the *Bill and Melinda Gates Foundation* in supporting the ILO's Microinsurance Innovation Facilities. Interest in microinsurance also has been fueled by commercial insurance corporations that are actively experimenting and searching for new ways of understanding and meeting the demands for microinsurance among low-income communities. These growing interests indicate an increase in confidence, which seems to confirm Morduch's (2006) assertion that microinsurance has the potential to be considered as a "new revolution" in international development following in the footsteps of microcredit and microfinance.

Nevertheless, microinsurance is not a ready and immediate solution to the problem of poverty and vulnerabilities of workers in the informal sector. There is a huge gap of knowledge and there is a great deal of unchartered territory on this issue ranging from policy frameworks at the national level; organizational and managerial aspects of the programs, the size of the premiums; and the adequacy and effectiveness of the program and benefits to protect workers in the informal sector against risks and vulnerabilities (Dercon, et.al, 2008; Roth, et.al., 2005). In particular, emerging research efforts on the subjects have generally overlooked the potential contribution of government in promoting community-based microinsurance. Their attention focused almost exclusively on the prospects of microinsurance programs that are developed by commercial insurance corporations or community-based microfinance organizations. Microinsurance has also been framed as a market instrument for poverty reduction. The incorporation of the poor into a broad insurance market would give a way for market to work through providing financial instruments to manage risks and vulnerabilities. Nevertheless, there has been a gap of knowledge about the extent to which microinsurance could contribute to promoting broader social development objectives.

This research study intends to participate in contemporary research on microinsurance. In particular, the study will show that government can contribute to promoting community-based microinsurance. Furthermore, microinsurance can also function as a social risk management tool and also a social development instrument. To this end, this dissertation explores the case of an innovative microinsurance program in Indonesia called "*Asuransi Kesejahteraan Sosial*" (ASKESOS), which can be translated as "*Social Welfare Insurance Program*" (SWIP). Intended to extend social protection coverage for workers in the informal sector, SWIP provides income support to members in the events of sickness, work injuries, and death. Initiated and supported by the Ministry of Social Affairs of the Republic of Indonesia since 1996, SWIP facilitates greater involvement of local-level Community-Based Organizations (CBOs) in social protection. It formalizes community-based social security activities that are already implemented by CBOs through providing more structured administrative and organizational mechanisms. The formalization includes aspects of membership, recruitment, premium payments, claim procedures and bookkeeping. To run the program, the Ministry of Social Affairs provides financial support to participating CBOs in the form of social investment block grants to be used during the 36 months of the program cycle. The block grant is allocated for two purposes: to support benefit payouts and productive economic activities of CBOs and their members.

This research study explores three research questions:

1) How do CBOs implement SWIP at the community level?
2) How do managers of SWIP perceive the effectiveness of SWIP benefits in reducing risks and vulnerabilities of workers in the informal sector?
3) How do managers of SWIP perceive the impact of SWIP on the social and economic wellbeing of participants?

The research study was conducted using a qualitative study method. Data was mainly collected through interviews with 17 managers of the SWIP program in the seventeen participating Community-based Organizations (CBOs) in the West Java Province. Respondents were all managers of SWIP at CBOs that implemented SWIP between 2003 and 2008. This selection process was based on the assumption that by the time the interviews were conducted in the summer of 2011, these CBOs have implemented, at least, one full cycle of the program (36 months). Therefore, CBOs that implemented SWIP after 2008 were excluded because, by the time the interviews were conducted, these CBOs did not yet complete the full cycle of the program. In addition to interviews, this study also collected additional information through a brief (2-3 days) observation within the community in where CBOs were located and operated. Policy documents pertaining to SWIP and other social protection policies were also collected and analyzed. These documents were used to understand SWIP in the broader context of Indonesian social protection policies.

This dissertation is organized in two parts, which contain a total of seven chapters. The four chapters included in the first part provide a theoretical and policy background to the study. The second part covers methodology, description of finding and results and conclusion.

This first chapter provides a theoretical framework by which the reemerging interest in microinsurance can be understood. It reviews progress in research and policy perspectives regarding the need for extending social protection coverage to workers in the informal sector. Using the post World War II as the starting point for international development interventions in the Global South, the chapter examines the changes and evolution in the literature about informal sector workers and the notion of social protection that emphasizes social assistance and microinsurance.

Chapter 2 describes the features of informal employment in Indonesia. This chapter reveals contradictions in the current Indonesian labor market policy that contribute to the stagnation of employment in the formal sector and the high proportion of workers in the informal sector. The contradiction emerged following the enactment of Law No. 13/2003 regarding manpower that supports flexible labor policy. The flexible labor policy loosened the responsibility of corporations toward labor force. The law, created as a part of structural adjustment package, weakened the position of labor although the opportunity for labor to be unionized was extended. The chapter also assesses the causes for the stagnation of employment in the formal sector and its implication to the increased risks and vulnerabilities.

Chapter 3 examines the development of social protection reform in Indonesia directed toward extending social protection coverage. This chapter highlights the contradiction and contestation regarding policy priorities and preferences over social insurance and social assistance in social protection reform in Indonesia since the 1997-1998 economic and political crisis. To provide a broader policy background, the chapter briefly describes social welfare policies of the Dutch colonial in early 1900 and the growth of social security system in the early post independent period until 1997. The remaining sections explain how the crisis became an important critical juncture that created a space for contesting different policy alternatives for extending social protection coverage. The result was the deferred implementation of social insurance reform and the growing support for the expansion of targeted and social-investment oriented social assistance.

Chapter 4 reports that microinsurance is an integral part of the government's initiative to extend social protection coverage to workers in the informal economy. Although the primary focus of this chapter is the policy context and the design of the *Social Welfare Insurance Program* (SWIP), the chapter also reviews the emerging interest in the subject in Indonesia. Several typologies of microinsurance that are currently in practice including the traditional mutual benefit practices, the *Jamsostek* contributory social insurance and commercial microinsurance are discussed. The chapter argues that SWIP is different from other types of microinsurance. SWIP closely emulates "*Social Fund*" and *Community-Driven Development* (CDD) in the context of microinsurance.

Part two of the dissertation starts with chapter 5 that describes the research methodology by which the empirical data collection process was conducted. It describes the study design, the sample population, the recruitment procedure and the data collection process. This study applies qualitative design and data collection that was mainly obtained through interviews with managers of SWIP (N=17). Additional steps to address the potential risks during interviews and how these risks were addressed are also discussed.

Chapter 6 presents key research findings and results. It is divided into four main sections that represent each major theme of the findings. The first and second sections describe the characteristics of CBOs, the relationship between CBOs and the Ministry of Social Affairs, and how CBOs implement SWIP with particular focus on administration. These two sections address the first research question. The third section reveals SWIP Managers' perception regarding risks-management impact. This is addressing the second research question. Several respondents confirmed the effectiveness of SWIP as a risk management instrument; others perceived that SWIP was somewhat effective while recognizing its limitations; and those who perceived that SWIP was not effective for various reasons. Attending to the third research question, the final section explores respondents' perception regarding the social development impacts of the program both on CBOs and SWIP participants. It includes impacts in the areas of community-economic development and social and human capital development.

The final chapter concludes the dissertation by summarizing and discussing key findings in lights of the current literature in the field of social protection and social development. SWIP represents a case example of a government initiative in promoting microinsurance to extend social protection coverage to workers in the informal sector. Government provides a social investment block grant to CBOs in order to implement the program. Findings also contribute to the current literature on microinsurance. They suggest that SWIP not only contributes to risk management but also to social development. Policy recommendations and future research agendas conclude the chapter.

CHAPTER 1
EXTENDING COVERAGE:
SOCIAL PROTECTION, INFORMAL WORK AND MICROINSURANCE

The need to extend social protection coverage to the most vulnerable members of the population has been shared by both social policy and development scholars. Nevertheless these scholars have championed different priorities. Social policy scholars along with the International Labor Organization (ILO) have advocated for the expansion of a social insurance approach through creating new strategies appropriate for workers in the informal sector. Development scholars along with the World Bank (WB) and the International Monetary Fund (IMF), on the other hand, have advocated for social assistance as a social safety net targeted on a limited basis to the most vulnerable members of the population. This chapter argues that efforts to extend social protection coverage in developing countries have converged in the notion of "social development." Contrary to the earlier notion of social security policy that was separated from the economy and the notion of economic development that was divorced from social policy, social development attempts to combine social policy and economic development. This chapter also examines the changing views about the informal sector and workers in the informal sector and the recent development in the literature on microinsurance.

Social Protection and Social Development Convergence

The term social protection has been used interchangeably with the term social security. Nevertheless, there is an effort among development scholars to differentiate between the two. Norton et.al., (2002) and Conway et.al (2000), for example, claimed that the term "social security" is not appropriate to be used in the context of developing countries characterized by high level of absolute poverty. The term has been strongly associated with "comprehensive social insurance and social assistance systems in the developed world" (Norton, et al., 2002: p. 542). Wouter van Ginneken (1999) recognized the limited association of social security with social insurance in European social democratic countries and suggested the importance of widening the concept to include social assistance. Another difference includes the historical background of the concept and policy. Social protection policy emerged into international development literature and policy in the mid 1990s against the background of the Asian economic crisis and structural adjustment (Barientos, 2011).

Norton et.al (2002) defined social protection as "public actions taken in response to level of vulnerability, risk and deprivation which are deemed socially unacceptable within a given polity or society" (p. 543). Vulnerability can be defined as "the likelihood of future poverty may force some households currently in poverty to adopt protection strategies that are dysfunctional in the sense that they could end up reinforcing poverty and could even trap households into long-term poverty" (Barientos, 2011: 242). Although the term is used particularly in the context of developing countries, the core policy responses are social assistance and social insurance (Norton, et.al, 2002). However, because the main focus of social protection is on addressing vulnerability and poverty reduction, it emphasizes more on social assistance than social insurance (Barientos, 2011; 2008). The policy appeared in the various forms of social assistance programs that were also called *safety nets* or *social safety nets* (SSN). This social assistance program has several key characteristics, including selectivity and targeting (means-tested), short-term and functions as compensatory measure during the structural adjustment.

Despite attempts of development scholars to differentiate social protection and social security, social policy scholars see similarities in their goals (Midgley, 2012; Midgley and Hall, 2004). Both policies intend to provide income maintenance and support in order to *prevent* households from falling into poverty as well as to *alleviate* poverty of the lower income population. These dual goals are closely similar to the goals of social protection that are to enable households to manage risks. Risk management includes preventing households from falling into poverty (risk reduction/mitigation) and alleviating poverty (risk coping) (Holzmann and Jorgensen, 2002).

In addition to goals, social assistance that characterizes the key elements of contemporary social protection programs is part of the basic features of social security summarized by Midgley (1984) and Midgley and Tang (2008). They identified five major features of social security schemes that are currently in place in both developed and developing countries. Social assistance that is rooted in the Elizabethan Poor Law is financed primarily using public revenues limitedly for the deserving poor. Social insurance consists of various programs that were rooted in the Bismarkian tradition and was expanded considerably in the 20th century. The programs were financed through contributions of employers and employees. The following table summarizes five types of social security that can be found both in developed and developing countries.

Table 1: Basic feature of major social security schemes

Type	Primary Sources of Funding	Coverage	Particular Entitlement Qualifications
Social Assistance	Public revenues	Persons in designated categories who have low income	Means test domicile
Social insurance	Contributions from employee, employer and public revenue	Members of social insurance scheme	Contribution record
Provident fund	Employer	Employees in designated categories	Employment criteria
Employer mandates	Payroll contribution	Employees in designated categories	Employment criteria
Social allowances	Public revenue	Person in designated categories	Domicile

Sources: Midgley (1984); Midgley and Tang (2008)

The above types of social security provisions refer to existing programs in developed-industrial countries. Since the early 1950s, many developing countries have also adopted some form of social security programs. However, there has been an uneven capability among governments to implement social security schemes. Despite vigorous advocacy supported by the ILO to promote social security as a basic human right included in the Universal Declaration of Human Rights (UDHR), developing countries have not successfully achieved the expected level of coverage and benefits adequacy. The ILO actively persuaded developing countries to adopt and ratify the ILO's Social Security (minimum standard) Convention (No. 102) 1952, in most developing countries. The minimum standard includes a statutory provision for medical care, sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family benefits, maternity benefits, invalidity benefits and survivor's benefits. By the turn of the century there were no less than 148 countries around the world that have implemented various forms of social security (Dixon, 1999; Midgley, 2012). A recent report from the International Social Security Association (ISSA) reveals that by 2013 social security schemes have been implemented in various degrees in over 170 countries and territories and complementary private pensions have been implemented in 50 countries (ISSA, 2013).

The use of both terminologies also reflects deeper ideological and theoretical contestation in social policy, particularly between the proponents of individual-free market and statist/collectivist social democratic approaches. The contestation pertains to the extent of government involvement in social welfare. The proponent of collectivist or statist social democratic approaches supported the significant roles of government in providing social welfare provisions through redistributive policy. Social security was defined as a part of citizenship rights (Marshall, 1956) and that government was morally obliged to ensure the welfare of each individual citizen (Tittmuss, 1974). This view was strongly supported by Fabianist social democratic thinkers in the United Kingdom. Proponent of collectivist/statist also recognized the variety of actors in social welfare including private-for profit sector and voluntary organizations. Nevertheless, these pluralistic welfare systems require a state to manage it. This view is called "managed pluralism" (Midgley, 1999). This statist view enjoyed tremendous support both in the United Kingdom and the United States between the 1950s until the late 1970s.

This social policy perspective enjoyed tremendous support from its counterpart economic policy. The Keynesian economic policy that dominated economic policies following the WW II period was emphasizing economic stabilization, promoting full employment, creating jobs and facilitated consumption through various government fiscal interventions. It gave a way for the expansion of the universal welfare state model from William Beveridge. The deep involvement of government in social welfare, including in creating and expanding social insurance programs are compatible with the Keynesian economic policy framework (Hemerijk, 2012). Legitimized by the predominant Keynesian economic framework it reached its peak in the early 1970s.

Since the early 1980s, the reemergence of liberal economic thinking blamed the slow-down of economic growth in Europe and North America to the excessive government spending on social security and entitlement programs. This assault had put the proponents of a Keynesian welfare state in defensive position. This effort was known as a neo-liberal counter-revolution. Retrenchment in social security spending that was coupled with the drive toward privatization signified the push back against the dominant roles of the state in social security. The individualist-free market approaches believe in the smaller roles of government and bigger roles of individuals. The raise of President Ronald Reagan in the US and Prime Minister Margaret Thatcher in the UK in the 1980s signified the turning point of the statist/collectivist view in social policy. Attack on state welfare (Murray, 1984) was mounted claiming that the excessive government intervention has not only overruled individual freedom but also created more dependency. Therefore, a state welfare system must be retrenched and a social security system needs to be privatized. Although many of these demands were not all materialized, these attacks gained a lot of traction because they were also compatible with the emerging neo-liberal economic counter-revolution. The raise of the neo-liberal economic policy had certainly set a significant change in the area of social policy. The welfare reform during the Clinton era in 1996 that emphasizes individual responsibility embodied the core principles of individual/liberal views in social policy.

In the context of developing countries, critiques against the diffusion of social insurance model to developing countries also emerged from the proponents of social democratic-centrist tradition in the early 1980s. The diffusion was criticized not only because it was inappropriate but also because it perpetuates inequality (Midgley, 1984a) Social insurance and pension served only small number of privilege people working for government and private corporations. In other words, the small number of privileged groups captured most of government subsidies and contributions to the statutory social insurance system. In the meantime, the vast majority of workers in the informal sector economy were excluded from any form of statutory social security. Social policy in developing countries should not exclusively focus on the protection of workers in the formal sector. Instead it should address the wider problem of poverty, unemployment and economic development. The bifurcation of social policy and economic development that characterized the old model of social policy thinking cannot be replicated in the context of developing countries.

As an alternative, new social democratic thinkers proposed a normative concept of "social development" (Midgley, 1995). Social development is defined as "a process of planned social change designed to promote the well-being of the population as a whole in conjunction with a dynamic process of economic development" (p. 25). Social development, according to Midgley, should no longer be bound by the notion of redistribution and its disconnection from economic development. Instead, social policy and social welfare services must be oriented toward contributing to economic development. In the meantime, economic development must be designed in such a way to contribute to the creation of general prosperity and welfare. Therefore, social welfare policy and programs do not have to represent redistributive policy, but instead, a social investment that will eventually give back to the economy (Midgley, 1999; Midgley and Tang, 2001). The absence of a social element in economic development, according to Midgley, will result in the so-called "distorted development," that is development accompanied by the widening inequality and the burgeoning of poverty (Midgley, 1995). In this way, the new social democratic thinkers shifted their earlier position in the middle leaning more toward the right side of the ideological spectrum by adopting an economic argument while at the same time preserving substantial roles of government in social policy that characterized social democratic thinking.

From social development points of view, social protection policy is understood as a policy response to vulnerability, risks and deprivation in the context of developing countries. The earlier logic of social assistance was rooted in the principles of compassion and care for the poor and the vulnerable. Under social development framework, social assistance is defined differently by emphasizing the principles of responsibility, community participation, social capital, accountability and social investment (Midgley, 1999; Midgley and Sherraden, 2009; Midgley and Tang, 2001). Social assistance is no longer understood as an expression of compassion but as a rational act and calculated plan of social investment. As an investment, assistance is given not without expectation of a return. Instead it is carefully planned and conditioned to assure that the investment would return with some additional profits. It was also created not as a system created to prevent the unforeseen adversities but also as an embedded safety-net mechanism in the rational economic calculation.

Although the social development had its roots in the late colonial tradition, various recent global initiatives put the ideas back into the center stage of the international agenda. Among the most recent initiatives are the 1995 World Summit for Social Development in Copenhagen that gave a way to the *Millennium Development Goals* (MDGs) approved by the United Nations General Assembly in 2000. These two initiatives presented clearer social development agenda than the earlier call for meeting *Basic Needs* in the mid 1970s. Rooted in the notion of hierarchy of psychological needs, the *Basic Needs* approach was directed toward fulfilling basic welfare rights for survival. The 1995 summit and MDGs embodied social development ideals that combined both welfare missions as well as economic development missions through investing in improving human capital (education, health, gender equality, reducing unemployment, access to primary health services). Under MDGs, several strategic agendas were also included such as reducing the spread of communicable diseases, environmental sustainability and international partnership in development and poverty reduction (UN, 2010).

This social development framework is congruent with the WB and the IMF that prefers social protection that is rooted in social assistance tradition (World Bank, 2005a; 2005b). The notion of risks management underlying the concept of social protection is consistent with the neoliberal view of individual responsibility. As a rational actor, an individual is capable of making rational decisions to compete in the market place and to secure their own welfare. Government, in this instance, must step away from providing welfare and social protection. The roles of government must be limited to providing temporary and targeted social protection in the form of a safety net just in case there is an economic shock due to market failure that is beyond the control of individuals (Holzman and Jorgenson, 2002; World Bank, 2001). The Asian economic crisis that gave birth to the notion of social safety nets and social protection exemplified the condition. It is for this reason that social protection is situated as an integral part of structural adjustment programs. Emulating the success of social protection programs in managing the 1997/1998 economic crisis, the Indonesian government is using the same policy to manage other structural adjustment programs, such as the reduction of fuel subsidies. As will be described in chapter 3, this program is currently getting more traction in the contemporary Indonesian social policy (Sumarto, et.al., 2008).

Compared to social insurance, social assistance would have immediate effects on the poor since resources (particularly financial transfers and access to basic services) are directly targeted to poor households. Barientos (2011; Barientos and Hulme, 2009) identified four categories of social protection programs that include: 1) pure income transfer (unconditional cash transfers), including family allowances and social pensions; 2) income transfer conditional to supply of labor or temporary participation in small-scale community projects; 3) income transfer conditional to human capital investment, such as *Conditional Cash Transfers* (CCT); and 4) integrated poverty reduction programs that combine a wide range of interventions targeted to the poorest people. These programs would immediately put money into the pockets of the poor so that they would be able to survive and invest in the activities that offer greater chance for improvements in the human capital. In the context of MDGs, such programs could directly address several goals, including the reduction of hunger/famine, child mortality, women's health and access to basic education.

The Changing View about Informal Work

The high proportion of workers in the informal sector relative to those who are employed in the formal sector jobs in developing countries has been the main challenge for the expansion of a national social security system. The emphasis on social insurance and pension schemes that require shared contributions from both employees and employers on a regular basis has restricted its capacity to adapt to a different reality of informal employment. The industrialization bias has been prominently featured in the assumption behind the ILO 1952 conventions on social security minimum standards. Although informal economic activities have certainly been in existence for a very long time in both developed and developing countries, it was only in the early 1970s that informal economic activities became an important topic in both academic and policy discussions.

Recent debates about workers in the informal sector and the informal economy have shifted considerably from a fairly negative connotation of powerlessness and vulnerability to a highly positive depiction of entrepreneurs and innovators. In fact, the creation and the expansion of informal work and engagement in the informal economy have been widely supported as a core ingredient of poverty reduction and economic development. The promotion of microfinance that fuelled the expansion of self-employment became the key ingredients of the contemporary international development and poverty reduction initiatives (The World Bank, 2006; Roy, 2010; Yunus, 1999).

There is no single unified definition about informal sector and employment in the informal sector of the economy. Nevertheless, it is useful to identify three different approaches to understanding the evolution of how informal economy and informal employment is understood. The first approach defines informal sector as a residue of a dualistic labor forces and that their existence was the direct result of their own failure in competing in the labor market. The second approach defines informal employment as economic activities that exist alongside the formal sector. Different from the residual approach, this second approach defines informal economy in contrast to the formal sector that is generally conformed to government and labor regulation. The third approach recognizes an informal sector economy as a multidimensional phenomenon that consists of a variety of organizational arrangement and motivations.

The residual approach is rooted in the earlier depiction subscribed to modernization idea such as Lewis (1959), Geertz (1963) and Harris and Todaro (1970). They described the existence of various forms of economic activities outside the modern formal employment structure as "residual." They generally defined informal economic activities that were largely micro-scale and self-employed in relation to modern industrial-based economic activities. The dual labor market model introduced by Lewis defined the progressive trajectory of the labor market economy, particularly in urban areas, and suggested that the residual or surplus labor force that were occupying the non modern sector will eventually disappear. As the capacity of modern industry grows significant waves of labor transitions will eventually occur and absorb the surplus labor force. From the similar point of view, anthropological studies by Clifford Geertz in Indonesia revealed a steady movement of the traditional economic activities among rural peasants toward modern-market economic system. The widely practiced Rotating Saving and Credit Association (Rosca) or Arisan was called an economic “middle rung” institution for it represented a structural transition. The traditional “bazaar” type of economic practices that relied on individual labor, low-skilled labor and micro-scale will eventually be taken over by the growing modern market economy.

Harris and Todaro (1970), consistent with Lewis and Geertz, further identified the contrasting characteristics of the two-economies that justified the eventual disappearance of the traditional economic practices. In their views, participation in urban-based informal economic activities was an involuntary choice but the result of their failure in competing for job opportunities in open labor market. Their participation in non-formal economic activities indicated an acute underemployment among the low-skilled labor force, hence productivity of their activities were low and, consequently, low-paid. These economic activities may be the only available choice for survival in the absence of a better alternative in the formal economic sector associated with high degree of income stability, job security and, of course, better paid. In this instance, Harris and Todaro suggested that underemployment in urban areas were the result of individual failures to compete in an urban-labor market that requires a higher level of skills obtained through education.

The second approach regards the informal sector as activities outside of a formal-regulated form of employment. The term “informal sector” was formally used as an academic terminology in the early 1970s. The initial study on economic opportunities in the city of Accra, Ghana by a British anthropologist, Keith Hart, in the early 1970s attracts further exploration on the phenomena of informal employment and informal economic sector activities. The article is the first to use the term “informal sector” to indicate the broad types of activities related to “income opportunities outside formal employment” (Hart, 1973, p. 68). Hart delineates various types of informal economic activities in relation to formal employment. In his list, there were only three types of formal income opportunities that he found in Accra: public sector wages; private sector wages and transfer payments (such as pension and unemployment benefits). The informal income opportunities that belong to the broad category of the informal sector consist of both legitimate and illegitimate activities. Hart’s analysis about the informal sector presented a different way of understanding economic activities outside the formal-modern economy.

Unlike Lewis and Geertz, Hart’s study did not situate informal sector economic activities as inferior practices in the face of the growing industrial-based modern economy. Instead, his finding presented a more symbiotic dual-urban economic relationship that reflected a variety of modes of production and types of income opportunities without situating the one as superior over the other. Furthermore, unlike Harris and Todaro, Hart did not attribute participation in the informal sector as an involuntary participation due to failures of competing for the scarce employment opportunities in the formal economy.

The term “informal sector” received more attention following the ILO Kenya Mission report (1972). The finding corroborates Hart’s description of various income opportunities in Ghana. Moreover, this report also identified some characteristics and indicators associated with the informal sector. Among the characteristics are the ease of entry as well as exit; reliance on indigenous resources available in the community and surrounding environment; based on family ownership and resources; operated in small scale; labor intensive; does not require skills obtained from formal training and education; unregulated and highly competitive. Similar to Hart's, this report did not situate the informal sector in an inferior structural relationship with that of the formal economy nor did it examine the motives for their participation. Yet, these indicators have been used for several decades to depict informal sector economic activities in both developing and developed countries.

This second approach, unfortunately, has been focused on a variety of activities but overlook the reasons of why these activities exist in the first place. Castells and Portes (1989) offered a structural explanation by putting an informal sector economy in its structural relationship with the formal capitalist economy. In their views, the informal sector did not emerge independently but was a byproduct of the expansion of capitalist economic development. Instead, it was by product of the fierce market competitions that forced the loser to the margin. In their views, motivated by maximizing profit, privileged capitalist organizations continuously seek to subordinate petty producers and traders.

Nevertheless, currently the third perspective has emerged in the literature. The third perspective argues that informal employment is better understood as a multi-dimensional phenomenon (Jutting and Leglesia, 2009). Fields argues that informal employment can be understood in many different ways. From the motivation side, they could include those who work at informal employment voluntarily or involuntarily. They can also be distinguished on the basis of status: upper-tier and lower-tier. Upper-tier informal employment is one that is chosen voluntarily while the lower-tier is those who work at informal employment due to their inability to obtain formal employment. Furthermore, informal employment is also determined by a broader environment of economic development in a particular country (Jutting and Leglesia, 2009). The structure of economic opportunities available in the cities and the right incentives available also determine the likelihood of an individual to participate in informal employment and the likelihood of transition from informal to formal employment.

Building on Harris and Todaro (1970s) recent studies also examine different motivations for participation in the informal sector economy. Maloney (2004) and Packard (2007), for example, argued that participation in the informal economy could also be voluntary. Contrary to Harris and Todaro who argued that participation in informal economy was an involuntary choice due to their failures in competing in the formal job opportunities, Malony argues that their participation could also reflect a rational choice decision. From the rational choice perspective, people may have chosen their informal employment after rationally considering the costs and benefits of the available choices. This view is consistent with Hernando De Soto's (1989; 2001) depiction that participation in the informal economy as a rational-entrepreneurial decision. This rational action is a response to excessive taxation and over-regulation by the state (De Soto, 1989). Participation in the informal economy would allow for workers to unleash their entrepreneurial spirit and avoid the costs, time and efforts associated with formal regulation (Williams, 2008; 2009a).

DeSoto's (1989) interpretation about the informal employment represents a neoliberal economic view about the relationship between the economy and the state. In his view, the widespread of the informal sector, the self-employed or own-account entrepreneur in developing countries reflects the failure of government to get out of the way. His view about the informal sector was almost totally different from the previous depiction about the informal sector. The earlier conceptions tend to position the informal sector as residual, powerless, hapless and subordinated groups. In De-Soto's view, informal sector workers are heroic, ingenious and innovative economic survivors. His view has become influential in the contemporary international development practices through supporting microfinance and microenterprises development (Roy, 2010).

In line with the multidimensional perspective, the ILO developed a basic framework on how to delineate between formal and informal employment. It recognizes the informal employment as a multi-dimensional phenomenon and with different degree of informality. Regardless of their motivation and status the ILO defines informal employment as total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households (Hussmanns, 2004). The determining indicators of informal employment include registration with a social protection scheme. Any type of employments that are not registered and, therefore, are not protected by a social protection scheme is informal. In a similar vein, the kind of employment can be included in the informal employment category as long as they are in lack of labor contract, a pension plan, business registration and do not comply with taxation law. The ILO definition of informal employment was built upon the assumption that the kind of employment that conforms to the formal labor regulation is a necessary condition for social protection.

The notion of formal employment also has been transformed given the fact that even formal enterprises could also employ informal workers. Therefore the simple structural division of formal/informal is no longer adequate to portray the current informal employment. As an alternative, the ILO promotes a concept of "decent work." It advocated continuing labor market reforms that would allow for workers in the informal sector to transition to enter the formal sector. The notion of "*decent work*" reframed the ideal type of formal employment to which the transformation of informal work should be directed. This concept emphasizes the normative value of decency instead of formality. The notion of decent work covers four main elements: rights at work, which are grounded in fundamental principles and international labor standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism (ILO, 2008). In the ILO proposal, the roles of government in creating inclusive labor and social security regulations are central. In particular, the creation of decent work and social security reform must reflect negotiated settlements among three stakeholders (tripartite): government, employers and employees.

Microinsurance

The 2001 International Labor Conference publicly recommended the search for new approaches and strategies to extend social security coverage for workers in the informal sector economy and recognized microinsurance as one possible approach for such expansion. Along with the widely accepted benefits of microfinance to promote economic development and to reduce poverty, the notion of microinsurance emerges as another potential risk management instrument and social protection for low-income communities. Microinsurance is also regarded as an alternative approach to extend public social protection for those who are traditionally excluded from the statutory social security system (Morduch, 1999; Dror, 2001; Dror, et.al., 2006).

Churchill (2006a, b) characterized microinsurance as a two-faced Greek Goddess of Janus because it presented itself looking to two directions. Yet, both directions of the faces cannot be separated from each other. Likewise, microinsurance reflects Janus's character in its inherent values: as an economic development and a social protection instrument. As an economic development instrument, microinsurance is a new market avenue for insurance and financial industries to access market potentials among low-income communities. In other words, it would provide channels for insurance industries to gather the "fortune at the bottom of the pyramid" (Prahalad, 2010). In the meantime, microinsurance also functions as a social welfare instrument. It provides protections against risks and vulnerabilities experienced by low-income individuals and households due to the absence of adequate statutory and traditional social protection schemes (Churchill, 2006b; Jacquier, et.al., 2006). Therefore, from this perspective, microinsurance would allow for market forces of capitalism to provide social protection to the poor in exchange for their participation—as consumer--in the capitalist market system.

Consistent with the depiction of in a Janus character, microinsurance is understood as a tailor-made insurance specifically designed and delivered for low-income communities. It is defined as "the protection of low income people against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved" (Churchil, 2006b; McCord, 2006). In this definition microinsurance is similar to traditional insurance for middle and high-income communities except the price of premium and the size of coverage is adjusted to a smaller scale. These are similar strategies of extending the reach of market to the low income market described by Prahalad (2005) that involved smaller size packaging and lower prices. This definition, unfortunately, offers a very limited frame for understanding the variety of microinsurance practices beyond market-based relationships. This particular definition applies primarily to commercial microinsurance programs but is limited to other types of microinsurance that are not purely commercial, such as the informal microinsurance programs that are operating on a limited community level. It may also not be useful for defining the type of insurance that is implemented under government sponsorships.

Midgley (2011) proposes another definition to microinsurance that could apply to both commercial and non-commercial microinsurance. Midgley recognizes that microinsurance is not limited to the tailor-made insurance practices specifically designed for the low-income market. Instead, he considers microinsurance as a general practice that involves pooling monetary resources to be used for managing the possible contingencies. This kind of practice encompasses formal-commercial practice, government-statutory social insurance practice and traditional practice. On the basis of this assumption, Midgley defines microinsurance according to two main determining criteria: first, organizational sponsorships, and second, the formalization of the procedure. In this definition, microinsurance could cover the diversity of traditional social security and community-based practices that are rooted in the self-help and mutual benefit society traditions, statutory-based practices and private market-based practices. Microinsurance, in this definition, includes various forms of rotating savings and credit associations and burial societies that are practiced around the world (Geertz, 1962; Ardener, 1964; and Little, 1957; 1965). Several traditional social practices have even stronger institutional roots in many religious traditions such as Christianity, Judaism, Islam, Buddhism and

Hinduism (Midgley, 1989, 2011, 2012). Some of them have undergone the process of formalization, legitimized by government law and their practices have been organized and managed in a more systematic way (Midgley, 2011, 2012).

Microinsurance is believed to have significant effects on welfare. It affects welfare both through providing protection after a particular risk or adverse events that may occur and through providing an additional mechanism to strengthen the livelihood and economic capabilities of the poor. Although studies in this area remain in the very early stages, limited evidence reveals some promising trends (Morduch, 2006). A case study from India reveals that microinsurance could enable poor women to have access to health care facilities (Morris, et.al., 2010). Furthermore, for low-income communities, participation in microinsurance would also reduce vulnerabilities caused by loss of sources of livelihoods (Cohen and Sebstad, 2005). In rural areas, microinsurance also protects peasants from the risks of natural calamities (Meze-Hausken, et.al., 2009). Recent studies also identified growing evidence from developing countries that microinsurance has some potential for extending micropension to the elderly population (Midgley, 2012).

Furthermore, similar to that of statutory social security it was also suggested that microinsurance would contribute to the promotion of social and economic development (Midgley, 2008; 2013). Limited number of studies has indicated positive associations between participation in microinsurance with savings, health, and work productivity (Gine and Yang, 2007; Wagstaff, 2007; Wagstaff, et.al., 2007). Furthermore, a recent study from China (Cai, et'al., 2009) reveals a strong causal relationship between participating in microinsurance and the willingness of farmers in rural China to take risks to keep raising sows despite the potential of bad weather. They argued that microinsurance could supplement microfinance activities in fostering entrepreneurial activities.

Several exploratory studies have documented the demand for microinsurance. The demand was believed to be high among low-income communities where no formal social security schemes were available while the capacity of non-formal social security efforts were not adequate to cope with risks and vulnerabilities (Dercon, 2005; Cohen and Sebstd, 2006; Llanto et al., 2007). Morduch (1996, 2006) recognizes that although a variety of traditional and non-formal community-based mutual benefit associations were instrumental among low-income communities in developing countries, these only provided meager protections. Therefore, the existence of traditional social security practices would not be capable to replace the whole function of the statutory social security schemes. Nevertheless, as an institutionalized practice, various traditional and community-based social security practices could complement both statutory-mandated social security schemes and the private insurance practices (Midgley, 2011; 2012). The limited capacity of the traditional social security practice also indicated the opportunities for private insurer corporations to sell microinsurance products to low-income markets (Morduch, 2006; Roth, et.al., 2007).

For private insurer corporations to benefit from a low-income market, microinsurance products need to have several basic characteristics. Among the basic characteristics of microinsurance that would be suitable for low-income people are simplicity, affordability and value—the products are closely related to the needs of the poor (Churchill, 2006c; McCord, 2008). Simplicity relates to accessibility of administrative procedures for low-income people to purchase an insurance product, to pay the premium and to collect the pay out. Furthermore, for low-income people, particularly workers in the informal economy, affordability has been one of the major factors that determine their decision to purchase insurance. A recent ILO study in Indonesia revealed that the size of premium that informal sector workers were willing to pay was far below the minimum size of social insurance premium paid for workers in the formal sector (ILO, 2011).

The other issue pertains to supply mechanism to sell microinsurance to low-income communities. It was realized that low-income communities have different socio-economic characteristics and geographic locations that are generally different from the traditional insurance market—who are generally people from middle to high income brackets. Scholars have identified several possible mechanisms through which microinsurance could meet the demand for microinsurance and penetrate potential markets among low-income communities (Coheur, 2007, Roth, et.al, 2005, and Loewe, 2006). Loewe (2006) identified three approaches that include top-down, bottom-up and linkage. Another writer (McCord, 2001) suggested similar approaches, including "partner-agent," "community-based model," and "full-service" model. "Partner-agent" is essentially similar to "linkage" approach; while the "community-based model" is similar to "bottom-up model"; and "full service" to "top-down" approaches. While top-down or full-service approaches would incur the insurer higher transaction costs associated with managing marketing and collecting small size of premiums; bottom-up or community-based approaches would put a tremendous financial burden and transaction cost for community-based microfinance institution.

Loewe (2006) considers the linkage or partner-agent approach as the most promising approach over the other two alternatives. In this approach, a community-based microfinance institution and insurer could work together. Instead of going directly to low-income communities, an insurer could take advantage of the existing networks and memberships of the micro-finance organizations. On the other hand, microfinance institutions could function as an extension of insurers at the community level that provide some financial support. The prospect of linkage approach is not relevant only for for-profit insurer corporations. It is also relevant for extending government social security programs (Midgley, 1984; 20012). Coheur et.al., (2007) suggests that to extend social security coverage government could build linkage with community-based social security institutions. The objective of the linkage approach is closely similar to that of linkages between for-profit insurance corporations with community-based microfinance institutions. It would allow government to overcome administrative and cost limitations to reach out to the communities. The types of linkages range from financial, operational/administrative, governance, health service provisions and policy/planning. These linkages, according to Coheur et.al., (2007) "can function as important stimulus to the extension of coverage" (p. 15).

However, Roth et.al., (2005), contended that linkage or partner-agent approaches do not necessarily give micro-finance institutions a good deal. In many cases, they argued, major insurer corporations tend to take more value from the relationship. The biggest challenges for microfinance institutions in their relationship with insurer are additional burdens with regard to claim documentation, delays in paying claims and claim rejections. From several cases in India, Roth et.al., (2005) suggested that for microfinance institution to provide microinsurance alone could offer better prospects. In this instance, Roth et.al., (2005) that represented the voice of the Washington, DC based *Consultative Group to Assist the Poor* (CGAP); cautiously suggest the potential for promoting bottom-up or community-based microinsurance approaches instead of the "linkage" or "partner-agent" model. Nevertheless, Roth et.al., (2005) also recognized that for microfinance organizations to run microinsurance programs depends highly on the extent to which it could be protected by government regulations.

The growing literature examining the performance of microinsurance programs has focused almost exclusively on private and non-government programs. A sweeping study on the microinsurance in the world's 100 poorest countries (Roth, McCord, and Liber, 2007), for example, excludes the role of government in microinsurance. Roth et al. (2007) excluded social security schemes because this social protection program was funded from taxes rather than premiums. Therefore, Roth et al. (2007) limited their analysis to four types of microinsurance: commercial insurers, Non-Government Organizations, Mutuals, and Community-based organizations. The ILO microinsurance innovation facility, which is supported by the Bill and Melinda Gates Foundation, has been exclusively dedicated to advocate for the advancement of the above four types of microinsurance (Dercon, et.al., 2008). Furthermore, the ILO "Microinsurance Compendium" (Churchill, 2006) which represents a comprehensive documentation and reviews of the latest development of microinsurance did not take the role of government seriously.

The present research study speaks to the above literatures. The case of Social Welfare Insurance Program (SWIP) in Indonesia exemplifies a government experiment in microinsurance to extend social security coverage to workers in the informal sector in Indonesia. This case example would add to the current knowledge about institutional actors that involve in microinsurance (Churchill, 2006; Roth, et.al., 2007; Dercon et.al., 2008). The way through which SWIP is implemented reveals different form of linkage model between government (the Ministry of Social Affairs) and Community-Based Organizations (CBOs). The linkage between the Ministry of Social Affairs and CBOs is different from the linkage approach identified by both Loewe (2006) and "partner-agent" by McCord (2001). The "partner-agent" linkage approach situates community-based microfinance organizations limitedly as a "local agent" for either national or multinational insurance corporations. Insurers still hold most of the power and authority in financial management and in decision making processes (Roth et.al., 2005). In the context of SWIP the linkage involves devolving the larger portion of authority to organize microinsurance activities to CBOs. The roles of Government were limited to the provision of minimum guidelines, supervision and providing social investment block grant to be used by CBOs to run SWIP. CBOs were able to use SWIP to strengthen their position within the communities.

Furthermore, the present study also reveals a social development dimension of microinsurance. At a macro nation state scale, studies have shown extensive evidence on how social security contributes to social and economic development (Midgley and Tang, 2008; Townsend, 2010). However, empirical evidence of how microinsurance could contribute to social and economic development at a micro level remains very limited. A study by Cai et.al., (2009), for example, indicates a potential of risk taking behavior that may contribute to the ability of individuals to improve their livelihood. This research study unearths a core element of SWIP that represent what Midgley (1999) calls "social investment." Social investment carries dual missions of the provision of welfare supports in a way that would contribute to economic development (Midgley, 1999; Midgley and Tang 2001). Social investment block-grant in the context of SWIP was transferred from Government to CBOs to enable CBOs to organize a microinsurance program as well as to support CBOs and provide additional developmental activities to SWIP participants. For workers in the informal sector, participation in SWIP opens up new opportunities for them to access social protections as well as access to other economic development oriented programs available at CBOs.

Summary

This chapter has provided an overview of the challenges to social security in developing countries and debates in the social policy literature about how these challenges could be addressed. One of the main challenges has been the exclusion of workers in the informal sector from social security systems. This chapter explores the concept of workers in the informal sector and the concepts of social security/social protection in the contemporary policy debate. Microinsurance has been regarded as a social protection program that has the potential for extending social protection coverage to workers in the informal sector. The chapter also highlights how the present research study about SWIP in Indonesia could contribute to literature on microinsurance and social protection for workers in the informal sector.

Building on this chapter, the following chapter takes a closer look at the informal sector workers in the contemporary Indonesian labor market and their need for social protection. The chapter presents the way the Indonesian government defines workers in the informal sector and reveals the current data about the proportion of workers in the informal sector. The chapter also examines some of the causes for the persistence and growth of workers in the informal sector.

CHAPTER 2
INFORMAL SECTOR WORKERS IN INDONESIA

Despite competing perspectives on defining informal work, the International Labor Organization (ILO) has developed a basic framework for measuring the prevalence of informal employment to inform policy. It recognizes informal employment as a multi-dimensional phenomenon with different degrees of informality. This chapter reviews the current development of workers in the informal sector in Indonesia by looking at the Indonesian labor policy that tolerates precarious work arrangements. The precarious work is based on the notion of a flexible labor market management system that allows employers not to commit to long-term and stable employment relations and to avoid direct working relationships with employees.

Current Trend

The Indonesian labor market policy focuses only on workers in the formal sector. These workers comprise one-third of the total active labor force in Indonesia. The policy orientation reflects the way the government views the structure of its national labor market, which has been framed through the logic of a binary model of formal/informal works (Tjandraningsih, 2013). Informal sector workers are not only subordinated but also invisible in the public policy discussion. Government statistic reports tend to characterize informal sector work as peripheral, part-time, temporary, seasonal, casual, own-account, and self-employed with other attributes of income, illegality, or extra-legality. These kinds of work include both agricultural and non-agricultural jobs and those who are self-employed in micro-scale businesses in urban areas. Biro Pusat Statistik (BPS-National Statistics Bureau) disaggregates the formal and informal sectors by a combination of employment status and employment type (Tjandraningsih, 2013; 2008; Widarti, 2008).

Although the Indonesian labor policy excludes informal sector workers, BPS presents employment data in dual categories (formal/informal). Following the ILO Labor Statistic conventions of 1999 and 2002, BPS identifies formal and informal employment. As can be seen in Table 1, informal workers are generally associated with five types of employment: 1) self-employed; 2) self-employed assisted by temporary or unpaid workers; 3) casual/freelance workers in agriculture; 4) casual/freelance workers in non-agriculture; and 5) unpaid workers.

Nevertheless, not all of these workers belong to informal worker categories. Depending on their main occupation, some of them could hold a formal worker status. Self-employed workers with professional or technical related occupations and administrative or managerial occupations are part of the formal worker category (Hussmanns, 2004). Yet, those self-employed workers whose main occupations are in sales, services, or agriculture with jobs as production workers, operators, general laborers, and others are included in the informal worker category as well as those who are self-employed and assisted by temporary or unpaid workers in agriculture and other unspecified occupations (see Table 2). Furthermore, workers in three main occupations: professional/technical, administrative/managerial, and clerical associated with both casual work in agriculture and non-agricultural belong to the formal work sector.

Table 2 summarizes the growth and change in current Indonesian employment statistics. The table reveals the stagnation in the number of work participation from 67.55% in 2005 to 67.88% in 2012. The global economic crisis of 2008–2009 did not have a significant impact on work participation; in fact, it experienced a slight increase from 67.18% in 2008 to 67.23% in 2009 and continued to increase to 67.72% in 2010. In the same period, the open unemployment rate slightly decreased from 8.39% in 2008 to 7.87% in 2009, and continued to decrease to 67.72% in 2010.

Table 2: Status in Employment in 2004-2011

	STATUS IN EMPLOYMENT	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	WORK-ELIGIBLE POPULATION (15 +)	103.973	105.857	106.388	109.941	111.947	113.833	116.527	117.370	118.053
	EMPLOYED (000)	93,722	93,960	95,456	99,930	102,552	104,870	108,207	109,670	110.808
	Work Participation (%)	67.55	66.79	66.16	66.99	**67.18**	**67.23**	**67.72**	68.34	67.88
	Unemployment (%)	9.86	11.24	10.28	9.11	**8.39**	**7.87**	**7.14**	6.56	6.14
A.	**FORMAL SECTOR**									
1	Employers	2,965	2,849	2,850	2,883	3,015	3,033	3,261	3,717	3.873
2	Employees	25,459	26,027	26,821	28,042	28,183	29,114	32,521	37,772	40.291
	TOTAL FORMAL SECTOR (000)	**28,424**	**28,876**	**29,671**	**30,925**	**31,208**	**32,147**	**35,782**	**41,499**	**44.164**
	%	**30.33**	**30.73**	**31.08**	**30.95**	**30.42**	**30.65**	**33.07**	**37.83**	**39.85**
B.	**INFORMAL SECTOR**									
3	Self-employed	18,309	17,296	19,504	20,324	20,921	21,046	21,030	19,415	18.440
4	Self-employed with temporary/ unpaid workers	21,512	20,987	19,946	21,024	21,772	21,933	21,681	19,662	18.761
5	Casual workers in agriculture	4,449	5,534	5,541	5,917	5,991	5,878	5,815	5,476	5.339
6	Casual workers not in agriculture	3,732	4,325	4,618	4,458	5,292	5,670	5,132	5,639	6.202
7	Unpaid/Family workers	17,292	16,938	16,177	17,278	17,375	18,194	18,764	17,986	17.899
	TOTAL INFORMAL SECTOR (000)	**65,294**	**65,080**	**65,786**	**69,001**	**71,351**	**72,721**	**72,422**	**68,188**	**66.641**
	%	**69.67**	**69.27**	**68.92**	**69.05**	**69.58**	**69.35**	**66.93**	**62.17**	**60.14**

Sources: BPS

The above table also reveals the proportion of workers in the formal and informal sectors. From 2004 until 2011, the proportion of workers in the formal sector had not yet reached 40% of the total working population. There was also no significant change in the proportion of workers in the formal sector (30.42% in 2008 and 30.65% in 2009) and experienced a significant increase of almost 3% in 2010. This trend of increase in formal sector employment continues to 2011 and 2012. In contrast, workers in the informal sectors were decreasing consistently from 69.58% in 2008 to 66.93% in 2010 and 60.14% in 2012. Nevertheless, overall, percentages in the informal sector remain high compared to those of the formal sector.

Therefore, the global economic crisis of 2008–2009 did not have a significant effect on formal employment, although it did have some effects on Indonesia's gross domestic product (GDP). The crisis only reduced about 1.4% of the GDP growth rate from 6% in 2008 to around 4.5% in 2009, so that, overall, the Indonesian economy was still growing despite the recession (Thant, 2010; Papanek, et al., 2010). Papanek and colleagues (2010) also noted several reasons why there was relatively little effect by the 2008–2009 global economic recession on the structure of the Indonesian economy and employment. Among the most important reasons were that the Indonesian economy was less trade-dependent and less remittance- and tourism-centered than many other countries in the region and the macroeconomic management and banking system were in relatively good shape than it was in 1997.

The persistence and growth of the informal sector economy and informal employment reflect the broader structure of Indonesia's national economy. In the early 1970s and 1990s, the Indonesian government put a strong emphasis on promoting urban-based import substitution industrialization. Within three decades, the Indonesian employment structure slowly moved from agricultural based to non-agricultural based. In the early 1970s, the agriculture sector absorbed almost 63% of the labor force; in 1996, it was reduced by almost 20% to about 43%. On the other hand, employment in mining, manufacturing, construction, trade and restaurants, transport and other services increased from about 37% in the 1970s to about 57% in 1996. This change reflected the trend of impressive economic growth in the period, which resulted in the steady growth in manufacturing, services, and industry (Booth, 2000a; Manning, 1999; Manning, 2000).

However, following the financial crisis of 1997/1998, the Indonesian economy experienced slow growth in exports of manufactured products and, hence, this resulted in the stagnation of job creation in this sector. This manufacturing sector was a major contributor to the creation of formal employment in the private sector. Ten years after the crisis, the Indonesian economy only absorbed 5.6 million of new working age people (roughly 25.4%) into the formal sector out of 22 million new added labor workers in the period (Papanek, et al., 2010: 20). This condition is due, among other things, to the lack of job creation in the formal sector. Prior to 1997/1998 economic crisis, Indonesian manufactured exports were growing at the rate of 30% each year, but after the crisis it slowed down to the rate of 8%. The labor-intensive garment industry also grew at the rate of 30% prior to the crisis, but has now stagnated at 3% for the last decade (Papanek, et al., 2010: 22).

The remaining 16.5 million members of the new labor force added since 1998 were not absorbed into the formal industrial job sector. One estimate noted that some 3 million of these workers were added to the unemployed category. The remaining has been absorbed in both in-country informal sector employment and overseas informal employment. In-country informal employment includes self-employed or sharing occupations in both urban and rural areas. The overseas informal employment has grown more than 100% in one decade. Between 1985 and 1997, the total number of overseas labor, or migrant labor, from Indonesia in several East Asian and Middle-Eastern countries was about 1.3 million. Between 1997 and 1998, the number increased to about 3.5 million. Hugo (2008) estimates that as high as 2.7 million stock migrant workers from Indonesia were ready to be sent out overseas, making Indonesia the second highest potential supplier of labor migrant workers after the Philippines (8.2 million). The main destinations of Indonesian migrant labor are Malaysia, Saudi Arabia, Taiwan, Singapore, South Korea, and the United Arab Emirates (p. 15). In 2007, the actual labor emigration from Indonesia to the above countries was 593,000, a decrease of 54,000 from the previous year (Yue, 2008).

The second contributor to the persistence and growth of informal employment is the differentiation in land ownership and employment in rural areas. Recent studies reveal that agrarian differentiation in rural areas has been accelerated in the last three decades (Breman and Wiradi, 2002). Hart and Peluso's (2005) village-level study illustrates this accelerated differentiation. In the early 1970s, only about 9-10% of the village population controlled about 60% of the land; about 36-40% controlled about 40% of the land, and the remaining 50% of households were landless or nearly landless. In 2005, there was an increase in population of 45%, but about 70% of households in the same village did not own any land. Land ownership has become concentrated on fewer people than it was in the 1970s. The result of the above accelerated differentiation is that the majority of households in the village are either dependent on limited employment in agriculture or looking for different opportunities elsewhere. Some were fortunate enough to obtain industrial employment in large factories, such as for the textile industry, and many others were sent abroad to work as either domestic or plantation workers.

Changes in Labor Market Policy

The new labor policy also contributes to the persistence of the high proportion of workers in the informal sector. The Indonesian government has adopted flexible labor market policies. These policies were adopted within five years following the devastating economic and political crisis of 1997–1998. The crisis had facilitated significant institutional changes, specifically in the form of legislation that altered the course of the country. The labor market policy, along with labor politics, underwent almost total reform. Several ILO conventions were adopted and became the laws of the land. What is important to underscore here is the general direction of reform. Among new labor market regulations, law No. 13/2003 regarding manpower carries information about the general direction in which the labor market policy is heading. Although the law is highly contested, it sets a course toward labor market liberalization by putting emphasis on the notion of a flexible labor market. The flexible labor market contradicted the notion of stable and secure employment and, instead, promoted the expansion of precariousness and informalization of employment. Consequently, the present Indonesian labor market policy does not seem to offer a promising path toward transition from informal to formal employment or of slowing-down the crowding-out of the informal sector. Instead, it creates another path toward more of informalization or casualization of employment.

The flexible labor market arrangement is an assault against the notion of permanent employment. The structure of state welfare was built upon the assumption that labor forces have a certain degree of job security and income certainty until reaching retirement age. Social security-retirement benefits, health insurance, and the provident fund are highly dependent on the actuarial projection of income and contribution during productive working periods. Under a flexible labor market, labor would never have permanent employment because the nature of employment will always be temporary. Different companies would act as brokers responsible for finding employment demands for certain periods of time; while workers would become a stand-by labor supply waiting to be deployed or dispatched. This model of labor management is commonly called "labor outsourcing" or "casual contract workers."

The previous government under President Suharto (1966–1998) was reluctant to ratify several key ILO conventions regarding the labor market. The regime was also criticized for its oppressive policy against labor movements and labor unionization; only one labor union was allowed in the country. As a result, attempts to create different labor unions other than the one designated by the government would be criminalized. Control against labor unions was not a unique policy under this regime. Instead it was part of the general depoliticization strategies implemented by the regime since taking over the helm of the country from the first Indonesian revolutionary president, Sukarno, in 1966 (La-Botz, 2001). The history of the country's labor movement can be traced back to the early 1900s and labor unions were among the key players in the nationalist movements. During the last five years of Sukarno's presidency, labor organizations were highly politicized and under the strong influence of the Communist Party (*Partai Komunis Indonsia*/PKI). Soon after Suharto took power, he started to refocus the country toward economic development and, to this end, applied strong military control in government and civil affairs by controlling political parties and the oppression of political opponents, depoliticizing mass organizations—including labor unions. Various ILO conventions regarding labor rights were dismissed.

Labor activists along with non-government organizations (NGOs) and student groups advocating for issues of democracy and human rights were among the critical forces pressing for radical reforms in the years leading up to the crisis. They also played critical roles in the immediate aftermath of the regime change. They demanded the new government under President Bacharudin Jusuf Habibie— who took over the position after the resignation of President Suharto in May 2008—to ratify the long overdue ILO Convention (No. 87) on the Freedom of Association and Protection of the Right to Organize. The convention was ratified immediately in June 2008. This ratification opened wide the opportunities for various groups associated with specific types of industries to create separate labor unions. By 2008, there were no less than 86 trade unions established at the national level. Yet, the membership and support to these trade unions were still small, approximately 7.3% (2.2 million) of the total workers in the formal sector (30 million) (Widarti, 2008).

Contrary to the previous regime, between the years of 2000 and 2004, the Indonesian government adopted most of the key ILO conventions (Widarti, 2008). Among them were conventions regarding trade unions (Law No. 21/2000), manpower (Law No. 13/2003), and settlement of industrial disputes (Law No. 2/2004). These laws determined the structure of the contemporary Indonesian labor market and labor politics. However, these laws exclusively regulate workers in the formal sector, which literally consists of only 30% of the total working population. None of these legislations speak to the vast majority of workers who are employed in the informal sector. The reform of social security through the amendment of the constitution in 2002 reflects the impact of this inequity. One of the most notable amendments dealt with the obligation of the state to provide universal social security in the form of social insurance to all citizens. This constitutional amendment and the ratification of key ILO conventions provided the political context and illustrated the necessity to reform the national social security system. Therefore, Law No. 40/2004 regarding the National Social Security System is an extension of critical reforms in the area of labor regulations.

What is notable in the present labor market policy is the impact of the Law No. 13/2003 on manpower. This law impacts many labor-related subjects such as child labor, women and expatriate workers, minimum wage, work conditions, layoffs, collective bargaining, and settlement of labor disputes. Another important element of the law is the introduction of the notion of "contract employment." This law was created in the context of the broader *Structural Adjustment Program* (SAP). The creation of a flexible labor market was prescribed by the International Monetary Fund (IMF) and the World Bank and was written in the 21st Letter of Intent (LoI) between the government of Indonesia and the IMF (Tjandraningsih and Nugroho, 2008). The creation of a flexible labor policy was intended to enhance the competitiveness of the Indonesian labor market, reduce barriers to international investment, and, hence, provide incentive for economic growth. It is also an incentive for investors to create more profit through protection from overburdened labor costs (Tjandraningsih and Nugroho, 2008).

However, the law generated tremendous controversy. Although the law supported a flexible labor market, the Asian Development Bank (ADB) still claimed that the law was not friendly enough to the Indonesian investment climate and employment creation (ADB, 2005). The main objections concerned allowing district-level governments to set a minimum wage according to their locality, and the more restrictive rules regarding dismissal and severance payments. The provision about minimum wage was particularly problematic because it was not in line with the liberalization agenda in the areas of governance, particularly the decentralization policy. Under Law No. 32/2004, ratified a year after the law on manpower, 11 areas of government responsibilities that previously belonged to the central government were devolved to district-level government. The area of labor management is also part of the decentralized responsibilities.

Unfortunately, according to an ADB study (2005), the decentralization policy has negative impacts on the labor market. Employees would have to deal with diverse district-level policies, diverse levels of minimum wage, and become subject to local political sentiments. During election periods, candidates for district-level government or mayor often use the rhetoric of raising minimum wage as a political talking point to attract votes from members of labor unions. In addition, many district governments attempted to increase revenue by imposing some types of tax that would further add to the high cost of doing business. As a result, the decentralization policy complicated labor management and put more burden on companies that operated in labor-intensive sectors (ADB, 2005). In other words, the labor law and decentralization policy tightened labor management on one end and made it harder for employees to terminate working relationships. This situation, according to one observer, put higher barriers for industries to absorb new employees (Manning, 2004).

Flexible Labor Policy and the Informal Sector

The current Indonesian labor law gave ample opportunities for corporations not to hire permanent workers. The law permits employers to hire temporary workers without a direct contractual relationship with employees. Instead of directly hiring labor, which would incur elaborate obligations according to law No. 13/2013, employers have an option to outsource the job to other companies specializing in providing temporary or dispatched workers. Outsourcing the labor force is more attractive to employers because they would not have to deal with labor management or providing rights for stable employment and social security benefits. Under the outsourcing model, companies that use the outsourced labor do not have to pay salaries directly to workers, but pay the bulk of the service price to other companies or agencies that supply the labor. Labor outsourcing companies or agencies would then deal with payment of labor. In this relationship, the labor outsourcing companies do not act as an employer but simply act as a broker that recruits and mobilizes a labor force, puts them on reserve, then seek appropriate demands for employment outsourcing. Depending on the demand, the labor outsourcing companies would deploy labor for certain periods of time. These labor outsourcing companies in Indonesia were known as *Perusahaan Penyedia Jasa Tenaga Kerja* (PPJTK).

These practices posed a tremendous challenge to the Indonesian labor union. The labor union demanded that the government change this provision because it was exploitative. A recent study on the practice of labor outsourcing among metal workers reveals several problems (Tjandraningsih, 2013; 2008). One notable problem is distorting the advantage of joining a labor union. Among outsourced metal workers, none of them belonged to a labor union because they were afraid of losing their jobs. If they joined a union, the outsourcing company would discontinue their relationship, move them out of reserve, and lose opportunities for employment. Clearly, labor outsourcing companies have turned themselves into a new threat to labor unions. Another problem pertains to the exploitation of labor by outsourcing companies. To join a labor reserve under particular labor outsourcing companies, workers would have to pay various amounts of money. In the case of metal workers, Tjandraningsih found that to get a job, workers would have to pay between US$58 up to US$700 for a possible one-year employment contract with a monthly wage of about US$127. On top of that, the agencies would charge additional management fees that would be taken out of monthly wages ranging from US$10 to US$30 a month. As a result, the monthly take-home pay of casual contract workers is much lower than those with permanent jobs. In addition, practices of collusion between corporations and the government exacerbated the problem. Although many violations of labor regulations were found, the government almost never offered a substantial response.

Therefore, although highly contested, the existing Indonesian labor policy is not likely to change soon. The proportion of casual contract workers in proportion to the total number of employed workers within the last decade increased considerably from 6.7% in 2001 to 11.0% in 2009. The proportion is even higher among men (Tjandraningsih, 2013; Matsumoto and Verick, 2011). These figures indicate that the flexible labor market policy is contributing to the increase or the maintenance of a high proportion of workers in the informal sector in the present Indonesian employment structure. At least, it would slow down the process of expansion of permanent employment in the formal sector.

The trend of outsourcing jobs among multinational corporations has created a longer chain of production and more complex relations between formal employment on one end and informal employment on the other. The chain of outsourcing does not stop at particular firms in developing countries that receive orders from overseas firms. Instead, national firms use the same logic of outsourcing by hiring home-based workers to do the job (Horn, 2010a). In a recent study in Indonesia, Pakistan, and Thailand reveal very striking facts (Horn, 2010b). In these three countries, companies received job orders from their overseas partners to produce a variety of export-oriented products, such as car accessories, garments, shoes, badminton rackets, and soccer balls. Instead of hiring formal labor to work in their factories, many firms subcontracted the jobs to networks of home-based labor, the majority of which are women. Through subcontracting to individuals, the firms ceased to comply with labor regulations: the firm would not be responsible for providing social security benefits and could cancel their work agreements at anytime.

The workers involved in this type of informal employment are not only vulnerable in their relations with the immediate firms that hire them but also vulnerable to global economic changes. In 2009, for instance, Horn (2010b) reported the global economic recession had significantly reduced the demand for several consumer products in the global and regional markets. As a consequence, the lower demand resulted in decreasing the subcontracting of home-based labor. However, according to Horn, the regional and global crisis did not have a similar impact on self-employed, home-based informal workers whose work and services were closely related to local demand. They were more likely affected by demand reduction in the local market.

Summary

The Indonesian labor market policy created following the 1997/1998 economic and political crisis adopts a flexible labor market model. The current law was deemed unfriendly to industries because of the extensive regulations regarding minimum wage, severance pay, social security, and working hours. However, at the same time, the law provided wide opportunities for industry to hire casual workers. This labor policy did not impact workers in the informal sector. Instead, it deterred the possibility for growth of employment in the formal sector.

The following chapter discusses social security reforms in Indonesia. The existing statutory social security system that is implemented through four major state-owned corporations almost exclusively cover workers who are employed in the formal sector, the government, and the military. Those who are excluded are the vast majority of active labor forces in the informal employment sector. It also discusses policy trends toward the expansion and institutionalization of social assistance.

CHAPTER 3
SOCIAL PROTECTION REFORM AND EXTENSION IN INDONESIA

This chapter explores the dynamics of contested policy reforms in determining the consolidation of social assistance as a predominant social protection preference in Indonesia. It takes a closer look at how the efforts to reform and extend social protection coverage were deeply contested and interlinked with political and economic forces at play in multiple places. To this end, the chapter reviews the colonial roots of the Indonesian social welfare policy and the development of Indonesian post-colonial social security policies. The significant change and growth of the Indonesian social policy took place following several critical junctures. Discussion is focused on social protection reform that took place after the 1997/1998 economic and social crisis. The crisis created a space for discussion about the direction of social policies and policy choices, particularly among the proponents of social insurance reform and the institutionalization of social assistance.

The Colonial Roots of Indonesian Social Protection System

Indonesia's social security policies are not directly associated with the continuation of the Dutch colonial social security policies. Although the tradition of mutual benefit societies had been widely accepted, post independent social security policies did not continue in the colonial tradition. Nevertheless, it is instructive to trace some of the colonial legacies in the area of social protection; in particular, colonial social policy in the late 1800s and early 1900s that put emphasis on improving the welfare of the population through combined social and economic improvement programs that were concentrated at the local level (Li, 2007).

According to de Jong (2004) the Dutch colonial administration in Indonesia did not create an effective or comprehensive social policy or social security system. Under its "indirect rule" approach, the Dutch colonial administration legislated separate laws and regulations for Dutch and indigenous employees. Colonial social security arrangements were exclusively provided for Dutch employees (de Jong, 2004). Nevertheless, the most important Dutch colonial social policy was contained in the "ethical policy" in which the notion of *volkswelvaart* (social welfare) surfaced for the first time. The Ethical Policy was enacted in 1901 as a response to deteriorating welfare conditions among the indigenous population, particularly in the island of Java. Proponents of the policy argued that the Dutch colonial administration was morally obliged to improve the welfare of the Dutch Indies and this policy was claimed to be "an honest, unselfish government policy in the interest of the country and the people of the colony" (Van den Doel, quoted from de Jong, 2000, p. 93). According to Furnivall (1948), the policy sought to promote the balanced economic and social development of the colony.

The Ethical Policy was not designed narrowly to protect the most vulnerable members of the population but, broadly, to promote long-term prosperity. Robert Cribb (1993) identified three broad policy objectives that include: 1) the provision of welfare protection for the less fortunate; 2) the expansion of educational opportunities for people in the island of Java; and 3) the creation of welfare by direct government intervention in the economy and society. Several notable policies directly facilitated the creation of village-level social protection institutions called "*Lumbung Desa*" (Village Food Bank) in 1911. Local government at the subdistrict and village levels were encouraged to collect food staples to be used during bad weather and price fluctuations to help the most vulnerable members of the community. This policy was directly linked to rice trading policies and agricultural extensions at the national level. Urban industrialization was also expanded in early 1900. To support agricultural extension and improvement in irrigation systems and industrialization, educational opportunities were also open to a wider sector of the population. Between 1912 and 1918, about 19 village farming schools were established to support the modernization of agriculture. Research centers and university-level education to support agricultural extension has been established in *Buetenzorg* (Bogor) since 1875.

In addition to agricultural extension and food policies, components of *ethical policy* also cover emigration and microcredit/cooperative development policies. These programs were essentially local-level development initiatives directed toward what Tania Li (2007) calls "improvement." The first emigration program was started in 1905. The government facilitated the distribution of the population among islands through sponsored emigration from the most populous island of Java to Sumatra. These groups of transmigrants were given rights to control plots of land and to create new colonies. This emigration policy was closely tied with agricultural extension programs.

Another important policy pertains to opening access to credit and cooperatives. Until 1880, pawnshops were only micro-credit providers sponsored by the government as well as money lenders. Cooperative movements that offered microcredit became popular among native communities in the first decade of *ethical policy* and many of them were part of *Lumbung Desa.* In Java, the cooperative was also part of nationalist and Muslim social organizations such as *Boedi Oetomo*, *Sarekat Islam,* and *Muhammadiyah*. By 1940, Bloomgaard (1986) reported that rural cooperative banks had proliferated to no less than 6,700 institutions in the outer islands and 5,600 in Java island. Although the growth of pawnshops was not as fast as rural cooperative banks, in the same year the number of pawnshops had reached 375 in Java island and 85 in the outer islands.

In addition to the above local-level development programs, the Dutch colonial government also imported the mutual benefit society system from Europe in the late nineteenth century. The earliest mutual benefit society concentrated on funeral benefits (Ingleson, 1993). This form of social insurance gained popularity in Indonesia in the early twentieth century. As early as 1908, various mutual benefit societies emerged at the same time as the labor union movements (Ingleson, 1986, 1993). These societies collected regular dues from their members and, in return, provided temporary income protection in the event of unemployment, sickness, or death. However, the mutual benefit societies were largely urban based and tied to membership in occupation-based unions. Therefore, most mutual benefit societies were local and bounded by a specific work location (Ingleson, 2000).

A prominent example of a mutual benefit society that still exists is *Boemipoetra.* Established in 1912, *Boemipoetra* was part of a social movement among teachers that promoted national consciousness under the banner of "*Boedioetomo*" in the Central Java Province. The main objective of establishing the mutual benefit association was to facilitate “mutualism” and risk pooling among the members of the *Persatuan Guru-guru Hindia Belanda* (PGHB/The Dutch-Indie Teachers Association). Although it was called “mutual life insurance” in its early period, it also managed a provident fund for the teachers (Ingleson, 1993; Mubyarto, 1999). This insurance company still exists as a private corporation.

However, the short period of Japanese military occupation (1942-1945) disrupted the earlier social development programs and community improvement institutions created within the earlier four decades under the Dutch ethical policy. The removal of most of the Dutch government officials and the replacement by local Indonesian and Japanese military leaders resulted in the discontinuance of previous development policies. In the meantime, the Japanese military leaders put a higher priority on the political mobilization of Muslim and nationalist elites and traditional elite bureaucracy (Reid, 1975). As a result, on Java island, where the welfare policies under the Ethical Policy had been initiated, the rural improvement programs including agrarian extension and *Village Food Banks* that had been established suffered tremendous setbacks. Japanese control over the rice market and production, forced labor mobilization in support of the Japanese military’s fight in the Pacific; the total popular mobilization in support of the war had drastically changed the livelihood and way of life in rural Java (Sato, 1993). Within a short period of time, the Japanese military government radically shifted the social, leadership, and economic structure of the former Dutch colony.

No strong indication has been found to suggest that the post-independent social security policies were inherited from the local-level development approach and the mutual insurance principle. After independence (1945), the Indonesian revolutionary government under President Sukarno had to reassemble the country from the remains of the dismantled social and economic systems that had been created under the Dutch colonial system and under the traditional local noble/customary systems. The lack of human resources with the ability to revive the modern bureaucratic and economic structures, and the revolutionary wars against the Dutch and British who attempted to recover their power over the territory following the surrender of Japanese power, had placed the new government in a very dismal situation.

Nevertheless, after the revolutionary war (1945-1949) the Indonesian government was able to enact several social security regulations. For example, in 1949 the revolutionary government introduced a government regulation about an annuity-benefit pension for civil servants. The regulation was strengthened by Law No. 18/1961, which covered the basic principles of employment that include social security and pension. The law stipulated the rights of the employee, particularly government employees, to decent social protection upon their retirement (Purwoko, 1995; 1996). The law started to recognize and partially adopt the ILO Social Security (Minimum Standard) Convention 1952 (No. 102). The program was expanded to include a contributory savings plan and health insurance in 1963.

However, the “non-aligned” political position that Sukarno took during the early Cold War period did not give his administration an adequate economic advantage. Although his government had attempted to nationalize most foreign-owned companies, facilitating the incubation of local businesses and entrepreneurs, and initiated land reform, these initiatives were not very successful. The staggering poverty rate between 1960 and 1966 that reached about 70% of the population revealed this failure (Booth, 1998). Sukarno was blamed for the prolonged political fight in the first 20 years of independence. This condition was further deteriorated by poor economic performance and the rising influence of the Indonesian Communist Party. The deteriorating economic condition was used by the Indonesian Communist Party (PKI), which was close to Sukarno, to dominate the government. Up until 1965, PKI was the *de-facto* dominant political power. The party was abolished soon after it was accused of being responsible for the aborted coup of September 30th 1965 and the assassination of several Sukarno-loyalist military officers. This allegation resulted in violent massacres of the members and leaders of the PKI and forced President Sukarno to give up power to General Suharto in 1966 (Cribb, 1990).

The most significant step toward the institutionalization of social security took place during the period between 1966 and 1998. Under President Suharto, Indonesia turned to a policy of modernization and pursued economic development. This regime called itself "*Orde Baru*" (New Order) because of its different economic orientation of that of the previous regime under Sukarno.

Development and the Expansion of the Social Security System

Under the leadership of President Suharto, the New Order regime turned the orientation of the country toward that of the West and quickly resumed its economic and diplomatic regime with the United States and its allies. This regime believed in technocratic government with minimal political obstruction and placed great faith in the doctrine of the "stages of modernization" devised by W.W. Rostow (Robison and Hadiz, 2002; Dick, et al., 2002). Although the regime was known for its harsh oppression of its political opponents, the period between 1966 and 1997 has been recognized as three decades of sound economic improvement. The average economic growth was no less than 7.5% per annum and about 1.1 million Indonesians escaped poverty each year. The annual per capita income reached US$906 in 1997 (World Bank, 2006). Fueled by foreign loans, oil revenues, and the constant inflow of foreign direct investment, the Indonesian government was able to expand education and health services, and improve a vital economic infrastructure to boost urban industrialization (Robison, 1986). In the early 1990s, manufacturing overtook agriculture as the predominant economic sector. It was in this context that the World Bank released a controversial report that classified Indonesia as a "high-performing Asian Economy" (World Bank, 1993).

During the New Order Government period, social protection system policies and programs were based on the "institutional" assumptions consistent with the logic of industrialization. Following the ILO 1952 social insurance model, the Indonesian social security system served a very limited number of the population. The first social security laws under President Suharto was Law No. 6/1966, which specifically regulated pensions for the armed forces, and Law No. 11/1969, which was concerned with the retirement of civil employees and their widows or widowers. These two statutory social insurance schemes only covered the privileged groups in government, military, and private sector employment. Targeted social assistance transfers were generally small and were limited to the most vulnerable members of the populations under the custodial care of the Ministry of Social Affairs. Those who received targeted benefits were the elderly, abandoned children, and people with severe mental health issues who resided in many government shelters and orphanages. Limited subsidies were also provided for the elderly and for orphanages run by community or private social foundations.

The general population also benefitted from indirect government welfare interventions. Indirect welfare interventions were, in particular, government subsidy systems for several essential consumption commodities. The Indonesian government controlled the supply and price of essential food commodities so they would be widely available and affordable for the general population. Another large chunk of government subsidy concerned oil prices (Dillon et al., 2008). The subsidy enabled the retail price of fuel to be far below that of the global market and thus affordable for the population of low income households. These policies were created at the onset of the regime in 1967 as a response to popular demand of the movements that forced Sukarno out of power. These subsidies were an essential part of the "success story" of the New Order regime in creating social stability and economic development.

This condition was supported by the amount of not only foreign investment on several sectors of the economy but also by the amount of foreign aid. As part of the economic and social stabilization of the nation, Western countries, Japan, the World Bank, and the IMF created the Inter-Governmental Group on Indonesia (IGGI) in 1967 and made Indonesia the second largest aid recipient country after India. Chaired by the Netherlands, IGGI support was an integral part of the New Order economic policy in meeting the country's balanced budget. Furthermore, the flow of foreign aid channeled through IGGI smoothed regime efforts to speed up economic development. By the 1990s, Indonesia was the largest foreign aid recipient above China and India (McCawley, 1993). In addition, the Indonesian government enjoyed a windfall profit during the oil boom period of the 1970s and early 1980s (Winters, 1996). Oil revenues had given the government the financial capability to invest in areas of social development, particularly to reduce poverty and meet basic needs, through investing in basic education and health services facilities. In addition, by early the 1980s, Indonesia was experiencing successful implementation of green revolution projects through irrigation and high-yielding varieties of rice. Indonesia was among several developing countries that were able to fulfill one element of basic needs in food sufficiency.

The expansion of the statutory social security programs occurred within the context of steady progress and growth of the national economy. The provision of social security for both armed forces and civil employees was standardized through Presidential Decree No. 8/1977, which covered retirement, pension, and health care. Both contributions and benefits were exactly the same for civil servants and members of the armed forces. For retirement benefits, both groups contribute 3.25% from their net salary. Upon retirement, they receive a lump sum payment. The pension program requires a contribution of up to 4.75% of workers' salaries, but it is paid for by the government from general revenues. Upon retirement or death the workers (or their families) receive an annuity benefit for life for as much as 70% of their previous salary, which can be passed on to the spouse and close relatives (son or daughter or parent in cases where there are no minors). Another program is health care that covers employees and their spouses. This program is funded by employees' contributions of 2% of the current employees' base salaries. This program provides benefits for such expenses as medical, hospitalization, maternity care, and the use of medical equipment. The social security scheme for government employees and armed forces can be summarized as follows:

Table 3:
Social Security for Government Employees and Armed Forces

SCHEME		**GOVERNMENT EMPLOYEE SCHEMES** Law No. 8/1974 on government personnel policy					
LEGAL PROVISION		**ARMED FORCES** Presidential Decree No. 8/1977			**CIVIL SERVANTS** Presidential Decree No. 8/1977		
PROGRAM		Retirement Govt. Reg No. 67/1991	Pension Law No. 6/1966	Health Care MOD Decree	Retirement Govt. Reg No. 25/1981	Pension Law No. 11/1969	Health Care Govt. Reg. No. 69/1991
FINANCIAL CONTRIBUTION	Employee	3.25%	4.75%	2.00%	3.25%	4.75%	2.00%
	Government		State Budget				
BENEFITS		Lump-sum payment on retirement	Annuity benefit for life	Medical expenses, hospitalization, maternity, and medical equipment	Lump-sum payment on retirement	Annuity benefit for life	Defined range of care
IMPLEMENTING INSTITUTIONS		PT Asabri Govt. Reg No. 68/1991	PT Asabri	The Armed Forces Hospital	PT Taspen Govt. Reg No. 26/1981	PT Taspen	PT Askes Govt. Reg No. 6/1992

*Source: Mahendra (2007); Angelini and Hirose (2004)

Although both civil servants and military personnel enjoy the same level of benefits, different programs are administered through different institutions. For the members of the armed forces, retirement and pension programs are provided through *Asabri* (Social Insurance for Armed Forces). *Asabri* is a government-owned company that is managed under the Ministry of Defense. The provision of health care is provided by both internal military hospitals or through *Askes* (Health Social Insurance), another government-owned health insurance company under the Department of Health. The retirement and pension programs for civil servants are provided by *Taspen* (Savings and Pension Insurance), which is managed by the State Treasury.

Social security for private employees was introduced in 1977 with the establishment of *Astek* (Social Insurance for the Workforce). This government-owned insurance company was operated under the Department of Labor and Workforce. Operated from 1978 until 1992, *Astek* organized special programs related to work injuries and death and also provided a provident fund for old age benefits. In 1992, through the enactment of Law No. 3/1992 concerning social security for private employees, the name of *Astek* was changed to *Jamsostek* (Social Protection for the Workforce). Through the new law, services were improved and consolidated to establish a program for work accidents, old age, health care, and life insurance (Purwoko, 1996). The program has since become mandatory for employees in the formal economy. The law stipulates that those employers or enterprises that employ 10 or more people, or that have a monthly payroll of at least 1 million rupiah (US$ 110), are obligated to register their employees in the *Jamsostek* program. Workers in the formal sector excluding civil servants and members of the armed forces belong to this social security scheme. Table 4 summarizes social security for private employees:

Table 4:
Social Security for Private Employees

SCHEME		PRIVATE EMPLOYEES SCHEME Law No. 14/1969 on basic manpower regulations			
LEGAL PROVISION		JAMSOSTEK Law No. 3/1992			
PROGRAM		Work Accident	Old Age (Provident Fund)	Health Care	Death
FINANCIAL CONTRIBUTION	Employee		2.00%		
	Employer	0.24%-1.74%	3.70%	3.0%-6.0%	0.30%
BENEFITS		Transport, doctors, drugs, hospitalization, and disability	Lump-sum payment of contribution plus interest	Ambulatory care, hospitalization, and maternity	Death benefit and funeral costs
IMPLEMENTING INSTITUTIONS		PT Jamsostek Govt. Reg. No. 36/1995	PT Jamsostek	PT Jamsostek (Optional)	PT Jamsostek

*Source: Mahendra (2007); Angelini and Hirose (2004)

Jamsostek presently offers four main programs, namely: work accident, old-age, health care, and life insurance. In the *Jamsostek* scheme, the provident fund for old age requires a financial contribution of 5.7% of the net salary. This rate of contribution is shared by both employees (2%) and employers (3.7%). Other programs rely solely on employee contributions. The contribution rate for the work accident program ranges between 0.24% and 1.74% of the net monthly wage; for health care, the rate of contribution is between 3.0% and 6.0%; while that for the death benefit program is 0.30%. For the work accident program, benefits include transportation, expenses for medical services, medications, and disability. The old age benefit is a lump-sum payment based on the employee's total contribution plus interest. Benefits for the health program include ambulatory care, hospitalization, and maternity while the life insurance program covers only a death benefit and funeral costs.

A major challenge for the existing social security system is the coverage, let alone the level, of benefits. The armed forces and civil servant schemes are clearly limited to a small proportion of the population. By 2007, health insurance and old age protection provided by *Askes, Taspen,* and *Asabri*, together, covered about 4.6 million government employees. This number is small when compared with the total workforce. Limited coverage was also acknowledged to be a problem of *Jamsostek.* In 2007, of the total of about 33 million workers who were employed in the formal private sector of the economy, only 8.2 million participated in a mandatory provident fund and 15.8 million were nonactive members of *Jamsostek* programs. Therefore, the total coverage of the statutory social security system provided through *Askes, Taspen, Asabri,* and *Jamsostek* is about 12.8 million or 39% of the active working population in the formal sector (33 million) (Bender and Rompel, 2010).

The low participation rate among formal private sector workers was partly caused by the low participation rate of business establishments. In 2006, for instance, *Jamsostek* recorded about 84.1 thousand formal corporations out of 22.7 million business establishments (formal and informal business units) that had registered and enrolled their employees in *Jamsostek* programs. Tambunan and Purwoko (2002) estimated that only 57% of the total formal business establishments complied with Jamsostek law, and many of those that registered their employees into the Jamsostek program underreported their wages in order to reduce contribution rates (Asher, 2000). Although the Ministry of Transmigration and Manpower is responsible to ensure the compliance of business communities with labor and *Jamsostek* law, their efforts have been almost entirely ineffective.

The financial crisis that started in 1997, the same year President Suharto was elected by the People Consultative Assembly for the sixth five-year term, triggered wider social and political crisis until 1998. The rapid economic downturn escalated into violent and mass protests that forced the authoritarian President Suharto, who was once the darling of "the West" and had enjoyed tremendous political and economic favors from the United States, to step down. His resignation was an important critical juncture that gave way to the advancement of economic, social, and political liberalization agendas. The following subsection explains how the critical juncture facilitated social protection reform.

Critical Juncture and Policy Reform

The impact of the financial crisis of 1997/1998 on the structure of Indonesia's national political economy was tremendous. The immediate response of the Indonesian government was to reach out to the IMF for help. The IMF agreed to provide assistance under very tight conditions. In exchange for the loan, the Indonesian government had to undergo massive structural adjustment programs (SAP) directed toward liberalizing the economy (Booth, 1999; 2000), including the elimination of government subsidies, trade liberalization, privatization of state-owned corporations, deregulation and banking system restructuring. Subsidies and other tariffs were the main barriers to domestic market competition (Wie, 2002). SAP further exacerbated the impacts of the financial crisis and triggered a wider social and political crisis that forced President Suharto, who had been in power for more than three decades, to give up his power.

Both the Indonesian government and the IMF/World Bank were deeply aware of the broad social impacts of the SAP on poverty and unemployment. Within a year after the policy was established, hundreds of firms were closed and banks were merged, resulting in thousands of workers being laid off. These massive layoffs added to the fast increasing numbers of unemployment and the sky-rocketing poverty rate. By the end of 1998, the poverty rate had increased to more than twice its 1997 rate, from 15% to 33%, adding about 36 million new poor. The dramatic increase in the rate of poverty in the immediate aftermath of the crisis was also exacerbated by the change in poverty measurement. The soaring poverty rate had been exacerbated by the financial sector reform that was conditioned under an agreement with the IMF in October 1997 (Booth, 1998). The agreement resulted in the closing down of 16 banks and required the Indonesian central bank to bail out some of them (World Bank, 1998).

The crisis was an important critical juncture under which multiple forces came together and influenced policy changes. In particular, it facilitated a sharp break and transition from the old political and economic systems to a new one. Previously, the political economic crisis during 1965-1966 gave way to the "Order Baru" (New Order) regime under President Suharto to take control from the previous revolutionary regime under President Sukarno (1945-1966) that was called "*Orde Lama*" (Old Order). The New Order regime had previously enjoyed tremendous political and economic support from Western donors in the context of the Cold War economic development programs. It was also praised for its success in eliminating the influence of *Partai Komunis Indonesia* (Indonesian Communist Party or PKI) in the country without necessarily involving overt international military forces as was used in Korea and Vietnam.

In establishing political and social stability, the New Order regime strictly controlled political parties and election processes, putting the military and bureaucracy in dominant positions, actively cracking down on potential opposition, and vigorously propagating the idea of cultural harmony and national unity (Robison and Hadiz, 2004). The highly centralized state and government control was also reflected in its economic and welfare policies. The centrality of state in the economy was somehow justified by Keynesian economic norms emphasizing the roles of planning and government intervention in the economy. Furthermore, as mentioned previously, the oil bonanza in the early 1970s and the huge flow of international development aid enabled the New Order government to invest in import-substitution industrialization, start manufacturing and agricultural industries, and improve access to education and health services (Robison, 1986).

By early 1990s, however, the New Order regime's political and economic legitimacy was radically eroded. The push toward economic deregulation demanded that the government give up policies that were deemed inconsistent with neoliberal global economic order had started in the late 1980s (Wie, 2002). The rise of the economies of China and India in the early 1990s had a tremendous impact on slowing the growth of foreign direct investments in the country and, hence, prompted further financial market deregulation. In the international political sphere, the existence of strong political leaders, who often had military backgrounds, was becoming less favorable after the breakdown of the Soviet Union. Consistent with the rising tide of neoliberal-oriented economic deregulation, Indonesia was also experiencing a strong push toward democratization (Schwarz, 1994).

Since the late 1980s, Indonesia was experiencing growing pressure on issues of human rights from local NGOs. In the early 1970s until the early 1980s, many NGOs worked within the context of promoting local-level participatory development, the participation of women in development (WID), education, and health. Their main agendas were relevant to the macro international development framework of "basic-needs" (La Botz, 2001; Eldridge, 1995). NGOs received their financial support and backup from the Inter-Governmental Group of Indonesia (IGGI), which was created by several OECD participating nations, and led by the Netherlands and a number of International Non-Government Organizations (INGO) working on these issues.

In the second half of the 1980s, a new kind of NGO emerged that advocated for more political and human rights and also demanded democratization. Because the New Order regime eradicated all leftist organizations, many of these NGOs served as radical alternative and small centers of resistance (La Botz, 2001). These NGOs had become a considerable source of dissent for the government. The contentious relationship between the government and the NGOs eventually culminated in an unpleasant relationship between the government and IGGI. Under the claim that IGGI had become the main sponsor of NGOs, it was terminated in 1991 by the government. Foreign aid to NGOs was also under strict scrutiny, resulting in the dissipation of a large number of them. These growing pressures from NGOs in Indonesia cannot be separated from the “global civil society” movement that helped implement the neoliberal reform agenda (Hart, 2009). These human rights and democratization movements were closely intertwined with the global expansion of neoliberal economic policy in which the World Bank played an instrumental role. Craig and Porter (2006), as cited by Hart (2009), reveal the significant increase in the World Bank’s financing for NGOs between 1988 and 1999 by more than 300%.

These forces came together in the critical juncture of 1997/1998 and facilitated a sharp shift from the New Order authoritarian and state-led political-economic regime to the neoliberal political economic regime. While the neoliberal economic policy regime was reflected in the agreement between the Indonesian government and the IMF, the political liberalization was reflected in the multiparty elections that began in the 1999 general election and the devolution of several aspects of government responsibilities in economic, educational, and social services from central to district-level government.

In the area of social policy, the crisis facilitated the emergence of two competing social protection approaches. The first approach is short-term and cash-based social assistance. This new social policy model was an integral part of several items of the structural adjustment programs outlined in the letter of intent signed by President Suharto and the IMF in early 1998 as conditions for receiving financial assistance. Prior to the crisis, cash transfers for social assistance in the form of monthly stipends were provided to the most vulnerable populations such as seniors without family, abandoned children, people with severe mental health problems, and people with disabilities. These programs were implemented through various channels of urban-based residential services under the Ministry of Social Affairs. Those who were not in the residential facilities did not receive such assistance. In 1998, the Indonesian government, with some financial help from the World Bank and Asian Development Bank, radically expanded short-term social assistance through emergency programs called Social Safety-Net (SSN) programs (Sumarto, et al., 2011). Tailor-made for various segments of the society, SSN had a tremendous impact on creating social stability during critical periods of economic and political crises.

Furthermore, the crisis also prompted the Indonesian government to overhaul the existing statutory social insurance system. Unlike social-assistance, the attempt to overhaul the social insurance system was not part of the agreement between the Indonesian government and IMF. It was initiated by a parliamentary decision to amend the Indonesian constitution in 2002. Article 34 (point 2) of the amended constitution mandated that the state and government provide universal social protection through creating a national “social insurance” system. It was acknowledged that the existing statutory social security system was inadequate and covered only a limited number of citizens, specifically civil servants, armed forces personnel, and private sector employees (Sulastomo, 2005). A new national social security bill was introduced in 2002 and was officially ratified as Law No. 40/2004 in October 2004. The law provided a five-year transition period for the government to make legal and institutional changes to the existing four state-owned social security schemes and to establish a new unified National Social Security System (Thaha, 2009).

However, as will be discussed in the following sections, the failure of President Megawati Sukarno Putri to hold on to her presidential seat in the 2004 election tremendously affected the fate of the law. The new government under President Susilo Bambang Yudhoyono preferred to defer the implementation of the law and pursue the expansion of short-term social assistance using similar models implemented under the banner of Social Safety-Net in the immediate aftermath of the economic crisis. This policy preference was situated in the government's inclination to continue the SAP prescribed by the IMF, particularly through cutting back the size of government subsidies on domestic fuel prices. Therefore, since 2005, social assistance has been used as both the primary risk management instrument to cope with the social effects of fiscal policy changes and as a means for reducing poverty and promoting social development. In the meantime, as of the end of 2012, the new social security law has not yet been implemented.

The Deferred Social Insurance Reform

As has been mentioned above, social insurance reform was not included in the structural adjustment agreement between the Indonesian government and the IMF. The reform was deeply ideological and strongly supported by the Indonesian Democratic Party of Struggle (*Partai Demokrasi Indonesia Perjuangan*, PDIP) under the leadership of Megawati Sukarno Putri, who is the daughter of the late President Sukarno. This party has been a vigorous advocate of Sukarno's social democratic ideas and established its platform as a popular "*wong cilik*" (little people) party. This party also believed in the big role of government in social, political, and economic affairs. As the winner of the first multiparty general election in 1999, PDIP pressed a social security reform agenda. Since Megawati was elected by the *People Consultative Assembly* to replace President Abdurrahman Wahid, who did not survive parliamentary impeachment in mid-2001, the agenda gained even wider political support.

PDIP and Megawati were able to push an agenda of constitutional amendment in 2002 to specifically mention "social insurance" and give states bigger responsibility for taking care of their people. This means that various cash-based, short-term, and targeted social assistance programs implemented previously were not recognized as statutory programs. As a result, during Megawati's presidency, social assistance programs were practically stopped. Instead, on the basis of the amended constitution, a new bill was proposed that was intended to overhaul the national social insurance system. The battle over the bill in parliament that took place between 2002 and 2004 was won by the incumbent that controls both the bureaucracy and the house of representatives. Yet, the bill was passed by the parliament with only a small margin and signed into law by President Megawati two months before her term was over, in 2004 (Sulastomo, 2005; Thaha, 2009). The bill was officially ratified as Law No. 40/2004 and was expected to be implemented beginning in 2009.

The National Social Security System offers social insurance and a provident fund. The social insurance scheme covers four programs: health insurance, work accident insurance, life insurance, and pension insurance (Coordinating Ministry of Social Welfare, 2006). The provident fund scheme is designed specifically to promote retirement savings for employees in the private sector. These five programs are similar to the programs provided by the existing social security system.

Table 5:
The New National Social Security Program

SCHEME		**UNIVERSAL SCHEME** Law No. 40/2004 National Social Security System				
LEGAL PROVISION		The new laws and regulations will be issued to change the existing social security law/regulations: JAMSOSTEK (Law No. 3/1992); ARMED FORCES (Presidential Decree No. 8/1977); CIVIL SERVANTS (Presidential Decree No. 8/1977);.				
PROGRAM		Health Insurance	Work Accident Insurance	Old Age Saving	Pension Insurance	Life Insurance
FINANCIAL CONTRIBUTION*	Employee					
	Government					
	Employer					
BENEFITS		Basic medical coverage	Transport, doctors, drugs, hospitalization, and disability benefit	Lump-sum payment upon retirement	Lump-sum payment of contribution plus interest	Death benefit and funeral costs
IMPLEMENTING INSTITUTION (Currently the four main social security providers continue their services. By October 2009, a new unified provider will be established and, hence, the existing providers will be dismissed)		PT Askes Govt. Reg No. 6/1992; PT Jamsostek Govt. Reg. No. 36/1995	PT Askes Govt. Reg No. 6/1992; PT Jamsostek Govt. Reg. No. 36/1995	PT Taspen Govt. Reg No. 26/1981; PT Jamsostek Govt. Reg. No. 36/1995	PT Taspen Govt. Reg No. 26/1981; PT Jamsostek Govt. Reg. No. 36/1995	PT Jamsostek Govt. Reg. No. 36/1995

* The rate of contribution has not yet been formally announced

Funding for these insurance programs will come from mutual contributions by employees, employers, and the government. Premium contributions will be set at different levels for different categories of employment. Contributions from formal sector workers will be set at a higher rate than those for informal sector employees and the self-employed (Arifianto, 2004a; Soekamto et al., 2007). However, poor people are eligible for premium subsidies from the government of up to 100%. The amount of contribution will vary according to the different insurance programs. One estimate shows that the amount of contribution to programs such as work accident insurance may be similar to the rate of *Jamsostek* (between 0.24%-1.74% of net salary), while contributions for the retirement pension may be about 5.7% of net salary (Arifianto, 2006). Nevertheless, the government has not yet formally announced the amount of contribution for all of the programs.

The new National Social Security System will be overseen by a National Social Security Council (*Dewan Jaminan Sosial Nasional*, DJSN). DJSN consists of 15 members who are appointed by and directly responsible to the president. Council members are recruited from diverse backgrounds, including representatives of government, business associations, and labor unions, for a period of five years. The council is also responsible for formulating general policies for the system. The management of the National Social Security System will be carried out by the National Social Security Providers (*Badan Penyelenggara Jaminan Sosial*, BPJS), which is responsible for managing trust funds, enrollment, and contribution collection, as well as providing benefits for the members and issuing social security identification numbers. BPJS operates at the national level and coordinates social security initiatives at the county level that conform to the Regional Autonomy Law (Law No. 32/2004).

The law will have a direct effect on the current government social security agencies. One of the major effects will be the transformation from "for-profit, state-owned corporations" to "non-profit trust fund." This transformation will make the government give up its tremendous power over the whole operation of corporations. The agencies will have to be handed over to new organizations called the *National Social Security Board*. Another important effect is that the government could lose significant amounts of revenue from capital tax and dividends of the four social security agencies. Under the new system, the social security organizations should return all the benefits generated through capital investments back into the system for enhancing the benefits of members.

The law also reconfirmed the basic principle of social insurance as a basic human right. In this instance, the new law was framed as a way for government to fulfill the basic rights of Indonesian citizens and permanent residents. Participation in social security represents the fulfillment of citizenship rights and is no longer an exclusive entitlement for a small number of workers in the armed forces, government, and the private sector. The law ensures that the national social security system will provide equal protection for informal sector workers as well as for poor people who do not participate in formal, regular, employment. Government employees will be automatically registered into the system while private sector employees will be registered through their employers. Furthermore, informal sector workers are expected to register voluntarily and government will ensure the inclusion of the unemployed poor (Sulastomo, 2005). The reformed system will offer four programs: health insurance, work accident insurance, life insurance, and pension insurance. In addition, workers in the private sector could participate in the provident fund scheme, which is designed specifically to promote retirement savings. These five programs are similar to the programs provided by the existing social security system.

However, less than three months after the bill was signed, several groups of NGOs and district government officials undertook an appeal to constitutional court to demand changes in several sections of the law. Their focus was Article 5 of the law that stated that the National Social Security System is the single national social security institution that will operate throughout the country. The reasoning behind this article is that the social security system should represent a unifying force of the nation. This is an effort to fulfill the rights of its citizens to obtain decent social protection, regardless of their regional location. The opponents of the law claimed that the article was in conflict with other laws on Decentralization and Regional Autonomy (No. 32/2004 on regional government) that mandated the devolution of several government obligations in health, welfare, education, and the economy to regional government. The law on regional autonomy ensures that district governments with less local revenue will receive additional funds from the central government. Opponents argued that the law represented a central government monopoly that took over regional governments' obligations and responsibilities to manage their own businesses.

Legal challenges against the National Social Security Law presented another example of how decentralization policy and practice in Indonesia involves struggles and competing interests (Hadiz, 2004). Although the devolution of power and authority was part of the efforts of good governance, particularly in managing the central-regional relations along with promoting wider civil society participation and democratization, according to Hadiz, decentralization was also subject to competing interests that often undermined the ideal objective of good governance. In the context of the challenge against the National Social Security Law, the arguments put forward by challengers pointed to the subtext of the law that would justify central government to take over their rights to create and run social security systems suitable for their local conditions.

The constitutional court ruling partially approved the appeal. In particular, it approved that the social security law should not prevent regional or district governments from establishing social security agencies specifically for their locality. In this instance, the national social security system would regulate the general principles of the national social security system and let district governments establish social security agencies suitable for their particular regions. The ruling of the constitutional court, however, did not clearly ban the operation of the national social security agencies; those that are currently operating (*Jamsostek, Askes, Taspen, and Asabri*) and the future organization that will be established as the result of the new social security law reform (Thaha, 2008). Therefore, at the district level, there could be social security agencies that are locally established and one that represents the extension of the national social security agency.

The constitutional court ruling placed the organizational and administrative elements of the system in uncertainty. In particular, it requires a different law that will regulate the transition procedure and organizational transformation of the *National Social Security Providers* (Badan Penyelenggara Jaminan Sosial/BPJS). Moreover, the ruling also gave leverage to the opponents of the law since it will fundamentally change government social security businesses. The four social security agencies (*Jamsostek, Taspen, Askes and Asabri*) control a significant amount of capital and for over three decades these have been lucrative sources of government revenues. These agencies pay dividends annually to the government and provide jobs to thousands of workers. These agencies have also created their own corporate cultures as well as strong bases of constituencies in government and within the organizations. These conditions, unsurprisingly, have created organizational inertia within all four agencies. Legal uncertainty and organizational inertia, together, hindered the process of institutional transformation following the newly enacted law. Eventually, constitutional court ruling will also feed the prolonged debates and tensions between government and the house of representatives about the administration of the national social security system.

The national social insurance was also heavily criticized by international development agencies. In its report, *Making the New Indonesia Work for the Poor* (2006), the World Bank strongly criticized the viability of Law No. 40/2004 on the National Social Security System as neither considering the program's institutional capacity nor taking into account the losses and risks of Indonesian households. According to the World Bank, it has potentially unsustainable fiscal costs (World Bank, 2006: 193). For Indonesia's current economy, it claims, "social insurance will have limited coverage and be of little relevance to poorer households" (World Bank, 2006, p. 206).

Furthermore, the implementation of the social security law was highly dependent on political coalition. Unfortunately, in the 2004 presidential election, President Megawati lost against her former defense minister, an army general, Susilo Bambang Yudhoyono. Furthermore, in the parliamentary election PDIP lost its position as a majority to the Golkar Party (the party established by former president Suharto). These losses were a huge blow to the continuation of the social security reform process. The loss of bureaucratic and parliamentary controls placed the *Democratic Party of Struggle* (PDIP) in an uphill battle. It was no longer capable of forcefully pushing the agenda through bureaucracy and became less powerful in creating strategic coalitions in parliament. This situation was worsened by the fact that, after losing the presidential election, Megawati had openly declared her party as an opposition party against President Yudhoyono. In the meantime, Yudhoyono was able to create very powerful coalitions with the Golkar Party, which was then led by his vice president, Yusuf Kalla.

The impact of power transfer on social security law was significant. The new administration put the transformation of the National Social Security system on the backburner. The new administration did not issue the presidential regulation needed to create a *National Social Security Board* until 2009, the last year of President Yudhoyono's first-term. Without the board, there was no other formal organization responsible for nurturing the transition process and for advocating a new bill that would regulate the creation of new *National Social Security Providers* (BPJS). It is not surprising, therefore, that the transition that was scheduled to take place by November 2009 did not happen. Nevertheless, in 2011, two years after winning the second term of the presidency, President Yudhoyono reached a compromise with parliament approving the law on *National Social Security Providers* No. 24/2011. The law created two national Social Security Agencies; namely, Agency 1 with a special focus on health insurance to be started by 1 January 2014; and Agency 2 for labor-related social insurance programs to be started by 1 July 2015. While Agency 1 offers only health insurance, Agency 2 offers four main programs including work injury insurance, life insurance, retirement (provident fund), and pensions. Therefore, the law will not take effect until the end of President Yudhoyono's second term in 2014. Up to the end of 2012, however, the detailed plan of how these programs would be financed, given the fact of the high poverty rate and more than 60% of the active labor force working in the informal sector, has not yet been revealed to the public.

Expanding Social Assistance: SAP and MDGs

While the implementation of social insurance law had been deferred, the period between 2005 and 2011 can be characterized as a comeback to "social assistance regime." During the Megawati presidency, several SAPs were continued, particularly through privatizing many state-owned corporations, but avoided taking on economic policy that might overtly oppose public opinion. Cutting back the fuel subsidy was put on hold. In contrast, President Yudhoyono made the fuel subsidy cutback his priority policy and implemented it in his first year in office. As a remedy, the administration put short-term and targeted social assistance back into the center stage of the country's social policy. This policy preference is consistent with the World Bank's position that has been promoting social assistance since Indonesia experienced financial crisis. Under President Yudhoyono, social protection policy that is rooted in the earlier tradition of social assistance and relief for the poor has been adopted as a “permanent” poverty reduction and social development policy (Sumarto and Bazzi, 2011). Although initially it was used to manage the impact of the cutback in fuel price subsidy, it is increasingly branching out to different kinds of poverty-oriented, local-level development policies (World Bank, 2012a).

The World Bank’s social assistance model was based on a risk management framework. The primary purpose of social protection, particularly cash-based social assistance, is to tackle the immediate impact of the economic crisis and the incidence of poverty; not for providing extensive institutional social insurance coverage (Tabor, 2002). It was also created, not as a universal scheme, but as a highly targeted program for the most vulnerable members of the population (World Bank, 2006; Sumarto et al., 2005). Furthermore, the protection approach was framed in an almost totally different package. The earlier social assistance tradition was directed as a temporary relieve programs for the limited carefully means-tested, deserving destitute people. The new social assistance model that has currently become more popular under the broad-based title “social protection” has been situated in the social development framework. In this framework, social assistance is not only an instrument of poor relief but also an approach for development. It represents public investment that addresses simultaneously both social purposes (providing additional income to the poor and vulnerable households) and developmental goals (ensuring children’s education, health and mother’s health). Social assistance-oriented social protection policy consists of both *Unconditional Cash Transfers* (UCT) and *Conditional Cash Transfers* (CCT). While UCTs constitute financial assistance exclusively to whomever belongs to the neediest category, CCTs provide financial assistance more selectively to a particular category of the poor, especially poor households with infants and school-aged children and/or poor households with pregnant or lactating mothers. Under CCTs, the receipt of the assistance is tied to a very specific human development condition such as keeping school-aged children (up to 18 years of age) at school, and taking infants and pregnant and lactating mothers to health clinics for check-ups,

Sumarto and colleagues (2008, 2011) identified two generations of cash-transfer social protection policies implemented in Indonesia. The first generation, called *Jaring Pengaman Sosial* (JPS), which is an SSN program, was implemented between 1998 and1999. SSNs were designed as UCTs to help those below the poverty line. The programs consisted of five cash-transfer programs that included special provisions of subsidized rice for the poor, mass short-term employment, scholarship block grants, short-term health coverage for the poor, and local-level participatory development block grants similar to a social fund. These series of targeted social assistance programs reached almost everyone regardless of geographical location who was considered to be among those most affected by the financial crisis. Despite the fact that the quality targeting was lacking due to the absence of identifiable poverty data, it was deemed successful economically and socially (Sumarto et al., 2003). The program helped stabilize social unrest as well as reduce poverty and vulnerabilities of the most vulnerable members of the population. The first generation of the social assistance policy and program can be referred to as a post-crisis stabilization intervention.

The second generation of cash-based social assistance programs was expanded under the first term of President Susilo Bambang Yudhoyono (2004-2009). In the second generation, government applied both UCT and CCT approaches; SAPs make up the substantial components of poverty reduction programs directed toward meeting the global commitment of the Millennium Development Goals. Although initial efforts toward MDGs had been started in early 2000 and were outlined in the Indonesia Poverty Reduction Strategic Paper (PRSP), a more systematic MDGs-oriented program was outlined in the Medium Term Development Plan (*Rencana Pembangunan Jangka Menengah*/RPJM 2004–2009) under Yudhoyono's government. The plan covered three strategic goals including: 1) creating a peaceful and safe Indonesia; 2) promoting equity and democracy; and 3) improving people's welfare. The third goal covered all the elements of poverty reduction included in the MDGs and outlined program priorities to be met by 2009. The big question that the Indonesian government had to answer was how would these programs be financed? One obvious answer was the government's choice to reappropriate and reform government spending budgets for energy and commodity subsidies.

Energy subsidies (fuel and electricity) comprise the largest government spending. Fuel subsidy is a government intervention aimed at reducing costs to energy consumers. Under a subsidy regime, government fiscal intervention functions as a universal shield protecting consumers (citizens) from being directly affected by volatile price fluctuations in the global market. Although various subsidies had been implemented since the early 1960s, it became more central in the transition period following the bloody political transition and economic depression between 1965 and 1966. The New Order regime used subsidy as a strategic intervention to restore social, political, and economic stability (Dillon et al., 2008). Subsidies were not limited to fuel but covered electricity, food products, fertilizers, and seeds. The subsidy system has continued ever since and has contributed greatly to the achievement of the New Order political-economic development policies. The first three years following the political crisis were characterized by very high poverty rates. The New Order government received substantial international aid and economic support that helped put social riots to rest and started to mobilize popular support. The surplus revenue from the 1970s oil boom had allowed the government to expand fiscal interventions to further stimulate economic development.

Under neoliberal economic policies, subsidy has been fiercely criticized as a dangerous barrier and source of distortion to free market competition (IISD, 2012). The SAP required the Indonesian government to reduce the cost of fuel subsidies and, hence, let consumers take up the higher oil prices that were closer to the international market price. The magnitude of fuel subsidies has been quite significant. In 2005, for example, the size of the fuel subsidy made up about 87% (IDR 105 trillion out of IDR 121 trillion) of the total government subsidies. Nevertheless, the structural adjustment reason for pushing fuel subsidy cutbacks was not been openly revealed to the public. Instead, it was framed in populist and pro-poor rhetoric.

Although lifting or reducing the size of government subsidies implies that consumers have to bear higher retail prices, this policy was claimed to be a noble fiscal policy choice to avoid further encroachment of the government budget by the middle class. It would also help the government to focus more on financing pro-poor programs. What is interesting is that the arguments put forward by government officials to justify the reduction of fuel subsidies were highly populist and sometimes divisive. Fuel subsidies were claimed to be ineffective because the benefits were mostly captured by high income sectors of the society that owned cars and motorcycles. They included the privileged groups that enjoyed the low-priced subsidized fuel. This elite capture violates the sense of justice for the poor who could not enjoy the benefits of the fuel subsidies as much as the high income population did. In the meantime, the high cost of subsidies reduced government fiscal abilities to finance various poverty reductions and "pro-poor" development programs. Therefore, budget needs for fuel subsidies must be taken out gradually and be appropriated for more populist and targeted poverty-reduction programs.

A major subsidy cutback was initiated twice in 2005 and resulted in a significant increase in fuel prices at the consumer level. The first consumer price increase was in March 2005 by an average of 30% and subsequently in October 2005 by an average of 114%. According to Sumarto and Bazzi (2011), this increase yielded the amount of annual budgetary saving of up to Rp. 11 trillion (US$10 billion). Policy arguments developed to backup this program have been expanded, and are no longer limited to removing economic barriers but are also used to ease budgetary pressures in support of various social and developmental programs.

To offset this increase, government relaunched social assistance programs under the banner of "Compensation Programs for the Reduction of Fuel Subsidy" (*Program Kompensasi Pengurangan Subsidi Bakar Minyak*-PKPS BBM). This program consists of UCTs, CCTs, scholarships, and school operational block grants. Indirect cash transfer focused on the provision of temporary assistance to access basic health services. Educational programs included scholarships and grants for school operational costs. Scholarship programs covered about 39.6 million students from middle school up to high school. School grants covered nearly 60% of the total nationwide school populations (public and private schools) (Sumarto and Bazzi, 2011).

Two cash transfers programs were created for poor households. The first was called "*Bantuan Langsung Tunai*" (UCT). UCT functions to lessen the impact of large increases in the oil price by providing direct cash transfers for 17.2 million poor households. Each household receives IDR 100,000 (US $11) per month for a maximum of 12 months. The same program also provided compensation for another 30% increase in oil prices in July 2008 for seven consecutive months. This program covers 19.1 million households (Bazzi et al., 2005).

The second model of cash transfer program, initiated in 2007, was called "*Program Keluarga Harapan*" (PKH) or the Hopeful Family Program. PKH is essentially an Indonesian version of the widely adopted CCTs program. The model was originated in Mexico and called *Progresa/ Opportunidades* and *Bolsa Familia* in Brazil. Different from UCT, under PKH, cash transfers were tied to several conditions directed toward developing human capital. In particular, the conditions included sending or keeping school-aged children at school, providing infants and pregnant or lactating mothers with regular health checkups. By 2011, the program was implemented in 118 of 497 districts in Indonesia covering 778,000 households (World Bank, 2012c). The program provides cash transfers benefits in amounts from IDR 600 thousand (US$64.5) up to IDR 2.2 million (US$236.5) per year (for the total three-year period).

Furthermore, SAPs also include health sections specifically targeted at the poor population. In 2006, the program was called "*Asuransi Kesehatan Keluarga Miskin"* (*Askeskin*), which can be translated as "Health Insurance for Poor Family," which is temporary health insurance for the poor and was designed to complement the UCT program. Government assistance was not directly transferred to individuals but rather to health service providers that mostly belonged to the government and were operated under the Ministry of Health. To access health services, targeted individuals were given "*Askeskin Card,*" which signified their entitlement to the services. By 2007, this program reached about 16 million households.

In 2010 the program was expanded and was renamed "*Jaminan Kesehatan Masyarakat*" (*Jamkesmas*), which can be translated to "People Health Insurance." Using the similar mechanism with the *Akeskin* program, by 2011 a *Jamkesmas Card* has been distributed to over 70 million individuals, making this program the largest social assistance program in the country. In addition, district governments are also allowed to create their own programs called "*Jaminan Kesehatan Daerah*" (*Jamkesda*) to complement the nationally managed *Jamkesmas* program. In 2011, there were about 27.5 million poor individuals who received *Jamkesda Cards* (World Bank, 2012b). Although the program uses the term "insurance," it is essentially a time-limited, indirectly targeted social assistance program. Both *Jamkesmas* and *Jamkesda* are good for the period of one fiscal year.

However, social assistance policy is deeply volatile. It is deeply rooted in the discretion of political actors to either keep it alive or to kill it. Under the conditions where voters were ill-informed about the value and relative advantages of policy alternatives, social assistance could be manipulated to nurture patron-client relationships. One study from Gadjah Mada University revealed that the incumbent president used the UCT program to sway voters to his favor during his second term election in 2009 (Gadjah Mada University, 2013). Moreover, in the current multiparty democracy in Indonesia, various forms of social assistance have been an integral part of political rhetoric during election periods. *Jamkesda* is among the most popular social assistance programs offered by elected officials such as mayors or governors (Jamkesda DKI Jakarta, 2013; Jamkesda Depok, 2013). In the election season, many governors, mayors, and heads of district governments significantly increase the size of their social assistance budgets. The budget would easily disappear during non-election season (Detik News, 2013). In this situation, the basic principle of "targeting" that is expected to feature prominently in the social assistance model could be deeply compromised. Instead, social assistance could be diverted away from its social protection purposes toward pragmatic and short-term political mobilization.

Summary

This chapter hopes to understand the dynamics of social protection reform in the aftermath of economic and social crisis. The crisis functioned as a critical juncture that facilitated significant changes in Indonesian social policies. The short-lived efforts to advance social insurance at the center stage of the country's social policy could be explained by the failure of President Megawati and her political party to secure strong alignments with its constituencies. In particular, it was challenged by burgeoning supports for decentralization. The social insurance law was deemed to contradict the regional autonomy law. The current government under President Susilo Bambang Yudhoyono has been able to secure both internal and external critical alignments. As a result, the recent development of social protection reform is leaning toward establishing social assistance as a permanent social protection policy.

However, microinsurance has not received sufficient attention. The present chapter showed that government officials and policy makers paid more attention to social insurance and social assistance. Nevertheless, as has been mentioned in Chapter 1, microinsurance has attracted sufficient attention among policy scholars and international development agencies. The next chapter attempts to explore microinsurance as another dimension of the Indonesian social protection reform, particularly in efforts to extend social protection coverage to workers in the informal sector. *Asuransi Kesejahteraan Social* (ASKESOS), which is commonly translated as *Social Welfare Insurance Program* (SWIP), is an example of how government could facilitate and invest in community-based microinsurance. Several other types of microinsurance that are currently practiced in Indonesia are also examined.

CHAPTER 4
SWIP: COMMUNITY-BASED MICROINSURANCE FOR WORKERS IN THE INFORMAL SECTOR

The previous chapter examined the tension and controversy that characterized the process of social protection reform and extension in Indonesia in the last decade. This chapter suggests the need to include microinsurance in the discussion of social protection reform in Indonesia. It focuses on the Indonesian Ministry of Social Affairs' initiative to develop a community-based microinsurance program for workers in the informal sector involving community-based organizations (CBOs). The program is called *Asuransi Kesejahteraan Sosial* (ASKESOS), which can be translated as *Social Welfare Insurance Program* (SWIP). This chapter argues that SWIP emulates a local-level, decentralized concept that characterizes contemporary development and poverty reduction approaches. The chapter also reviews several types of microinsurance that are currently operating in Indonesia.

Microinsurance and Social Protection in Indonesia

As has been discussed in the previous chapter, the political and economic crisis of 1997/1998 that forced an end to the authoritarian regimes of former President Suharto facilitated radical institutional change. The proponents of radical reform were able to use these critical social, economic, and political crises to initiate changes in the political system, including the reintroduction of a multiparty system supporting greater power and resource decentralization to municipality governments, and amending the constitution. The social security Law No. 40/2004 represents an effort to replace the old social security institutions that were deemed a failure to provide universal social security coverage. The law has the potential to significantly restructure the national social security system. Although the social security law does not specifically regulate social protection for workers in the informal sector, the law intends to provide universal coverage and those who are poor and unable to pay for premiums will be under the government's responsibility. This chapter examines the emergence of new social policy interests in microinsurance to extend social protection for workers in the informal sector.

Although microinsurance practice involving government institutions has been in place since the late 1990s, Indonesian social policy communities began to use the term much later, around 2005 and 2006. Pioneering research by Angelini and Hiroshi (2004) kicked off a wider policy discussion about the creation of a tailor-made social insurance scheme for workers in the informal sector. This research mapped out the conditions of workers in the informal sector in several counties in Indonesia and assessed the needs for social protection. Although the issue of universalizing coverage was central in the debate about new Indonesian National Social Security Law between 2002 and 2004, there is no particular reference to the notion of microinsurance (Thaha, 2010). A more specific reference to the term of "microinsurance" emerged in the GTZ et al. (2006) market report. This report mapped out needs for risk management instruments and the prospect of marketing microinsurance products to low income communities in Indonesia.

In later developments, ILO took the idea of microinsurance as a new strategic policy tool for workers in the informal sector. The ILO headquarter in Geneva develops special initiatives to study and elaborate conceptual and policy designs of microinsurance. Though this initiative, ILO diffuses the notion of microinsurance around the world as an alternative tool for extending social security coverage to the excluded majority. Within the ILO, the concept of microinsurance becomes no longer risk-management "market-oriented" but a social protection instrument. Since 2006, the ILO has become the main diffusion channel that sells the concept of microinsurance to both government and private sectors. In Indonesia, the ILO office has published several policy papers on microinsurance. However, the ILO microinsurance model remains firmly rooted in the traditional social security concept defined in the ILO 1952 convention. The only difference has been its size or premiums and benefits, which are adapted and tailor-made for low income workers.

The ILO microinsurance model has been picked up by *Jamsostek*, a state-owned corporation that provides social insurance programs for workers in the informal sector. Building upon Angelini and Hirose's (2004) study, the Ministry of Manpower and Transmigration enacted a Ministerial Act in 2006 that makes it legal for Jamsostek to offer a new product tailor-made for workers in the informal sector. Earlier, the Ministry of Social Affairs had implemented a pilot project of SWIP for workers in the informal sector. The pilot was started in 1996, but was stopped and restarted again in 2003. However, the SWIP model was absent in the policy debate and in policy contents about the national social security system. In response to the enactment of National Social Security Law, the Ministry of Social Affairs produced new social welfare laws that legitimize SWIP as a microinsurance program.

Types of Microinsurance in Indonesia

As has been mentioned in Chapter 1, there has been no unified definition about microinsurance. Nevertheless, literature indicates that the term has been used both to narrowly refer to small size commercial insurance practices and broadly to refer to any kinds of activities that involve the collection of financial resources to be used to protect members during unfortunate events. The narrow definition denotes microinsurance to practices that involve downscaling commercial insurance products, both in the size of premiums and in benefits, to make it accessible and affordable to low-income communities (Churchill, 2001; Loewe, 2006). This definition excludes both for-profit and not-for-profit microinsurance activities that are developed and organized by the government and communities. Midgley (2011) proposes a broad and inclusive definition of microinsurance that encompasses a variety of activities of poling financial resources to meet contingencies encountered. The main defining factors of microinsurance, according to this definition, are the degree of formalization in operating procedure and organizational sponsorships. The organizational sponsors can be commercial insurance companies, NGOs, voluntary neighborhood associations, and government organizations.

Based on the broad definition of microinsurance, four types of microinsurance practice that are currently operating in Indonesia can be identified. The first is informal microinsurance that operates at the community level. The second is *Jamsostek* micro-social-insurance practice that is targeted specifically to workers in the informal sector. It offers similar kinds of protection with lower levels of benefits for lower premium amounts. The third type is commercial microinsurance. In this case, Family Umbrella microinsurance devised by Allianz AG of Germany was among the pioneering ventures in Indonesia. The fourth type is SWIP, which is operated by the government in collaboration with community-based microinsurance programs. Because the focus of this chapter is on SWIP, this program is elaborated more deeply in the last section.

It is important to note, however, that these are only examples of microinsurance practices that belong to four broad typologies. There were many other examples of both commercial and not-for profit microinsurance activities currently operating in Indonesia. There are also microinsurance activities that are rooted in Islamic tradition such as *Zakat* and *Baitul mal Wa-at-Tamwil* that belong to one of the types described below (Sirojudin and Midgley, 2011). However, descriptions about these activities are beyond the scope of this chapter.

Informal "Microinsurance": Arisan and ROSCA

Rotating Savings and Credit Associations (ROSCAs), or *Arisan* as they are known in Indonesia, are a very popular form of community-based social security. Their existence and contribution to social security and community economic development has been explored extensively by academics (Geertz, 1962; Ardener, 1964; Bouman, 1995). Geertz (1962, p. 263) viewed ROSCAs in Indonesia as a "middle rung institution" that aids the transition from a traditional agricultural community to a modern commercial society. Geertz examined *Arisans* in the context of modernization theory and assumed that these activities represent an active cultural evolution in Indonesia's rural-agricultural economy toward a trade-based modern economy. However, Ardener (1964) refutes Geertz's modernization explanation and argues that such community-based institutions cannot be viewed as transitional institutions. The spread of such institutions in both rural and urban areas does not represent an institutional evolution, but, instead, is the result of cultural diffusion.

Bauman (1994) differentiates between ROSCAs and other forms of community-based savings and credit associations called Accumulated Savings and Credit Associations (ACRAs). ROSCAs assume a fixed number of members and contributors for each round. Members of the association gather regularly at a certain time each week or month to pool their savings, which are then directly redistributed among members on a rotating basis until each member has had his or her turn. Once each has had a turn, the activity is over and a new round is started. ASCRAs are community savings organizations in which every member deposits certain amounts of money for a period of time and then has the right to borrow money from the pool. The borrower is responsible not only to repay the loan but also to pay interest. At the end of the year, members take their savings back with interest. A comparative study conducted by Ardener (1964) in several countries in Asia, Africa, and Europe has shown that ROSCAs have a strong potential to function as a social security institution.

In Indonesian, *Arisans* are social institutions that maintain social solidarity and interaction among members of the community. Current studies (Gertler, Levine, and Miguel, 2006; Grootaert, 1999, and Brata, 2005) consider *Arisans* to be an important community-based form of social capital in Indonesian society. They function not only as a social safety net and economic institution but also as "social cement." As an economic institution, *Arisans* facilitate savings and mutual financial help among participants. Brata (2005) notes that *Arisans* in a rural poor community are more popular sources of financial support than banks and cooperatives. The popularity of *Arisans* is particularly due to their flexibility. In the *Arisan*, active members can determine the "rules of the game" according to their own short-term objectives. Hence, *Arisans* can be tailor-made to achieve specific financial goals such as purchasing furniture, electronic goods, motorcycles, or preparing for religious festivals (McCord et al., 2005).

In the suburban area of Jakarta, there is another variant of *Arisans* called *Paketans*. Individual contributions to *Paketans* are not limited to providing financial assistance, but may also take the form of food items (such as rice, fruits, and vegetables), livestock (chicken, sheep, goats, and cows), jewelry, and clothing. The most common purpose of *Paketans* is to share the burden that families encounter when they have special events such as religious festivals, wedding parties, and circumcision ceremonies that require large sums of money. *Paketans* do not have a fixed meeting schedule because they generally support events that a member plans as a special ceremony. The practice of *Paketans* is generally consistent with a study conducted in the 1950s and cited by Geertz. The study concluded that "such associations are very long-term affairs, with positions being inherited as members die…" (Geertz, 1962, 246, Footnote No. 8). Today, these social security functions have changed significantly and *Paketans* remain a community-based activity organized as a cultural practice.

For poor families, *Arisan* or *Paketens* are considered a convenient way of coping with diverse adversities and risks. McCord, Ramm, and McGuinness (2005) believe that *Arisans* have been widely used as a risk management mechanism among these families. There are four categories of risks that are acknowledged as the most common faced by poor Indonesian families both in the rural and urban areas. These categories are life cycle, business, environmental, and social risks. Life cycle risks include weddings, funerals, and births. Business risks include a loss or decline in livelihood. Environmental risks are natural disasters or unanticipated weather damage. Social and cultural risks include the social obligation to maintain reciprocal gifts to family members and the community.

A recent study of *Arisans* reveals that their role at the community level is far from perfect. Lont (2005) concludes that *Arisans* have an important social security function for a significant number of poor people. In two Yogyakarta villages in which fieldwork was conducted, Lont found the practices of *Arisana* did not much differ from what Clifford Geertz had found five decades earlier. It facilitated community integration and solidarity and provided financial instruments for participants to cope with risks. For a handful of higher-income participants, it helped them save and accumulate wealth. Many families in the villages participate in more than one *Arisan* or *Paketan*. For lower-income participants, participation in more than one *Arisan* allows them to juggle their limited financial resources and to minimize risks. Savings in these institutions can also be used as collateral for other loans (Lont, 2005; 243). Although these institutions are not a viable means for promoting economic development, Lont found *Arisans* and *Paketans* have contributed to the social security of many families in Indonesia and protected them from economic hardship.

Nevertheless, Lont (2005) also notes two major drawbacks. Participation in multiple *Arisans* may create additional burdens for the poor since they have to contribute regularly to the pool. When an individual or household has limited income, payment obligation may result in an unbreakable debt cycle. The inability to make regular contributions may also sully the participant's reputation and forfeit the confidence of the community. The second drawback concerns the exclusivity and limitations of the program. Obviously, these schemes are limited only to those who participate and regularly contribute. Furthermore, recent studies on the traditional mutual aid association in other countries reveal the limitations. Although these traditional practices may have contributed to a certain degree of survival mechanisms, these are barely adequate (Morduch, 2006; Hosaka and Midgley, 2011).

Furthermore, because *Arisans are* generally organized for short-term orientation and immediate redistribution among limited and usually small numbers of participants, there has been no evidence found that a particular *Arisan* could accumulate larger assets and sustain its existence for a longer-term period. Because an *Arisan* could be created and be terminated anytime depending on collective agreements among participants, it would be very difficult to keep track of them. Currently, there has been no official information found of efforts by any organizations to collect information regarding populations of *Arisans* in Indonesia. A systematic effort to capture and document the prevalence of various *Arisan/Paketan* or ROSCA practices in Indonesia would be an important contribution to both policy and research.

Jamsostek Microinsurance

The second type of microinsurance that is currently operating in Indonesia is *Jamsostek* microinsurance, which was initiated in 2006 on the basis of an ILO recommendation. As described in Chapter 3, *Jamsostek* is a social insurance company that belongs to the government and has special mandates to provide social insurance protection to workers in the formal sector. Law No.3 of 1992 mandated the *Jamsostek* state-owned corporation to provide social insurance services to private sector employees and employers. The law stipulates that *Jamsostek* Social Security provisions are provided for workers in general. Workers are defined broadly to include those who perform work to produce goods and services to fulfill the needs of the people both within formal working relationships and outside working relationships. In other words, the law stipulates that informal sector workers are also entitled to social security provisions. Nevertheless, social security for informal sector employees, which are defined as "employees without employment contracts," requires further arrangement through government regulation (Article 4 [2]).

Unfortunately, there has been no effective compliance mechanism to ensure the implementation of the law. Participation in the *Jamsostek* social security programs is encouraged but not required. *Jamsostek* does not have a legal foundation to enforce corporations to register their employees to participate in the program. The lack of compliance also applies to government itself. It took 14 years for government to fulfill its obligation to produce a government regulation that would allow *Jamsostek* to extend social security coverage to workers in the informal sector. It was only in 2006, that the Ministry of Labor and Transmigration issued Ministerial Regulation No. 24 concerning "The Implementation Guidance of Social Security Programs for Workers Outside Working Relationships." The regulation covers not only "informal sector workers" such as petty traders, agricultural laborers, or other low-skilled workers but also those with high professional skills who are working privately outside the employee-employer relationship, such as medical doctors, lawyers, and actors. The regulation maintains that participation in this micro-social-insurance program is voluntary.

The Ministerial regulation outlines governance structure and types of programs. The governance aspect includes the organization, membership, amount of contribution, and the division of labor between the central government, the regional government, and the Jamsostek implementing agencies. The types of programs reiterate the existing programs that are already in place according to Law No. 3 of 1992 regarding *Jamsostek*. The programs include work accident benefits, old-age benefits (provident fund), death benefits, and healthcare benefits. One of the main differences between the regular programs and those that are offered for informal sector workers is the size of the premiums and the contribution rate. The amount of contribution and benefits are set according to the regional minimum wage, which is set differently in each province and district. In the regular program, employers and employees would share the amount of contributions proportionately. In the micro-social-insurance scheme, premium contributions are paid for by individual workers because they are presumably self-employed. Currently, the amount of contribution is set against the estimated regional minimum wage as follows: 1% for accident benefits; minimum of 2% for old-age benefit; 0.3% for death benefits; and 3% (for single person) or 6% (family) for healthcare benefits.

The Jamsostek micro-social-insurance product is sold directly through *Jamsostek* provincial branch offices. Outreach and marketing programs were conducted directly to workers in the informal sector. Unfortunately, since participation in the program is strictly voluntary, the number of informal sector workers participating in the program remains very low. Four years since the program was officially launched, Jamsostek covers only 600 thousand informal sector workers. This is extremely low compared to the total population of workers in the informal sector (73 million in 2010).

The Ministerial regulation came about in conjunction with two contextual forces that are contributing to the recent process of the national social security reform. The first force is the drive toward reorganization of the national social security system that could directly affect the survival of *Jamsostek*. If the 2004 social security law is fully implemented, *Jamsostek* will be transformed into a new entity. The second force is the new wave of international social security policy proposals advanced by the ILO, which proposes a new framework for a social security floor as a minimum statutory social protection system. In this new framework, the ILO proposes, among other things, the possibility of extending social security coverage to the excluded majority through "microinsurance." The initial study on social protection for workers in the informal sector by Angelini and Hirose (2004) opened up new possibilities and opportunities for creating micro-social insurance for workers in the informal sector of the economy. Through a close partnership with the ILO, *Jamsostek* created a micro-social-insurance scheme for workers in the informal sector that addressed one of the most important missions of the national social security reform, namely, extending social security coverage to the "extended majority."

Commercial Microinsurance

Little has been known about market demand for microinsurance services in Indonesia prior to the pioneering research sponsored by a multinational insurance corporation, Allianz, the German Technical Assistance organization (GTZ), and the United Nations Development Program (UNDP) that was published in 2006 (McCord et al., 2006). The study, which was conducted simultaneously in three countries—India, Indonesia, and Laos—assessed the demand and market prospects for microinsurance through the framework of public private partnership using a market-based mechanism to reduce poverty. The report argues that the promotion of affordable microinsurance products, which are designed specifically to protect low-income people, will help them cope and recover from common risks. "Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That's where 'microinsurance' comes in" (p. v). In particular, the study confirmed that market demand for an affordable and acceptable microinsurance product was high. The study also claimed that microinsurance could contribute to achieving Millennium Development Goals.

Based on this three-country study and with the support of the GTZ, the Allianz AG in Indonesia took the first step for creating a new venture of selling microinsurance products to the low income market. The Allianz microinsurance venture was launched almost simultaneously with the publication of the three-country study. The pilot of life microinsurance product, called "*Payung Keluarga*" (literally means *Family Umbrella*), was launched officially in August 2006. The main market of the product is customers of various community-based microfinance organizations that provide financial services (loan and saving) to low income families.

The *Family Umbrella* microinsurance was set up as a single premium product. Customers pay only certain amounts of premiums once a year and the payment is deducted from the loan at disbursement time. The premium was calculated as 0.1% of the loan per month or 1.2% a year. In 2006, the average annual premium was IDR 20,000 (US$2.4) for the average loan amount of about US$240. The premium can go as low as US$0.66 for the loans in the amount of about US$55. The *Family Umbrella* microinsurance offers two main benefits: first, it covers the outstanding balance that the clients owe in the event of death; second, it pays a lump sum to the family twice the amount of the original loan. The payout to the family was claimed to be the unique feature of the product that directly addressed the risks of income loss resulting from the death of the family's breadwinner.

Furthermore, the *Family Umbrella* was designed as a compulsory microinsurance program for customers of microfinance organizations that have established formal cooperation with Allianz. Microfinance costumers cannot opt out of the insurance coverage for it has been designed as a package. This compulsory character indicates that this particular product does not require marketing but creating extensive partnership channels with community-based microfinance organizations, including microbanks, credit and saving cooperatives, and NGOs. These microfinance organizations act not only as distribution channels for Allianz microinsurance but also are responsible for collecting the premium, underwriting, and handling claim settlement processes. By 2009, there were about 21 microfinance organizations that had established formal cooperation with Allianz in several areas, including Sumatra, Jakarta, West and Central Java, Bali, Sulawesi, and Sumba Island.

Although the commercial microinsurance program is relatively in the early stages of development, the *Family Umbrella* example reveals promising progress. It can be seen, for instance, in the increasing number of customers. The total number of costumers has increased significantly from about 50 thousand in 2006 to 178 thousand in 2007 and continued to 230 thousand in 2009. The promising progress has also been uncovered through its impact on welfare, the improvement of risk management strategies of the families, and high customer satisfaction. A longitudinal impact study (Hintz, 2010) assesses the impact of the *Family Umbrella* microinsurance program using a qualitative method. Hintz found some indications that microinsurance payout reduced dependence on informal assistance. In some cases, the payout may have contributed to the inflation of funeral costs. On the other hand, these negative impacts did not outweigh the many positive effects. Among one of many positive impacts of the *Family Umbrella* microinsurance on customers and their families include the increase in financial literacy and the increased demand to consider more urgent risks, such as education and health costs.

The Social Welfare Insurance Program (SWIP)

This section describes policy contexts and features of SWIP. SWIP addresses the emerging interests within the government of Indonesia to develop a local-level participatory model. SWIP as a policy initiative to extend social protection coverage through decentralization initiatives involving community-based organization (CBOs), and the traditional connection that has been in place between them and the Ministry of Social Affairs.

Policy Context

The Social Welfare Insurance Program (SWIP) was initiated in 1996, as part of the emergence of a complex set of national development policies. SWIP employed a decentralized participatory development principle that had been in use by the Indonesian government for three years previous to SWIP's genesis. Its design was largely inspired by a government program called *Inpres Desa Tertinggal* (known as IDT), a program which functioned from 1994–1996 (BAPPENAS, 1994). IDT can be translated as Presidential Instruction on Under-Developed Villages, and its scope targeted the many issues raised by rural poverty. In essence, SWIP filled in a space that IDT had previously filled after the government program's termination with relative success until the year 1998, when the nation's political and economic crises put a halt to this program as well. After a four-year hiatus, SWIP was reinstated in the fiscal year 2003. The intermittent nature of SWIP's timeline deeply affected its core policies, and this context, therefore, is of the essence.

Inspired by the Rostovian stages of development, the Indonesian government's sixth term of the five-year National Development Plan in the General Guideline of the Nation's Direction (GBHN, 1994-1998) was named *Persiapan Tinggal Landas,* or "Preparation for Take-Off." *Persiapan Tinggal Landas* was modeled on the success of a "progress plan" implemented by the government during the previous 25 years, from 1969 to 1994. It was named "The First Phase of the Long-Term Development Plan (*Rencana Pembangunan Janka Panjang Tahap I*) and was the product of the New Order government. The sixth five-year development plan marks the beginning of "The Second Phase of the Long-Term Development Plan" (*Rencana Pembangunan Janka Panjang Tahap* II), and its emphasis lies on promoting "growth with equity," focusing on regional development. The focus on decentralization of the regional government was particularly geared toward promoting general development and poverty reduction in villages that had been dubbed "left behind" (BAPPENAS, 1994; 1995). Only when these villages would be brought up to the desired levels of development and the country had reached a uniform and even platform from which to move forward, would the Indonesian government consider an attempt at becoming a new industrialized nation with the possibility of success.

These new methods ran parallel to the growing support of government officials toward economic deregulation. As a long-term client of the World Bank, the Indonesian government became directly affected by the influx of neoliberal policies. As a direct result, some of the most significant deregulation measures that were implemented in Indonesia were focused on foreign direct investment and the financial market (Wie, 2002). These new policies afforded the Indonesian economy the opportunity to become integrated with global economic forces and loosen restrictions and barriers against international investments and trades. The compliance and faithfulness of the Indonesian government toward the emerging neoliberal tendencies of Washington facilitated a steady economic growth between the years of 1987 and 1993. The makers of Indonesian policy saw this as essential to the nation's progress, not without results. In response to the government's efforts, the World Bank published a flattering report corroborating and legitimizing Indonesia's economic efforts, praising the macroeconomic growth that resulted in placing the nation among Asia's high performing economies (World Bank, 2004). This instilled confidence in the policy makers to continue pursuing economic liberalization and "prepare for takeoff."

However, the economic deregulation policies also significantly contributed to the financial crisis of 1997-1998, triggering a very harmful domino effect towards a wider social and political crisis. During this critical juncture, the country's macroeconomics and political structures changed dramatically. This crisis also forced the New Order regime, which had been functioning for 30 years. This regime, which had enjoyed tremendous support from Cold War-related international development projects and subscribed to Keynesian economics, was beginning to lose its legitimacy after 1990. As a result, the economic crisis gave birth to a new era of what Mohan and Stokke (2000) called a "revisionist neo-liberal" free market economy that became coupled with multiparty democratic regimes. The revisionist neoliberalism expanded its focus, from advocating market deregulation in the 1980s to adopting the "Post-Washington Consensus," recognizing the importance of institutional reform, and integrating social and economic development objectives such as poverty reduction and social protection (Mohan and Stokke, 2000; Stiglitz, 2008).

In the area of social development policies, the 1993–1994 National Development Plan included IDT to help with poverty reduction methodology. This introduced new development principles that contradicted the preexisting state-led and centralized development policies that had been in place since 1969. The New Order regime had virtually no focus on notions of community participation and local-level development ideas. (Development policies had emphasized the "trickle-down" model, focusing on import substitution industrialization, export oriented industry since early 1980s, infrastructure improvement projects for facilitating manufactures and agricultural industrializations.) Important strides were made toward things such as building dams in support of the green revolution in the early 1980s and the buildup of the energy supply for manufacturing, constructing toll roads to facilitate transportation and telecommunication, as well as the implementation of an airline industry. Indonesian development policies had focused entirely on the framework of import substitution and self-sufficiency. These new guidelines created opportunities for exporting manufactured goods.

While state-run programs did not focus on locality-based participatory development, ideas connected to local and participatory development had been present on the scene since the early 1970s. These ideas were supported and promoted by international development aid, a third sector, NGOs. The NGOs emphasized the importance of small-scale, community-based, and participatory development, and created projects such as cooperatives, microcredits, microenterprising, and the promotion of craft-based industries. These NGOs represent the participation of civil society in promoting *Basic Need* development agendas—food, clothing, housing, education—through local-level community development. They provide technical skills training, organize communities in small groups and micro-cooperative organizations, and provide general popular education. These NGOs worked as a complement to the government and avoided any confrontation with it (Eldridge, 1995).

Nevertheless, in 1993 IDT was created within the Ministry of National Development and Planning. The Planning Ministry under Ginanjar Kartasasmita managed to assemble a team consisting of, among others, two prominent populist-oriented economists and two leading development NGO activists (Kartasasmita, 2006). The economists were Mubyarto from the University of Gajah Mada and Sri Edi Swasono from the University of Indonesia. Both economists were previously known as vigorous advocates of people-oriented development approaches since the early the1980s and had strong connections with many NGOs that promoted local-level economic development. Their approaches to the economy were called "*pancasila economics*" since their normative assumption was claimed to be consistent with the state ideology named *Pacasila* (five pillars of the Indonesian constitution), focusing on principles of populism, mutualism, and cooperatives. The *Pancasil*a economic theory was developed by Mohammad Hatta, the first Indonesian vice president and the founding father of the nation's post-independence economic policy. The two NGO representatives involved with the project were Adi Sasono and Bambang Ismawan. While Adi was an advocate for dependency theory throughout the 1980s, Bambang was the leader of the NGO Bina Swadaya and a prominent and influential figure in the advocacy of local-level government, micro-cooperatives, and credit unions, respectively. This cooperation resulted in the formulation of the IDT program and policy design in 1993.

The IDT became the national priority program under presidential instruction and it kick-started the second phase of the national Long-Term Development Program. This set a new direction for Indonesian national development policy and concentrated on poverty alleviation and promoting village-level developmental projects. Beginning in 1994, each impoverished village received a sum of money of around 20 million IDR, or the equivalent of US$8,000 for the year 1994 and for the following three years, the duration of the program. Thus, by the end of the program in 1996, the IDT had covered around 28.233 villages or 44% of the total villages around the country (BAPPENAS, 1995; 1996). The funds were intended to act as "seed capital" by financing various local-level development projects, such as self-employment, by fostering the growth of microenterprises and by improving access to social services. This method was applied as a financial management framework intended to ensure that the seed capital investment would sustainably create and enhance social and economic values within the community.

Bypassing several bureaucratic layers, the social investment block grant was transferred directly from the central government to community groups called *Kelompok Swadaya Masyarakat* (KSM) or *Kelompok Masyarakat* (POKMAS). The two together can loosely be translated as "self-reliant community group." KSMs were inclusive, community-based participatory organizations and were managed by committees consisting of men and women elected democratically through the one-man one-vote procedure at the village level. KSMs embodied a group-based approach for promoting community empowerment, and played an important role in developing scholarship, as demonstrated by the work of individuals such as Korten and Klauss (1984), Schumacher (1973), and Chambers (1993; 1994). Attention to the local, indigenous, and community-based initiatives also featured prominently in the leftists "post-development" developmental thinking that directly challenged the domination of both state and markets in development policy and interventions (Escobar, 1995). While some of these methods had been present and used for years before becoming official policies, their inclusion with state-run organizations and policies was a great indication that there was truly a shift in the framework of the country's social development policies.

KSMs were informal and took shape within the context of IDT project implementations. They were set up in parallel to the existing governmental branches at the village level, named *Pemerintah Desa* (village government in rural areas, selected through open election) or *Keluharan* (village/neighborhood administrator in urban areas, appointed by higher level government officials). The roles of *Pemerintah Desa* and *Kelurahan* were to act as extensions of the bureaucratic reach from the upper-levels of government (central, provincial, district, county, and subdistrict level) to citizens at grassroots levels. Not only are they links to the central government but they also act as the representation of power at the local community level, functioning as the extended hands of government to ensure rule and order, mobilize political support, administer civil affairs, and collect taxes. With IDT programs, the roles of these formal governmental organizations were limited to facilitating and coordinating the planning process and monitoring program implementation. Each community-developed plan proposed by a KSM would be subject to direct scrutiny. Approval by the subdistrict government was required, and meetings within the KSM involving all its members conducting conversations on the best interests of their communities became common.

The IDT program was, in essence, a radical departure in social development and poverty-reduction approaches from the central government toward the community. While the government set the goals and the size of the seed investments, the KSMs were given the tremendous responsibility of making the strategic decisions worthy of the modest sums received. Their objectives included the strengthening of local democratic institutions, supporting the government's decentralization policies, providing assistance to families living below the poverty line, supporting multiple development programs aimed at enhancing equity, efficiency, human resource development, as well as cultural enrichment (Shah et al., 1994). The community and individuals within particular localities were expected, therefore, to take on responsibility for their own development and progress.

Although IDT was not free of problems —such as the selection of target villages and other malfeasance practices in the implementation processes, particularly in the selection of investment and project beneficiaries (Hill, 1998)—it enjoyed tremendous support from NGOs and leftist economists, as well as international development agencies. The IDT program was, in fact, emulating The World Bank's sponsored social fund development model. The World Bank, in particular, had since the early 1990s started advocating not only market deregulation but also emphasizing institutional reform and social development, creating the Social Fund development model, also known as the "Social Investment Fund," or "Community-Driven Development." The World Bank believed that this new program would tackle two important issues concomitantly: promoting development and reducing poverty (Parker and Serrano, 2000).

It is important to understand that IDT had set a new trajectory for Indonesian developmental and poverty reduction policies in the post 1997/1998 economic and political crisis. In fact, although the IDT program was terminated in 1996, The World Bank sponsored a similar development initiative called *Program Pembangunan Kecamatam* (PPK, or the Kecamatam Development Program) in urban areas, and *Program Pengentasan Kemiskinan Pedesaan* (P2KP, or Rural Poverty Reduction Program) in rural areas (Li, 2007). Various studies of these programs demonstrate the value of inclusive participation by civilians in designing and implementing various micro-development projects (Bebbington et.al., 2004; 2006). These studies also focused on how social capital and institutions determined the progress of social development. In 2003, these small-scale projects obtained tremendous support from the government, likely due to their link to several items on the Millenium Development Goal's (MDGs) agenda. The decentralized, participatory and local-level development model has now become a well-established standard for current Indonesian social development policy. In 2006, the KDP and P2KP were formally adopted as part of the national programs. The IDT began to operate under a new name, *Program National Pemberdayaan Masyarakat* (PNPM, or National Program for Community Empowerment), formally launched in 2007.

SWIP: A Community-based Social Protection

The Social Welfare Insurance Program (SWIP) was created in the context of new social development policies described in the previous section. It was initiated in 1996, which was also the last year before the discontinuance of the IDT programs. Up to the year 2011, SWIP was implemented in two different instances. The program was born in 1996, and terminated in 1998 during the peak of the economic and political crisis, only to be reinstated in 2003. Although it had not been active for four years, there were no significant changes made to its program designs or mechanisms. While the IDT focused on social investment through the promotion of self-employment and microenterprises, SWIP emphasized social investment through the provision of microinsurance. The IDT can be seen as a social development policy that augmented the expansion of informal sector economy and informal sector employment through various community-based programs in both rural and urban areas. SWIP, on the other hand, was devised as an innovative policy meant to extend social protection coverage to workers in the informal economy by moving this responsibility from a state organization to community-based organizations. Therefore, at policy level, IDT and SWIP were complementary.

Why was SWIP discontinued in 1999, yet reinstated in 2003? This question certainly deserves a good amount of attention. One compelling argument links this discontinuation with the expansion of Social Safety Net Programs (SSNs) in the post-economic crisis and the dissolution of the Ministry of Social Affairs. The SSN was a social assistance program that operated during the peak of the Indonesian economic crisis, from 1998 to 2009. The program consisted of a wide range of services and provided things such as reduced-price staples (such as rice), short-term jobs stimulus programs, scholarships for students from poor family backgrounds, as well as free health services for those in need. The program was considered to be successful in managing the impact of the economic crisis on low income families, as well as the subsequent effects of the Structural Adjustment Program (SAP). It being a national priority, the government focused its limited resources on funding the SSN. The SSN's success in its efforts at stabilizing the social and economic condition of the country created a safe platform for the reinstatement of multiparty elections for the first time since 1999, finally resulting in new members of the parliament. The election of 1999 was seen as the first democratic election since 1955. The president chosen was Abdurraham Wahid, the former chairman of *Nahdlatul Ulama* (NU), the largest rural-based and Sunni Muslim organization established in 1927. He was also a prominent activist working within the NGO framework, and a leader of the opposition parties of President Suharto since the 1980s. During his presidency, he dissolved the Ministry of Social Affairs and merged several of its functions with those of the Ministry of Health. As a result, the majority of programs under the Ministry of Social Affairs were canceled.

The unresolved conflicts between the president and parliament resulted in the consultative assembly replacing him with his Vice President, Megawati Sukarno Putri, the daughter of late President Sukarno. Shortly after being sworn into office, Megawati revived the Ministry of Social Affairs. Advocating social-democratic ideas, President Megawati, together with her political party (the party that held the majority of seats in parliament), undertook major constitutional amendments that had been approved by the consultative assembly in 2002. One of the three major developments to the constitution was the reaffirmation of the state's obligation to provide a national social insurance program for all citizens. Briefly discussed in Chapter 3, the proposed bill attempted to extend the social insurance program to every citizen and completely changed the existing system, which only covered civil servants, members of the armed forces, and workers in the private-formal sector. After two years of discussions and debates, the bill was finally approved in late 2004 and signed into law No.40/2004 on National Social Insurance. The reinstated Ministry of Social Affairs, in its turn, reactivated the Social Welfare Insurance Program in 2003. Although there was no formal mention in the National Social Insurance law, SWIP represented the first real attempt of the Indonesian government to devise policies and implement social protection programs for workers in the informal sector.

As noted earlier, discussions about the reform of social security in Indonesia during the last decade have emphasized the need for social insurance. Of course, this will exclude informal sector workers who are not in regular employment and who cannot pay regular contributions to a social insurance fund. However, the Ministry believes that these workers can make small contributions to a microinsurance fund that could help them to meet the risks they encounter. After SWIP was relaunched in 2003, steps were taken to revise the existing 1974 social welfare law that governed its services to incorporate microinsurance as well as other developmental social welfare programs. This resulted in the enactment of a new social welfare law in 2009 that broadens the role of the Ministry to include SWIP and authorizes government subsidies for the program. Although further expansion of the program will require new presidential regulations, the statute is an important step toward including informal sector workers in the country's social protection system.

The Indonesian government's SWIP policy framed workers in the informal sector economy as a vulnerable population associated with poverty. SWIP was not a social security law, but rather was implemented in social welfare law No 6/1974. Chapter 2 section 4 (item 1) specifies the government's welfare responsibilities and implements four main programs: a) social Assistance for both individuals and groups; b) welfare maintenance through the provision of social insurance programs; c) therapeutic and psychosocial rehabilitative interventions; and d) social development and the promotion of social solidarity. Until 1995, however, the Ministry of Social Affairs had neither developed nor initiated income maintenance programs in the form of social insurance.

Historically, the Ministry of Social Affairs had focused on the other program categories that targeted aid to the most vulnerable members of the population—beggars, seniors without family support, people living in remote areas, people with severe mental health issues, juvenile delinquents and prostitutes were among the individuals included in the broad category of "People with Social Welfare Problems." For these populations, the law maintained that the Ministry of Social Affairs must provide social assistance, social development interventions, and social rehabilitation services. Various residential facilities were created to fulfill this goal, mostly in urban areas. The Ministry employed social workers and assistant social workers to run various services and programs in the residential facilities. In addition, social assistance was also available for victims of both natural and man-made disasters, abandoned infants and children, and seniors without responsible immediate family members.

The tremendous support afforded the IDT program created the opportunity for the Ministry of Social Affairs to promote a new social security program for workers in the informal sector. The absence of proper social protection for workers in this sector increased the vulnerability of falling into the worsening state of poverty and the lack of proper medical care for these individuals (who, in fact, constitute the large majority of Indonesian nationals). Traditional risk management instruments such as family support, religion-based charities, or mutual benefit societies were not readily available, and even when they were, they rarely provided adequate protection. However, the Ministry of Social Affairs mandate did not focus on managing business insurance, but on providing rehabilitative social services for the most vulnerable members of society.

As previously mentioned, SWIP adopted several basic decentralization principles already employed by the IDT. Unlike the IDT, however, SWIP made use of already established community-based organizations (CBOs). The CBOs used by SWIP were selected by the Ministry of Social Affairs based on three essential criteria: a) they must be acknowledged by local government organizations (*Pemerintah Desa* or *Kelurahan*); b) they must be registered as social service and social development organizations at the district of the provincial social welfare offices; and c) they must have productive social development activities such as microcredit, micro-cooperative, and microenterprise; these programs must be creative and effective in the areas of education and appropriate health care services provided for infants (especially in orphanages) and seniors. These criteria indicate that the Ministry of Social Affairs was determined to employ only CBOs with proven and established roles in their communities, and would therefore be served by experienced staff. SWIP was not intended as a solitary developmental program, but a complementary activity to CBOs already in existence.

The Ministry of Social Affairs' partnership with well-established CBOs also ensured effective program targeting and a high degree of community participation. The Ministry of Social Affairs assumed that CBOs would have a better understanding of the cultural, social, and economic conditions of the communities where they operated. The networks that had already been forged within specific communities enabled CBOs to better facilitate community participation in the program, as well as insure more directed targeting. According to the handbook description, CBOs were expected to enroll around 200 to 300 workers from the informal sector within the three-year period of a CBO's implementation (Departmen Sosial, 2008; 2009). The main qualifications for this program required that the applicant be a worker within the informal sector, that he or she need make no more than IDR 300,000 (the equivalent of US$120 in 1996), and that the individual possess proper identification stating that the location of his/her residence is within the jurisdiction of the local CBO. Furthermore, there was a monthly fee of IDR 5000 (US$2.0 in 1996, now equal to US$.54). This monthly premium functioned as a type of savings account, to be returned to the participant at the end of the three-year period within which the CBO functioned. Upon the termination of the three-year arrangement, the CBO was free to either elect new members, or select members from those previously involved in other activities.

The experience of CBOs also had several other advantages. One of the most important is the effective allocation of resources. Similar to the IDT, the mechanisms of the decentralization of social protection were focused on direct cash transfer of the social investment block grants from the central government to CBOs. The money was wired directly to the CBOs' accounts, bypassing many layers of government bureaucracy. The amount of funds transferred depended on the circumstances of each local CBO. They generally ranged in the 20 to 30 million IRD bracket for the entire three-year period. In 1996, this was equivalent to US$8000-12,000. By 2011, it had dropped to a value no greater than US$3,226. The funds were not intended for immediate consumption, but rather to be used as capital investment supporting several productive economic development programs. The handbook clarifies the allocation of the money, 50% remaining stationary in the bank and used for SWIP benefit payments, while the other 50% was invested in productive and profitable activities run by the CBO, such as Rotating Savings and Credit Association (ROSCA), microenterprise development, or agricultural activities. The CBO would then use the profits gained, if any, and reinvest them in further activity program expansion.

In addition to managing the social investment grants received from the Ministry of Social Affairs, CBOs were also responsible for paying out benefits. These benefits were not intended to cover the costs of health care in case of sickness, work-related accidents. or funerals. Instead, it functioned as a temporary set of unemployment benefits that would pay a set amount of money in case of emergency hospitalization up to 20 days, cover costs in the event of a work-related injury that prevented a worker from providing for his/her family for a given period of time, or death. In case of illness, members would receive IDR 100,000 (the equivalent of US$40.0 in 1996 and US$10.7 in 2011); this monetary support was available to a member either once a year or for a total of three times during the three-year implementation period. In the instance of work-related injury, the payout would be identical to that issued in the case of illness. Lastly, in the event of death, the deceased's surviving family would receive cash amounts incrementally proportional to the length of membership. This would pay IDR 200,000 (US$80 in 1996 and US$21.4 in 2011) after the first year of membership, IDR 400,000 after the second year, and IDR 600,000 after the third (US$240 in 1996 and US$64.5 in 2011). The size of benefits has been increased since the fiscal year of 2012: for sickness or injury benefits, workers receive IDR 300,000 (US$ 32.2), one claim per benefit per year; death benefit, depending on the year of membership, ranging from IDR 400,000 (US$ 43) if the member dies in the first year, IDR 600,000 (US$ 64.5) if in the second year of membership and IDR 800,000 (US$84) if in the third year. Yet, the cost of monthly premium remains the same (IDR 5000 or US$.54) (ILO, 2012).

It is important to recognize that SWIP was not designed as a stand-alone program but was created to complement and support other community-based antipoverty initiatives implemented by CBOs (Suharto, 2007a). SWIP seeks to capitalize on the existing social networks of these organizations. The partnership between the Ministry and the participating organizations is mutually beneficial. The Ministry benefits because the partnership allows it to more effectively work at the grassroots level without the hindrance of a large and cumbersome bureaucracy. Because CBOs are knowledgeable about local conditions and are linked into local networks, the Ministry is also able to improve targeting and reach the neediest. For the participating organizations, the partnership gives them an opportunity to enhance their funding and strengthen their organizational capacities. By linking with the Ministry, it also provides access to wider resources such as national information networks and potential funding opportunities. Involvement with the Ministry also increases the status of many CBOs at the local level.

Currently, SWIP has been implemented in 33 provinces. By 2011, about 1798 CBOs were participating in the program and collectively, these organizations provided microinsurance services to about 357,400 informal sector workers (Sukoco, 2011). By 2010, the official data shows that the majority of informal sector workers participating in SWIP are male (57%) and female (43%) (Departmen Social, 2010). The total government investment in this program from 2003 through 2011 is equivalent to 6 million US dollars (Sukoco, 2011). The fund is transferred to CBOs by two different methods. The first is direct transfer from the central government to the CBOs. The second method is indirect transfer through the provincial office of social affairs; subsequently the provincial office of social affairs will transfer the fund to the CBOs. According to the National Social Security Council, coverage and total government investment in SWIP could be significantly increased since this program has been integrated into the national social security system (Situmorang, 2011).

The sustainability prospects of SWIP microinsurance depend largely on the efficiency of CBOs in maintaining and growing the seed of the social investment funds transferred by the Ministry of Social Affairs. There were no official requirements for program implementation in conjunction with various social insurance programs for workers in the formal sector or for the direct involvement of the Ministry of Social Affairs in the actual practice of local-level development organizations. Although SWIP had been run by thousands of CBOs throughout the country over the years, there was no adequate mechanism for ensuring program sustainability and growth. The Ministry of Social Affairs lacked the instruments necessary to ensure program compliance and service constancy. The only guideline offered was the SWIP handbook, debriefed to CBO employees over a three-day training period. As a result, CBOs were afforded a great degree of freedom for the implementation of programs according to the internal needs and circumstances for each of them.

Summary

This chapter summarizes the recent development of microinsurance practice in Indonesia and situates SWIP within the broader policy context and initiatives. Policy attention to microinsurance took place in conjunction with different competing forces. These include the ILO's initiative to sell the microinsurance idea to the government of Indonesia and the efforts of GTZ and Allianz insurance to search for new market prospects among Indonesian low income communities. Although the recent interests in microinsurance at a policy level focused primarily on contributory and actuarial-based practices, this chapter recognizes the different forms of microinsurance, particularly SWIP and Arisan/ROSCA. As previously mentioned in Chapter 1, this chapter explained that SWIP is a case of a government-sponsored microinsurance program specifically targeted for workers in the informal sector. The last section of the chapter describes the policy context and features of SWIP.

This chapter provides the basis for empirical study exploring the way SWIP was implemented and how SWIP managers assess its impacts on social protection and social development. The following chapter describes the methodology of the research study. It covers study design, population, sample selection, data collection, and analytical procedures. Following the methodology, the subsequent chapter will describe main research findings and results that specifically address three main research questions.

CHAPTER 5: METHODOLOGY

This chapter describes how this research study was conducted. It includes study design, case selection, recruitment, and the characteristics of respondents, data collection, and analysis procedures. The final section describes several risks associated with the characteristics of respondents and how these risks were addressed.

Study Design

This study applies the qualitative case study method to explore the inner workings of the Social Welfare Insurance Program (SWIP) intended to provide social protection for workers in the informal sector. This research study seeks to address three main issues: 1) How do CBOs implement SWIP at the community level? 2) How do managers of SWIP perceive the effectiveness of SWIP benefits in reducing vulnerabilities of workers in the informal sector? 3) How do managers of SWIP perceive the impacts of SWIP on social and economic well-being of participants? The qualitative case study method was selected for the following reasons. First, it enabled the researcher to explore one particular case in its broader context (Yin, 2003; Cresswell, 2007). It also made it appropriate to study a particular program or policy instead of having to focus on an entire group (Stake, 1995). The use of the case study enabled the researcher to explore the broader policy context surrounding that of SWIP and the involvement of CBOs in its implementation. Furthermore, this method could employ multiple data collection techniques (Cresswell, 2009). As will be discussed further in this chapter, this research study employed three data collection techniques, including documents, observations, and interviews.

Case Selection

Previous studies about the implementation of SWIP were based on cases selected purposively from different provinces (Suharto, b; Sutaat, 2010; Hikmawati, 2011). These studies did not provide a comprehensive picture of CBOs that operate in urban, suburban, and rural areas as well as the demographic characteristic of SWIP participants. These three studies use organization as their unit analysis. Unlike the previous studies about SWIP, this particular research study attempts to include the total population of CBOs in West Java Province. However, in this particular qualitative study, the unit of analysis is not CBOs as an organization but as managers of SWIP.

Consistent with Stake (1995) and Yin (2003), the scope of this case study has been defined by several contextual boundaries. To establish the scope for this case study, the researcher selected the total population of 20 CBOs in West Java Province, Indonesia, that implemented SWIP between 2003 and 2008. This time frame was established based on the assumption that by the time the interviews were conducted, the CBOs that started the program in 2008 would have been in the third (final) year. Although some new CBOs have recently joined the program (between 2009 and 2011), these new CBOs were not included because by the time the interviews were conducted (summer 2011), they would not have completed the full cycle of the program (36 months). The 20 CBOs were obtained from the database available at the Directorate General of Social Assistance and Social Insurance at the Ministry of Social Affairs in 2010. The spreadsheet contains year of programs (from 2003 until 2009), names of CBOs, office addresses, contact numbers, names of contact persons, and number of participants. There was no information about gender and occupation categories.

Recruitment

. Initially the researcher attempted to recruit respondents through telephone calls. The researcher was able to obtain names, addresses, and contact numbers of prospective subjects from the Ministry of Social Affairs. Over the phone, the researcher tried to introduce himself, explain the purpose of the study and ask people to participate in the study. However, this request for participation was not successful as two out five CBOs leaders that were called did not want to give an answer. These issues prompted the researcher to change the recruitment strategy. Instead of directly requesting an interview, the researcher requested a visit appointment. Through this technique, the researcher was able to obtain more positive responses. During the initial meeting, the researcher explained the study more thoroughly, described the confidentiality protection procedure, and asked the potential subject to participate in the study. As a result, the researcher was able to recruit 17 managers of SWIP from the total of 20 SWIP managers. Two SWIP managers refused to participate and one in the city of Bandung could not be contacted. When the researcher visited the address recorded in the data sheet available at the Ministry of Social Affairs, the CBO had moved somewhere else and could not be found.

Characteristics of Respondents

Table 6 shows the characteristics of the 17 CBOs leaders who participated in the research study.

Table 6:
Characteristics of Respondents

CBO CODE	YEAR OF PARTICIPA-TION	GENDER	AGE	EDUCA-TION	POSITION (CBO/SWIP)	LOCATION (Regencies)
A	2008	Male	54	BA	Leader/Manager	Majalengka
B	2005	Male	48	BA	Leader/Manager	Bandung
C	2006	Male	46	BA	Manager	Bogor
D	2004	Male	61	BA	Leader/Manager	Tasikmalaya
E	2006	Male	46	BA	Manager	Bekasi
F	2006	Male	57	BA	Manager	Bekasi
G	2005	Male	57	BA	Leader/Manager	Depok
H	2007	Male	51	BA	Leader/Manager	Garut
I	2008	Male	38	MA	Manager	Bogor
J	2006	Female	52	BA	Manager	Bekasi
K	2005	Male	40	BA	Manager	Subang
L	2006	Male	45	BA	Manager	Subang
M	2004	Male	55	BA	Leader/Manager	Majalengka
N	2006	Male	47	BA	Manager	Cirebon
O	2007	Female	43	BA	Manager	Cirebon
P	2008	Male	58	BA	Leader/Manager	Subang
Q	2008	Male	46	BA	Manager	Cirebon

N = 17

CBO code is a list of codes assigned to replace identifiable information that could link the name of the CBO and name of the manager. In the Results chapter, frequent references or direct quotes were made using these codes.

Year of Participation. As described earlier, this research study purposively selected CBOs in West Java Province that implemented SWIP between 2003 and 2008. The table reveals the years in which the CBOs implemented the program for the first time. The earliest date of participation was 2004 and the latest was 2008.

Gender. The vast majority of respondents were male; only two of them were female.

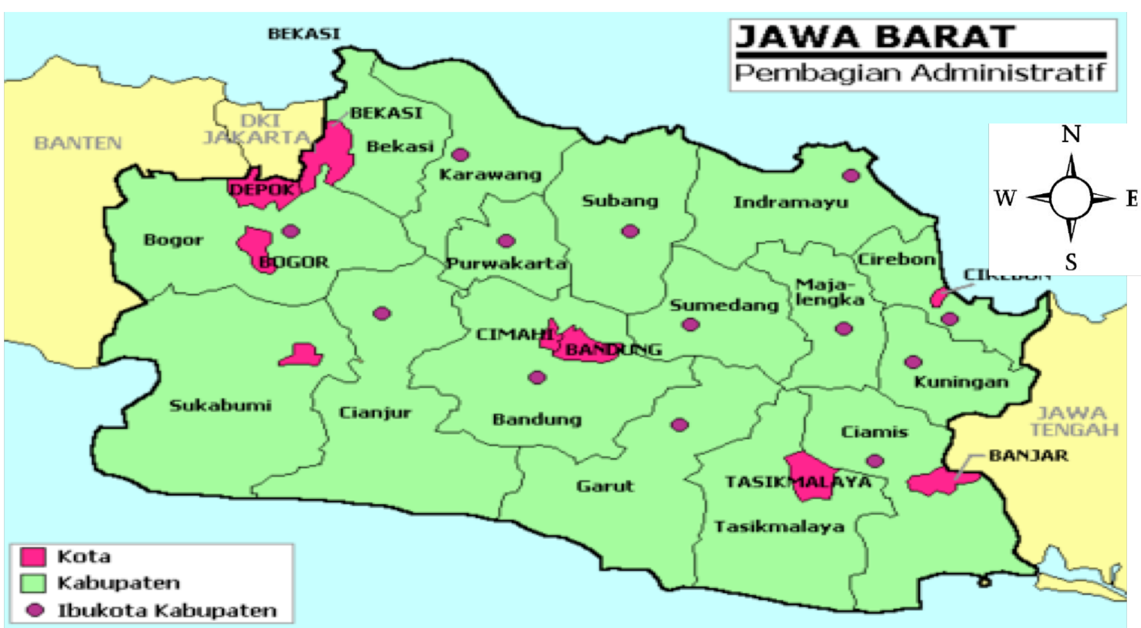
Age. Respondents were all adults. Their ages ranged between 38 and 61 years of age.

Education. This represents the highest level of education completed by each respondent. All of the respondents completed tertiary education and one of them held a graduate degree.

Position in SWIP. As can be seen in Table 6, all of the subjects hold a formal position as a SWIP manager. In seven CBOs, SWIP manager positions were held directly by CBO leaders. The remaining 10 CBOs assigned different individuals to take on the SWIP manager positions.

Location (*district*). The 17 CBOs are situated in nine of the total of 26 regencies of West Java Province : Bandung (1 CBO), Bogor (2 CBOs), Bekasi (3 CBOs), Cirebon (3 CBOs), Depok (1 CBO), Garut (1 CBO), Majalengka (2 CBOs), Subang (3 CBOs), and Tasikmalaya (1 CBO). As can be seen in the following map of the province, two regencies (Depok and Bekasi) share borders with the Province of Jakarta.

Map of West Java Province



Source: http://indonesia-peta.blogspot.com/2010/10/peta-jawa-barat-jabar.html

Data Collection Procedure

This research study employs multiple data collection techniques including interviews, observations, and document research. These techniques were selected to serve particular purposes. Interviews and observations were conducted within the three-month period during the summer, between May and July of 2011. Document research had started earlier, during the summer of 2010.

Face-to-face interviews with managers or leaders of CBOs were aimed at exploring their perceptions about the effectiveness of SWIP as a social protection and social development program. Interviews were conducted using an interview guide that was previously tested with four Indonesians living around the San Francisco Bay Area. Based on the pretest feedback, the researcher made some changes on several questions to avoid misunderstandings and confusion. The interview guide consisted of several questions about the background of the CBOs, how did the CBOs know about and become involved with implementing SWIP, how did they recruit participants, and how did they manage funds. Other questions explored subjects' views about the effect of SWIP as a social protection instrument, the adequacy of benefits, and social development. The final section of the interview guide covered opinions of CBO managers on how SWIP could be improved to enhance its impact. Each interview lasted between 80 to 130 minutes. A copy of the interview guide appears in the appendices. The researcher did not provide any form of compensation for CBO managers for their participation in the study.

The observation section was aimed at understanding the everyday activities of CBOs and the relationships between CBOs and their surrounding communities. The researcher was aware that it was almost impossible to truly become immersed within the community in such a short period of time. In this situation, the researcher let the community see him as an "outsider" participant researcher (Lofland et al., 2006: 41). Observation covered three main aspects: (1) the everyday office activities; (2) case management: how the CBOs manage working relationships with SWIP participants (client); (3) outreach activities conducted by CBO staff with the surrounding community. To observe everyday office activities and case management, the researcher visited the CBO offices, met leaders and staff, and took notes. If permitted, the researcher would read information about CBOs and SWIP. This observation phase took at least one day in each CBO. The researcher was also able to briefly observe life in the community surrounding the CBO, and meet and talk to people about their relationships with CBOs and SWIP. This went quite smoothly since the researcher stayed in the community, renting a room in a family house, for two or three days at a time. The researcher recognized that this was too short a period of observation to fully understand the life and culture of these communities. However, it gave the researcher a wider frame of understanding about the relationships between CBOs and the communities that they serve.

Finally, document research was conducted with the express purpose of understanding the broader policy context of SWIP. This policy was developed to serve certain purposes in relation to a broader national agenda. In particular, it sought to understand why and how SWIP was created in 1996 and stopped in 1998; how it was designed; and why this program was revived in 2003. Information about these issues could be explored through document research. The kinds of documents included were planning documents, photos, newspaper clippings, program implementation reports, and any other relevant materials. The archival records were obtained at the libraries and archives at the Ministry of Social Welfare, the National Library, and the Department of National Planning (BAPPENAS).

Ensuring the Credibility of Information

The researcher identified two main risks that could affect the credibility of information obtained from semi-structured interviews with SWIP managers. The issue of credibility in qualitative study has been widely debated (Lincoln and Guba, 1985; Carboni, 1995) Credibility pertains to the degree of trustworthiness of information obtained through interviews. The degree of trustworthiness of information will determine the degree of credibility or trustworthiness of its interpretation (Whittemore et al., 2001; Thorne, 1997). Both risks pertain to respondents' characteristics. The first risk can be called "expert" bias. The term "expert" appears in double quotes since participants are not actually experts in the formal academic sense but they do have a lot of experience in community development projects in various capacities. Their responses may reflect both their actual views about the situations but may also be clouded by their "expertise" based on experiences and knowledge about expectations, requirements, and objectives set out by various funding agencies they had previously worked with. Their responses could be tailor-made to these expectations despite reality pointing in different directions. The second potential risk relates to participants' reputations as managers or leaders of CBOs. There is a lot at stake in this situation. In particular, their responses might contain risks of jeopardizing their relationships with, and their reputation before, the Ministry of Social Affairs. This risk could influence the decision of respondents to be overly cautious and not reflect their balanced positions or perceptions. For example, they could prefer saying only 'good things' about SWIP and avoid mentioning the negative side of it.

Table 7:
Risks and Actions to Assure Credibility of Information

Identified Risks	Sources of Risks and Implications	Action Taken
"Expert" biases	Previous knowledge and experience from participating in various development projects; *Implications:* - Generalizing experience about project implementation - Responding to interview questions in the ways similar to their responses to donors	1. Establishing rapport prior to interview through informal conversation about SWIP managers' activities, including projects they were involved in. 2. Informal conversation with community members; 3. Informal conversation about SWIP with members. Implications: - Respondent felt being understood and respected; - Respondents were aware that the researcher had met with other people in the communities;

Personal and organizational reputation	Self-awareness about the need for maintaining good performance in the eyes of donors and external partners *Implications:* - Fear to respond to interview questions; - Self-restrained and holding back information	1. Explaining clearly who the researcher was, the relationship between the researcher and the Ministry of Social Affairs. 2. Explaining the objectives of the study 3. Staying in the village for 2-3 days to understand daily life 4. Showing interest in the community by visiting community activities with people trusted by SWIP leaders Implications: - Respondents were generally more comfortable and ready to be interviewed in the second meeting; - During the interviews, no respondents hesitated to answer questions.

The first risk emanates precisely from the fact that respondents were "experts." From both informal—off the record—and formal recorded interviews, all SWIP managers already held certain degrees of expertise in doing and managing projects in collaboration with both government and non-government organizations. They all have a long list of short-term training sessions, all of which were conducted in relation to projects in which they were participants in various capacities—as regular participants, as subjects of certain development projects, as managers implementing the projects, or as 'experts' participants in Training of Trainers (TOT). In this instance, through their training and their hands-on experiences, respondents did understand that "the culture" of development projects supported both government and non-government organizations. They were aware of project expectations and were skilled in project proposal development, financial management, community organization and mobilization processes, financial administration and reporting, program reporting, and how to entertain government officials. In this context, one of the main challenges to this study is precisely their expertise, for respondents could give the researcher the kind of responses similar to the way they provide responses that appeal to expectations and objectives set forth by their funders and project sponsors.

The second risk pertains to respondents' personal and organizational reputations. The 17 SWIP managers participating in this study have already had several years of experience in managing projects funded by external agencies, both government and non-government organizations. From the list of completed projects and the current projects in operation, CBOs usually have had two or more external partners or funders. At the initial contact established during the recruitment process, respondents voiced their concerns and fears. Some of them asked whether this study was "ordered" by the Ministry of Social Affairs; whether the researcher was "staff" or "consultant" of the Ministry; and whether their name and CBO name will be clearly mentioned in the report.

The researcher took both risks very seriously by recognizing their experiences and their expertise. To address both risks, the researcher relied on establishing good rapport and trust with them. Before beginning the formal interviews using the prepared interview guide, the researcher took some time for small talk and explored a little bit more about each respondent personally. This approach, indeed, took more time than if the researcher was directly requesting an interview. If the researcher arrived in a respondent's office in the morning, the first encounter was used to establish a connection and get to know one another, including the staff. In a relaxed and non-formal conversation, the researcher let his research subjects explore some information about the researcher and, conversely, the researcher also explored some ideas about who the subjects were, including their education, families, activities, and professional experiences. Depending on the actual situation, the researcher often utilized this preliminary conversation to introduce research objectives and to explain confidentiality issues more elaborately. It indirectly addressed their second concern. Then the researcher would leave the office after making another appointment for formal interviews, which could be scheduled later in the same day or the next day.

The researcher maximized the time between appointments to find shelters for two or three days to obtain a broad picture about each CBO, the village, and the people. On several occasions, this opportunity was also used to learn about the diverse opinions of ordinary people about CBOs and SWIP managers. Spending two or three days in each place where CBOs were situated gave the researcher an ample opportunity to briefly observe the activities both within the CBO and the surrounding community. In several sites, CBO leaders or SWIP managers asked their trusted staff, called *Pesuruh Yayasan*, to help the researcher become oriented to CBO activities and the villages, and to find shelter (usually rent a room in a family house). In several CBOs, *pesuruh yayasan* were also formally hired as field staff in SWIP implementing organizations. The researcher would visit Mosques and small coffee/food shops—usually situated at the corner of crossroads—talking with motorcycle taxi drivers while having coffee and eating small snacks, or observing community activities such as *pengajian* (religious gathering for the elderly), or *Arisan* (Rotated Savings and Credit Association/ROSCA) meetings. In short, during a short period of time, the researcher attempted to become connected and engaged in conversation with people in the community. The researcher learned some information about the village, about the CBO, and about leader of the CBO from small, informal conversations with these people. In each place, the researcher was also fortunate to meet and engage in small talk with about three to five current or past members of SWIP. Of course, the conversations were not recorded as formal information to be analyzed in the study since the subject of this study was leader/manager of CBOs. Nevertheless, this information was useful to obtain alternative views about the CBOs, the CBO leaders, and, primarily, about the implementation of SWIP.

In this way, the researcher was able to learn that several CBO managers, by the time interviews were conducted, were working as community facilitators for several government-funded community development projects. For example, three CBO leaders mentioned the *Program Keluarga Harapan* (PKH) an Indonesian version of the *Conditional Cash Transfers* (CCTs) project currently being implemented in a village next to theirs. They were hired as community facilitators responsible for assisting local neighborhood organizations in recruiting and monitoring the program. Three other CBO leaders who were interviewed were working as subdistrict consultants for *Program National Pemberdayaan Masyarakat* (PNPM) or a *Community-Driven Development* (CDD) project in other districts. PNPM is a participatory development project utilizing government block grants as seed capital to finance several social development projects, including improvement in village infrastructure, water and sanitation, health and education facilities, and supporting neighborhood-based microcredit and microcenter projects. One CBO manager specializing in Islamic microfinance called *Baitul Mal wal Tamwil* (BMT), which literally means 'the house of assets and microenterprise,' mentioned that he was working as a microfinance trainer for both PNPM microcredit projects and *Kredit Usaha Kecil* (KUK) or 'credit for small enterprise' financed by the Ministry of Cooperative and Small Enterprises.

This information helped the researcher obtain a broader sense of the village, the people, the CBOs, and the leaders of the CBOs. Prior to the interview (most took place during the second day in the community), the researcher would inform the respondent about what the researcher had heard and seen as well as with whom the researcher had talked to in the community. This kind of information would reflect the interest of the researcher on the life of the community. Although "expert bias" could not be totally eliminated, the above approaches were very helpful in building trustworthy relationships with study subjects and allowed them to put more emphasis on their personal views about their organizations and about the program. Moreover, the researcher also became more aware of several issues that could influence the dynamics of relationships during the interview process. Among the most important issues were respondents' personal and organizational interests—such as maintaining a good relationship with the government, and external funding sources, securing the loyalty of their clients or SWIP participants, maintaining the good image and position of CBOs within the community—that featured prominently throughout the interviews and informal conversations. Awareness of these issues was quite useful and helpful in interpreting and understanding statements in the interviews and some of the information obtained from observation.

Data analysis

In *Sociological Imagination* (1959), C.W. Mills underlines the main tasks of social scientists for understanding the meanings of social reality through paying attention to the relationships between "the personal troubles" and "the public issues." Sociological imagination requires social scientists to shift their perspectives and attention from the micro reality of individual experience to the impersonal macro public policy. The analytical procedure employed in this research study was directed toward understanding the particular policy of SWIP in its relationship with broader construction of Indonesian social policy. Therefore, using documents and archival records, the researcher attempted to make meaningful connections, comparisons, and contrasts with other policies during the same time period. A similar strategy was also used to interpret the relationships between CBOs and their communities and between CBOs and the Ministry of Social Affairs. Observation within CBOs and within the communities in which CBOs were located helped identify these connections and their structural relationships.

Finally, each of the 17 interviews was transcribed verbatim. To protect confidentiality, any identifying information that might link to particular study subjects was removed and a code was assigned for each of them. Interviews were analyzed using

ATLAS.ti software for generating key themes regarding characteristics of CBOs and social protection impacts such as adequacy of benefits, risk management, and developmental effects. In interpreting the interviews, the researcher attempted to be mindful and aware of structural interconnections between respondents with CBOs' interests, with their personal experiences, and particularly with the Ministry of Social Affairs. Their personal views or perceptions were, as much as possible, situated in the broad structural interconnections.

CHAPTER 6: FINDINGS

This chapter presents the findings and results of the research study. It covers four main sections. The first and second section attempt to address the first question: How do CBOs implement SWIP at the community level? While the first section explores the characteristics of CBOs and their involvement in SWIP, the second section describes the administration of SWIP at the community level. The third section examines the perception of CBO leaders about the effectiveness of SWIP as a social protection instrument. It addresses the second research question: How do leaders of CBOs perceive the effectiveness of SWIP as a social protection instrument? Furthermore, the fourth section explores the perception of SWIP managers regarding the social development impact of SWIP. This section attempts to address the third research question: How do managers of SWIP perceive the impact of SWIP on the social and economic well-being of participants?

COMMUNITY-BASED ORGANIZATIONS AND SWIP

As previously discussed in Chapter 3, the design of SWIP emulated that of a preexisting decentralized and local-level social development program named *Inpres Desa Tertinggal* (translated as Executive Order for the Left-behind Villages, or the IDT). SWIP and IDT are similar to that of the *Social Fund* model implemented since 1987 in several Latin American countries to deal with the immediate and long-term impacts of structural adjustment programs (Parker, 2000). Although this program applies a decentralization model, its basic principle is different from political decentralization of political/administrative and fiscal authorities within government organizations from central government to provincial and district/regency levels (Antlov, 2002). In the context of SWIP, similar to IDT and the *Social Fund*, decentralization involves transferring the responsibility for local-level development projects directed toward meeting basic needs, reducing poverty and vulnerabilities from the government to local communities. This decentralization practice skips two or three levels of bureaucratic chains, particularly at the level of district/regency, subdistrict, and village levels.

This model had been augmented and transformed into the current *Community-Driven Development* (CDD) program. Through the financial power of The World Bank, the model has been diffused to many developing countries in Latin America, Africa, and Asia. The World Bank (2013) identified five defining characteristics of CDD: 1) a focus on communities and/or community groups rather than individuals; 2) a participatory planning process that includes consultations with members of the community; 3) resources channeled directly to the community through sectoral ministries or local government agencies; 4) direct community involvement in project implementation; and 5) community involvement in monitoring the project. These five characteristics indicate that in the context of CDD, government organizations from the central level down to the local community level are not involved in program implementation. The implementation of CDD is dependent on the local context and priorities that are defined through participatory processes involving CBOs. CBOs in this instance are regarded as local-level institutions that represent the grassroots communities. In implementing CDD, CBOs could work with central government, private organizations, or elected local or municipal governments. What is more apparent in this decentralized model of development is that the roles of government are limited to facilitation and financial support and CBOs were given responsibilities to plan, implement, monitor, and for the most part, assume responsibilities for the project's successes or failures.

With regard to SWIP, the Indonesian Ministry of Social Affairs, which is one of several sectoral ministries, works directly with CBOs. Unlike IDT, the *Social Fund,* and CDD, the main focus of SWIP is not on local-level physical infrastructure and community-economic development. Instead, SWIP combines social protection (microinsurance) with community-economic development targeted specifically to workers in the informal sector. The following subsections explore the process of the implementation of SWIP at the community level. This section explores the relationship between the Ministry of Social Affairs and CBOs, the characteristics of the 17 CBOs included in this study; how did they learn about SWIP and what was their prior knowledge about microinsurance.

Characteristics of the Participating CBOs

All 17 CBOs in the West Java province included in this study have already established privileged positions in their communities. The majority of them began operating between the 1970s and the 1990s, with only six of them having started in the past 20 years. As previously mentioned, besides aiding SWIP in its efforts, CBOs had already created community-based social services such as education, orphanages, elderly care, micro-cooperatives, or ROSCA. Each of these operational branches was directly linked to external agencies, either non- or governmental programs. Micro-cooperatives and microcredit programs, for example, are linked to the Ministry of Cooperatives and the Small/Medium Enterprise program; educational activities (school, as well as religious education) are directly linked to the Ministry of National Education and the Ministry of Religious Affairs, respectively; orphanages and elderly care are connected to the Ministry of Social Affairs and the Provincial Office of Social Affairs, respectively. Over the years, the CBOs built a reputation as alternative development channels though which many government programs were implemented. At the community level, CBOs acted as vital development institutions that were no less effective than formal governmental attempts identified in other studies (Antlov, 2003; Bebbington, 2006)

Thirteen out of the 17 CBOs included in this research study were initially established as *Pondok Pesantren*, a non-formal and community-based Islamic education program. *Pondok Pesantren* is among the most popular non-formal Islamic educational programs (Dhofier, 1999). Although initially it was common among Muslims in rural areas, nowadays, *Pondok Pesantren* schools were also established in urban areas. In 2011, the Ministry of Religious Affairs reported that the total number of *Pondok Pesantren* throughout the country reached 25,000 institutions and housed a total of 3.65 million students (MORA, 2013). *Pondok Pesantren* has a similar characteristic to *Madrasah* in Saudi Arabia, Iraq, and Pakistan. The similarity, in particular, pertains to the educational focus. *Pondok Pesantren* and *Madrasah* provide Islamic education from basic through advance levels on subjects of Islamic education, including *Qur'anic*

Interpretation, Islamic law, Islamic History, Islamic Economics, Sufism, Islamic theology, Arabic Language, and Islamic Philosophy (van Bruinessen, 1994; Jabali and Jamhari, 2003). Students generally live in dormitories or simple houses near the Mosque (usually situated at the center of the *Pondok Pesantren* complex) and the house of *Kyai* (religious scholars and leader of *Pondok Pesantren* are usually selected from one of the most senior *Kyai*). Leaders of *Pondok Pesantren* and their families are usually considered ‘elite’ and the most educated members of the community.

Unlike in Pakistan, *Madrasah* in Indonesia refers to a hybrid model of education combining elements of Islamic subjects with some elements of academic subjects (math, science, social science, national history). *Madrasah* bridges the bifurcation of the educational system during the colonial period between “the Dutch schooling system” and the “Islamic schooling system” (Jabali and Jamhari, 2003; Haedari, 2007). The post-independent Indonesian national education system continued the Dutch colonial education system, while the Islamic schooling system (*Pondok Pesantren*) remains in existence as a non-formal education system. Since early 1960s, the Indonesian government has attempted to bridge the two by creating a hybrid model of education under the Ministry of Religious Affairs (Haedari, 2007). *Madrasah* follows a grade-level model (elementary school grades 1 through 6; junior/middle school grades 7 through 9; and high school, grades 10 through 12) similar to that of the national public school system. *Madrasah* also adopts all basic curriculums implemented at the national school system (Indonesian language, math, sciences, history, and the arts). Nevertheless, unlike a school system, the *Madrasah* system also maintains core Islamic curriculum according to grade level (Islamic history, Qur’anic interpretation, Arabic language, Islamic law, Islamic ethics, and theology). Therefore, the *Madrasah* educational system curriculum is much heavier than the national school system in general. From the 13 CBOs that were initially established as *Pondok Pesantren*, seven of them run *Madrasah* education systems from elementary school, junior high school (middle school), through high school. Outside the regular school hours (8.00 AM until 2.00 PM), many of the students who live in dormitories or shelters of *Pondok Pesantren* continue studying Islamic subjects in the afternoon, evening, and early morning hours.

Furthermore, nine out of 13 CBOs/*Pondok Pesantren* also function as orphanages. They provide shelter, care, and education for orphans and children from poor families. While infants are usually taken care of within family surrounding *Pondok Pesantren*, school-age orphans stay in the dormitories/shelters where they would participate in the activities along with other students. *Kyai* would assign several senior students to take care of school-age orphans.

The managers of SWIP in the 17 CBOs explored in this study mention 10 different activities that were in operation at the time. As can be seen in Table 8, in addition to running SWIP, respondents also mentioned several other activities or programs that were implemented at CBOs. Eleven respondents (64.7%) mentioned that their CBOs run microcredit or ROSCA activities for members and the community. Subsequently, nine respondents (52.9%) mentioned micro-cooperatives (retail shops, crafts, and livestock fattening) and orphanages. Seven respondents (41.2%) claimed that their CBOs ran formal educational institutions from elementary through high school levels and six other respondents (35.3%) claimed their CBOs organized regular non-formal religious education for children as well as congregations for adults. Only four respondents (23.5%) reported having a senior care center. Finally, one respondent (5.9%) reported that her CBO ran activities that no other respondents had mentioned. The activities were early childhood education and a daycare center, community health services and a vocational training program. This particular CBO is a local branch of a large religious organization established in 1912. However, the CBO itself was only established in this community during the 1980s.

Table 8:
Current Programs Implemented by CBOs

EXISTING ACTIVITIES/PROGRAM	(N= 17)	PROPORTION (%)
SWIP	17	100.0
Micro credit/ROSCA	11	64.7
Micro-cooperative (retailing, craft, life stock)	9	52.9
Orphanage	9	52.9
Formal education (elementary to high schools)	7	41.2
Non formal-religious education/congregation	6	35.3
Senior care center	4	23.5
Early childhood education and daycare	1	5.9
Community health services	1	5.9
Vocational training program	1	5.9

Fourteen out of 17 respondents (82%) reported that their CBOs were established by a small number of families with high status in the community. Even though the CBOs often worked with government officials, the power remained centered on the families. In this context, CBO policies were decided and worked on by family members running the organization. These families had been afforded higher education, both formal and informal (religious education), were among the better-off individuals within their respective communities, and had wider external networks than the average community member (such as working relationships with government officials and politicians). These "qualities" afforded a good amount of power to the small number of families that ran the local CBOs.

The remaining three respondents (28%) claimed that their CBOs were not established by elite families within the community. The three respondents (C, I, and J) reported that their CBOs were created and sponsored by wider elements of societies. Respondents C and I revealed that their CBOs were formally registered as microfinance organizations and managed funds from investors and stakeholders. Situated in the regent of Bogor, these CBOs were established by broad institutional supporters and investors. The CBO in which respondent J worked was a sub-branch of a women's organization under a national Islamic Mass Organization, called *Muhammadiyah*. All members of this particular CBO are women. Board and executive committee members were elected through assembly meetings that included all members in the territory. The territory of a sub-branch organization might include several villages or townships.

Networking with external institutions placed CBOs in a strategic position within the community. They represent what Ronald Burt (2010) called “structural holes” that facilitate relationships between a community and external agencies and vice versa. Structural holes, according to Burt, are channels that connect two or more non-redundant networks or relationships. In other words, structural holes are similar to that of “bridging” social capital that facilitates non-redundant relationships between two or more groups tied together by “bonding social capital” (Burt, 2010). For communities, CBOs are often perceived as the most accessible channel to access various government programs. On the other hand, for external agencies, including government organizations, CBOs are believed to be among the most viable partners to ensure that the implementation of various programs reach the intended, targeted populations. Networks also allow for CBOs leaders to obtain information about available opportunities before most members of the community. In the meantime, their strategic positions as structural holes also enable CBOs and their leaders to control the flow of information in and out of the community. It is precisely for these reasons that CBOs control significant amounts of power both from the vantage point of communities in which they operate and from the vantage point of government and other external agencies interested in reaching out to grassroots communities.

Over the years, the 17 CBOs were able to build strong networks with various community groups; about 10 of them achieved this in their communities through their informal religious educational and congregational programs. Thirteen CBOs that were rooted in the traditional community-based Islamic education system (*Pondok Pesantren)* conducted daily religious services and weekly and monthly sermons for the adults and seniors of the community. Some also provided basic religious education for children, such as reading the *Qu’ran* and traditional Islamic literature. These programs afforded the CBOs credibility in their communities, and legitimized their leaders in the eyes of the locals. Not all CBOs focused on religious education, however; some dedicated their resources to formal education offered to children in their neighborhoods. Of the 11 respondents who mentioned a microcredit program being implemented in their CBOs, only three CBOs dedicated themselves to running cooperative and microfinance programs, yet were still able to respond to external demands of organizing the participation of community members in programs funded by various agencies.

Unsurprisingly, the size of the CBO is reflected in the manner in which it funds its activities. Table 9 lists 12 sources of funding that are currently active. In addition to social investment block grants that all CBOs received to implement SWIP, 14 (82.3%) respondents reported that their CBOs received some financial assistance from charitable giving and private sector grants. Furthermore, 11 respondents (64.7%) claimed to have some income to support other activities at CBOs from profit sharing earned from microcredit or ROSCA activities. Subsequently, nine respondents (52.9%) received financial support from the Ministry of Social Affairs to support their activities for orphans and seniors. Other financial sources that were mentioned include school tuition/fees (41.1%), grants from the Ministry of Religious Affairs (35.3%), grants from the Ministry of Cooperative and Microenterprises (29.4%), endowment funds of funders (17.6%), and another grant from the Ministry of National Education (11.7%). Finally, respondents mentioned funding from the provincial government, the Ministry of Health and international donors (each 5.9%).

Table 9:
Sources of Funding

SOURCES OF FUNDING	N=17	PROPORTION (%)
The Ministry of Social Affairs (SWIP)	17	100.0
Charitable giving/Private sector grant	14	82.3
Profit-sharing from Micro-credit /ROSCA	11	64.7
The Ministry of Social Affairs (Social assistance for orphans and seniors)	9	52.9
School Tuition/Fees	7	41.1
The Ministry of Religious Affairs	6	35.3
The Ministry of Cooperative and Microenterprises	5	29.4
Founders Endowment Fund	3	17.6
The Ministry of National Education	2	11.7
Local (provincial/district) government grant	1	5.9
The Ministry of Health	1	5.9
International donor	1	5.9

Segment of Communities Served

SWIP implementing CBOs claimed that they were serving "poor people" and they did not limit their services for specific categories of workers in the informal sector of the economy. In the neighborhoods within which CBOs operate, those working in the formal sector make up a very small percentage of the working population. Although statistically the unemployment rate may be less than 10%, the majority of the working age population (between 15 and 65) does not have the type of employment defined as such by labor regulations. Most individuals are part-time employees, and some may even work in unpaid jobs. All of these types of unregulated employment are not included in the government's definition of "work." Based on the criteria of "informal employment" (a worker operating outside of the formal contractual relationships between "employers and employees"), the vast majority of the working population in and around the rural neighborhoods in which CBOs were working could be counted as working in the informal sector of the economy. It would be hard to find someone with formal-wage employment in rural areas. These informal worker populations are, therefore, entitled to participate in the SWIP.

Most CBOs paint the segment of society they serve in very broad strokes. During interviews, the managers referred to a definition assigned by the Ministry of Social Affairs, and described their constituency as "people with social welfare problems," spanning across all age groups. The Indonesian Constitution stipulates that "*Fakir miskin dan anak terlantar dipelihara oleh Negara*" (the poorest of the poor and abandoned children are under the custodial care of the state). These categories of "the poorest of the poor" and "the abandoned children" are considered the weakest members of society, and, hence, deserve special governmental protection. The term “poorest of the poor” does not refer to a particular social group but, instead, it is a general term that can be applied to anyone. “*Fakir miskin*” can apply to anyone from low-income individuals to people with physical or mental disabilities, the elderly, or victims of natural or man-made disasters, while “*anak terlantar*” refers to children with no parental of kinship care. These terms are, of course, subjective, and redefined to adjust to the individuals present in each community. One respondent described some of the sectors of community that his particular CBO serves:

> *Our organization serves abandoned children, street children, children who were victims of violence, children conflicted with law, the elderly, and members of the isolated ethnic minority groups. We also serve small street vendors or irregular laborer* (Respondent B).

Consistent with the testimony of Respondent B, Respondent F states that orphans and the poor elderly are among the most vulnerable groups in their respective communities and in need of CBO involvement. Other organizations focus on orphaned children who do not have kinship support (Respondents E, G, and O). These CBOs care not only for orphaned children but also for those of very poor families. Under CBO custody, these children were provided housing, sustenance, and education. These individuals are described as “the poorest of the poor” by Respondent E, “the weakest among the weak” by Respondent G, and “those who are in direst need of social welfare services” by Respondent F. Several of the descriptions used by these respondents are direct quotes from the Ministry of Social Affairs.

Eleven of the respondents further described their responsibilities extending to “informal sector workers with very low or no regular income” (Respondents A and I). Respondents C, D, and H mentioned help offered to informal self-employment, such as “micro-retailers and daily agricultural laborers.” Micro-retailers trade either single homemade products (usually food items) in their neighborhood, or several cheap products sold at markets. The sellers could be stationary, setting up shop in front of their home, or ambulatory, traveling to people’s homes to promote their product. These types of informal employment are common in both rural and urban areas. The community bracket most frequently cited for being in need of CBO help are agricultural day laborers who do not own land themselves, most working in rural areas. The CBOs that operate in suburban regions cite “motorcycle taxi drivers” as their main constituency (Respondent Q). Some CBOs, however, do not differentiate the communities they serve; “we target everyone in the community” (Respondent M), and “those who are poor relative to the general perception of decent living in the community (Respondents K and L).

Network and Participation in SWIP

The preexisting relationships with the Ministry of Social Affairs prominently featured in the selection of the CBOs. Although the SWIP manual states that the Ministry of Social Affairs would apply a competitive process to select the CBOs from a list of applicants, almost all the CBOs selected had previous working relationships with the government. There was little evidence to suggest that these CBOs had to go through competitive processes in their selection. In fact, the Ministry of Social Affairs did not make public announcements opening the competition up to the general population.

Instead, limited announcements were made in the internal publication accessible only to those CBOs that had previously established relationships with the Ministry of Social Affairs and had access to such resources. This is the main reason why almost all of the 17 respondents acknowledged that their CBOs obtained information about SWIP from insider network channels. Only one respondent (N) refused to say how SWIP information was provided.

Eight of the17 respondents mentioned that they received information about SWIP from the central office of the Ministry of Social Affairs. The other nine learned about the program though the West Java Provincial Office of Social Affairs. They admitted to being invited by the staff of either the central or provincial social affair offices to informational sessions on SWIP. Some CBOs, according to Respondent A, started to participate in implementing SWIP in 2008. His CBO has already had several years of cooperation with the Ministry of Social Affairs in the area of child welfare services. According to A, the Ministry offered SWIP because his CBO was considered successful in implementing government programs.

Other respondents supported A's declaration. Respondent L recalled that his CBO started to work with the Ministry of Social Affairs through social service programs for orphans and seniors. This CBO also runs a microfinance program that was considered growing. According to L, his CBO did not take the initiative to participate in implementing SWIP. Instead,

> *they came to us offering SWIP. They came because they knew that previous programs from the Ministry of social affairs were implemented successfully. Previously, we had programs such as meal assistance for orphans and poor seniors* (Respondent L).

The CBO that did not have previous work or program experience with the Ministry of Social Affairs was able to obtain insider information by taking advantage of the networks created by their executive board members:

> *Our organization usually acquires information about various government programs through our executive board members or regular members who happen to be civil servants at various government departments. That was how we were able to participate in implementing SWIP. One of our executive board members worked at the Ministry of Social Affairs. Based on this information we developed project proposals and profiles of our organization in accordance to the requirements. Of course, she was also helping us from the inside so that our proposal was easily approved* (Respondent J).

Likewise, Respondent F confessed that his organization was at an advantage when considered for SWIP implementation. The CBO is located in a neighborhood in Bekasi regency where many staffs of the Ministry of Social Affairs live. Bekasi regency is situated in the east of Jakarta and shares borders with East Jakarta. In normal traffic conditions it would take less than an hour to commute from downtown Bekasi regency to the office of the Ministry of Social Affairs, which is situated in East-Jakarta.

> *Our organization was able to be selected to implement SWIP because in our neighborhood there were many people who worked at the Ministry of Social*

Affairs. In fact, some of them actually had quite high positions. So the process for us was quite smooth (Respondent F).

Access to civil servants of the Ministry was not the only type of advantage that eased a particular CBO's consideration for SWIP. Two CBOs worked with secondary sources, such as consultants to the Ministry. Two respondents (I and C) claimed that their CBOs obtained information from a consultant working for the Ministry. The consultant used his connections with senior officials at the Ministry. This individual was also an executive director of a very influential NGO working for promoting microfinance programs called *Pusat Inkubasi dan Bisnis Usaha Kecil* (PINBUK), translated as the Center for Incubation of Microbusiness and Microenterprise. Respondent C described the process:

> *At the time, at a gathering attended by colleagues who were working in microcredit (called Baitul mal Wat-Tamwil/BMTW), leaders from PINBUK informed us of SWIP. Then we developed a proposal and submitted to PINBUK and they brought our proposal to the Ministry of Social Affairs. They took us to the Ministry of Social Affairs and introduced us to several individuals responsible for selecting CBOs to implement SWIP. Several weeks later, staff of the Ministry came and visited our office, verified our activities and we were selected* (Respondent I).

The remaining eight respondents revealed that their CBOs had no connection to Jakarta, but instead, learned about SWIP from the Provincial Office of Social Affairs in Bandung, West Java Province. Respondents E and G stated that they found out about SWIP when invited to an informational session organized by both the District and the Provincial Office of Social Affairs. Respondent H had a different experience: his invitation arrived based on a previous visit by District and Province staff and their subsequent approval of cooperative and microfinance activities.

> *When they knew that we had a cooperative, looking at its promising growth, they offered participation in implementing SWIP. Initially we did not know anything about it. Perhaps, it was because there was lack of public information* (Respondent H).

Another respondent (Q) confessed that his long-term connection with the provincial office of social affairs was the basis for his participation in SWIP. He had easy access to any information regarding available programs. As he explained during the interview, maintaining network connections with government organizations was essential to a CBO and was part of a CBO's survival strategy:

> *We were aware of the importance of maintaining connections with government officials. From our connections at the provincial office of social affairs we would learn information about programs or projects that particular year. Regarding SWIP we knew that the district office of social affairs would not involve us in the selection so we worked with staff at the provincial office* (Respondent Q).

Similarly, Respondent K preferred to be proactive in seeking information about programs.

We are proactive, visiting the offices of district or provincial office of social affairs. We asked what kind of programs they have. If we were lucky, we could be assigned to participate in implementing a program. If we do not act proactively, we will never know what programs are currently available. Thus, if we hear that they have particular programs suitable for us, we must immediately learn the requirements, make our interests clear, and prepare a proposal. That was how we were selected to implement SWIP (Respondent K).

Respondent F added about the type activities implemented previously with the Ministry of Social Affairs. :

Prior to SWI,P we already had several years of working relationship with the Ministry of Social Affairs. In particular, we received grant annually about IDR 25 million (around US$ 2,800) to provide meal- support to feed orphans and the neglected seniors (Respondent F).

Furthermore, respondent L specified the amount of assistance depended on the total population of the orphans or seniors living in the facilities:

Yes, we had several instances of cooperation with the Ministry, particularly for a food and nutrition program for orphans that we look after. The total grant was around IDR 25,000 (US$ 2.7) a day per person (Respondent L).

Prior knowledge and experience in microinsurance.

Although the Indonesian Ministry of Social Affairs recognizes the strategic role of intermediary organizations in the community as their partners in implementing SWIP, microfinancing activities are neither the strongest, nor the most competent activities by the selected CBOs. In fact, out of the 17 CBOs, only five (Respondents A, B, C, I, and L) claimed that they have experiences in microfinancing and micro-cooperatives, and that the two activities were the main focus of their organizations. These CBOs also had records of working with "informal sector workers" who were members of their micro-cooperative or microfinance programs.

These five CBOs have run microfinance and micro-cooperative activities for more than a decade prior to participating in implementing SWIP. CBOs in which respondents A, B, C, and I were working have implemented microfinance activities since the early 1990s. CBOs in which respondents C and I were employed were part of a national Islamic microfinance movement supported by *Ikatan Cendikiawan Muslim Indonesia* (ICMI), which can be translated as the Indonesian Association of Muslim Scholars established in 1989. Under the leadership of Bacharuddin Jusuf Habibie who held a post of a State Ministry for Research and Technology, ICMI was a very influential Muslim organization in the country between 1990 until 1999 (Heffner, 2004). Using his strong influence over the late President Suharto, Habibie was able to make the creation of an Islamic Bank and community-based Islamic microfinance institutions a national priority. Respondent I recalled that a microfinance program in his CBO was started early 2000 and was part of the national program for the expansion of Islamic microfinance called *Baitul Mal Wat-Tamwil* (BMT). BMT applies Islamic finance principles that avoid usury and interest in their micro-lending program as well as facilitating the collection and distribution of Islamic charity.

The remaining 12 participants confessed that their organizations were not competent to run microfinance and microinsurance activities. The core competencies of their organizations were children, care of the elderly, and education. Even though they have community-development activities such as micro lending or rotating savings and credit associations (ROSCA) and micro-cooperative shops (retail), these activities were of secondary concern to them. However, the Ministry of Social Affairs did not seem to prioritize experience in financial management and financial businesses.

Once selected for participation, CBOs with or without experience all had to enroll in preparatory training sessions organized by the Ministry of Social Affairs for a two-day workshop on the objectives, mechanisms, and administrative requirements of SWIP. The preparatory training sessions were only offered to those CBOs that had passed the administrative selection process. In order to be selected, CBOs had to submit a proposal detailing the need for the program in their respective neighborhoods. Along with the proposal, information regarding previous and current social service programs of the organization also had to be included. Among the most important administrative documentation that had to be attached to the application was a long, detailed list describing the responsibilities of each staff member, a copy of the legal statue from the Ministry of Law and Human Rights, and proof of registration as a social services community foundation from the Ministry of Social Affairs.

Upon selection, managers and leaders of the CBOs chosen to participate in SWIP are offered a three-day long training session focusing on four crucial topics. The first topic deals with government social protection policies, SWIP objectives, and the role of CBOs as local-level program implementation organizations. The second topic, covers the eligibility criteria for workers in the informal sector (income, demography, informal economic activities), as well as marketing and mobilization techniques demonstrating the potential for recruiting a minimum of 200 workers from the informal sector for the duration of the program (36 months). The third topic explores program management, including financial administration, while the fourth covers compliance procedures. These topics are also discussed briefly in the SWIP handbook, offered to all participating managers.

Questions about the preparatory training, however, were avoided and received very little positive response. One respondent admitted to the fact that no one in her organization had attended the training, they “only read the handbook and studied it” (Respondent N); some simply commented on the training being “good and motivating,” “not that complicated,” and that “it was all written in the handbook” (Respondents L, K, and I, respectively). Only two participants in the survey claimed that the preparation they received was too limited both in terms of substantive material and number of CBO representatives actually participating in the training. According to Respondent E,

> *The preparatory training from the Ministry of Social Affairs was useful but it was insufficient. I was hoping that we would be provided regular skill trainings, not just a one-time event. In particular, we need to learn more about program administration and management because people in our organization did not have basic knowledge about SWIP. Moreover, the training should not only be limited to one person from one organization but to all people involved in the program* (Respondent E).

THE ADMINISTRATION OF SWIP

This section explores the implementation process of SWIP at the community-level. It covers how CBOs recruit new members of SWIP and the types of informal work of SWIP members. Furthermore, this section also explores funding allocation, premium payment, and SWIP benefits claim procedure.

Recruitment of SWIP Members

Once officially selected, the CBOs may begin to recruit participants. Depending on the total budged afforded to them by the Ministry of Social Affairs, CBOs could recruit anywhere 200 to 300 members in each cycle of implementation (three years at a time). There are several eligibility criteria that must be observed when recruiting a new member to a SWIP CBO. These criteria are: 1) the potential member must be the bread-winner of the family (regardless of gender) and gain a minimum income of IDR 300,000 (or the equivalent of US$32)/month; 2) the potential member must be between 20 and 59 years of age; 3) the potential member must reside in the domicile noted on a current identification card, as well as be a resident of the neighborhood of the CBO. These are broad criteria meant to guide CBOs in the recruitment for SWIP, which also left a lot of room for variation.

The central position that CBOs enjoy within a community, as well as their reputation in channeling various development programs to the community enable them to quite easily recruit SWIP members. There are no official marketing tools or materials to raise awareness and generate community participation in these programs. Program information is exclusively transmitted through word of mouth by a small pool of people with close relationships to CBO leaders. These individuals are known as "*pesuruh yayasan*" (general assistant to the foundation), and are generally of great assistance to CBOs. *Pesuruh Yayasan* is not an official position within CBO management, but every CBO manager has at least two or three of these individuals on his/her payroll. These *perusuh yayasan* are not only invaluable assets to these organizations but oftentimes they also form personal relationships and deep friendships with CBO managers. Often, these relationships are "inherited" from previous generations, and operate as the "patron-client" bond, with the organization representing the patron and the *perusuh yayasan* representing the lower-class individual in need of protection, yet is the provider of loyalty and general support and assistance (Scott, 1972).

The *pesuruh* play very important roles in their communities, as well as in their respective CBOs. In the context of implementing SWIP, the *pesuruh* were usually afforded a formal staffing position called "*petugas lapangan*" (field staff), which is an indispensable member of the organization; they had instrumental roles in the process of recruiting new members, collecting premiums, and maintaining good working relationships between the participating members and CBO management and staff. They also provided alternative sources of information on the current nature of events in their communities to the organizations. Although they are the right hands of management, they also belong to the community, affording them the advantage of being able to monitor and observe circulating changes, trends, and rumors not known to SWIP staff. They are particularly astute at observing and reporting dissatisfaction with the provided services in the community. The *pesuruh yayasan* are, in effect, used as communication channels, allowing a CBO to closely monitor and manage its relationships with potential members, creating personal relationships with certain individuals, while excluding others by opting to not make public announcements on the benefits of SWIP.

Because the number of SWIP participants is limited to no more than 300 per cycle, CBOs generally employed two strategies to make their selection easier. Out of the 17 CBOs in West Java, eight decided to purely recruit individuals who were already participating in other CBO-run activities, ones that were already members of cooperatives, ROSCA, credit groups, and religious congregations. Since the criteria applied to recruiting members for these programs is closely related to that of SWIP, a close match of potential members was the preferred method of selection.

In addition to the previously mentioned means of selection, the *pesuruh yayasan* used their formal position as CBO staff to either recommend or exclude individuals from SWIP participation. Some CBOs constructed elaborate schemes based on the personal information of its members, allowing it to exclude those that they deemed "unreliable" or "avoid recruiting individuals who live in the neighborhood temporarily and create the risk of not fulfilling their debt obligation to the organization" (Respondents L and E, respectively). One of the cited reasons for recruiting preexisting members is "*ensuring the loyalty of members of the micro-edit, micro-cooperative systems, as well as ROSCA*" (Respondent I). Another of the frequently invoked reasons for prioritizing recruitment from existing members is that this would "strengthen the bond between CBOs and their members" (Respondent H). Others admitted to using this methodology of recruitment for simplicity's sake: "*we can just call our members, say hey, we have this new program and so and so, and they will immediately register and with one phone call, recruiting for SWIP should immediately be done*" (Respondent K).

The remaining CBOs preferred recruiting preexisting participants, as well as new ones. Although none of them were able to demonstrate actual numbers of the proportions of preexisting members to new ones, these CBOs cited their decision to include others simply as it "being good for the growth of the organization." New members allow CBOs to expand their networks and their base constituency. Aiding with recruitment, the *pesuruh yayasan* could identify and recommend individuals they had previously evaluated by scouring the marketplaces and neighborhoods, as was the case with the organizations of Respondents F and G. Respondent G describes the benefits of this kind of recruitment as follows:

> *First of all, we introduce SWIP door-to-door, presenting to community members who are participating in religious meeting, and introducing it to groups of informal-sector workers. Those who expressed their interest in participating in the program will be asked to provide a copy of their identification card, as well as those of their family, followed by a home visit by CBO staff to determine who will and will not be eligible for the program* (Respondent G).

By recruiting members both from the external and the internal networks of CBOs, the organizations achieve double the benefits. However, the real challenge they were forced to face in the selection process was not recruitment, but its denial to eligible applicants due to the very small number of people allowed to join SWIP. In response, CBOs resorted to covert and private recruitment, finding it to be the most effective method because it avoided a great amount of work and was the simplest answer to a pressing dilemma. The CBOs would then organize an event where the Ministry of Social Affairs and the Provincial Department of Social Affairs would present information on the benefits of participating in SWIP. Although officially these were meant to be informational meetings for all who wished to participate, they were, in fact, closed meetings for individuals who had already been offered participation.

Types of Informal Work of SWIP Members

Although the CBOs did not reveal any personal information about SWIP participants, they were able to provide other types of information, such as the kind of work most participants did. As demonstrated in Table 10 these jobs can be classified in four categories: laborer for other people, microenterprise owners, independent service providers, and independent laborers.

Table 10: Categories of Informal Work

CATEGORIES	TYPES OF INFORMAL WORK
Laborer for other people	- Landless agricultural laborer - Live-in domestic workers - Construction workers - Irregular factory workers - Boat-less fishermen - Paramilitary security
Microenterprise Owners	- Food, drink and sweets (producers, buyers/sellers) - Cigarette dealers - Produce/vegetable buyers/ sellers - Traditional herbal medicine producers/sellers
Independent Service Providers	- Motorcycle taxi drivers - Becak (rickshaw) drivers - Car-taxi drivers replacement
Independent Laborer	-Individual rock/sand miners

The first category is that of "laborer for other people." Workers in this category have no capital, their only source of revenue is their labor. They are generally unregistered workers operating both in the formal and the informal sectors, under volatile conditions, leaving them vulnerable to the vicissitudes of weather (agricultural laborers cannot work outside of planting/reaping seasons) or of their employers (these workers are basically slaves to some of the individuals they labor for). Other types of jobs, such as those in construction, fishing, or paramilitary positions are equally dependent on their personal relationship with their employers. Many of these workers must travel to neighboring villages or towns in order to find work.

The second category belongs to the "microenterprise owner." This category affords workers a little more independence, since they are their own employers; these individuals also possess some initial capital, as well as specialized skills. Our respondents enumerated several types of product these small business owners promoted, such as street food and drinks, cigarettes, produce gatherers, and *jamu* (people working with traditional herb-based medicinal concoctions). These products are typically sold either door-to-door in their respective neighborhoods, or in tents set up in public markets or even in front of their homes. Occasionally, they could make enough profit to hire a temporary helper.

The third category is the "independent service-providers." These small business owners also concentrate on providing basic services, but focus on transportation. The jobs included in this bracket are occupations such as motorcycle taxi drivers (called Ojek), rickshaw drivers (called Becak), and regular taxi drivers. The motorcycle and rickshaw drivers could either own or rent their vehicles to/from other independent contractors. Most taxi drivers, however, are not vehicle owners, and they do not have steady working relationships with their employers. In order to get a driving job for the day or for a few hours, they must stand in line at the taxi-station and take over for a driver who is either exhausted or ill.

The last category included in this study is that of the "independent laborer" mentioned only once. These individuals work as rock and sand miners and sellers. In the District of Tasikmalaya, many day-laborers that belong to the first category fill in the time between harvesting and planting by working as independent rock and sand miners for building materials. They collect rocks from riverbanks and attempt to pulverize or reduce their size with hammers. They then carry those rocks to the side of the road, making them visible to anyone passing by who is in need of construction material. If these were not sold to builders, they would at times be sold to rock collectors. Sand miners would collect sand from either the riverbed or the riverbank. Since the quality of sand collected from the riverbed is usually higher, these laborers are willing to dive, collect the sands in bamboo buckets, and place them on the roadside. Once or twice a week, trucks from several building material companies come by and collect these rocks or sand.

Table 11 records the proportion of types of informal work according to 17 respondents. Each respondent mentioned one or more types of informal occupations in which SWIP members worked. The table shows 64.7 % respondents (N=17) identified SWIP participants working as sellers or buyers of many kinds of food, beverages, and sweets; landless agricultural labors (58.8%), motorcycle taxi drivers and live-in domestic workers (equally 29.4%), construction workers and *becak* (rickshaw) drivers (equally 23.5%), fresh produce and vegetable sellers/buyers and irregular factory workers (17.6%), security, fisherman, taxi drivers (each 11.7%) and traditional herbal medicine and rock/sand miners (5.95). Table 11 does not reflect the actual calculation of each individual SWIP member. The respondents were unwilling to share this type of information with the researcher.

Table 11:
Types of Informal Work

TYPE OF INFORMAL WORK	N=17	PROPORTION (%)
Food, drink and sweets—producers/ buyers/sellers (stay in place and selling around the neighborhood)	11	64.7
Landless agricultural laborer	10	58.8
Motorcycle, taxi drivers	9	52.9
Cigarette sellers	5	29.4
Live-in domestic workers	5	29.4
Construction workers	4	23.5
Becak (rickshaw) drivers	4	23.5
Produce/vegetable buyers/sellers (stay in place and selling around neighborhood)	3	17.6
Irregular factory workers	3	17.6
Boatless fishermen	2	11.7
Paramilitary security	2	11.7
Car taxi driver replacement	2	11.7
Traditional-herbal medicine producers/ sellers	1	5.9
Individual rock/sand miners	1	5.9

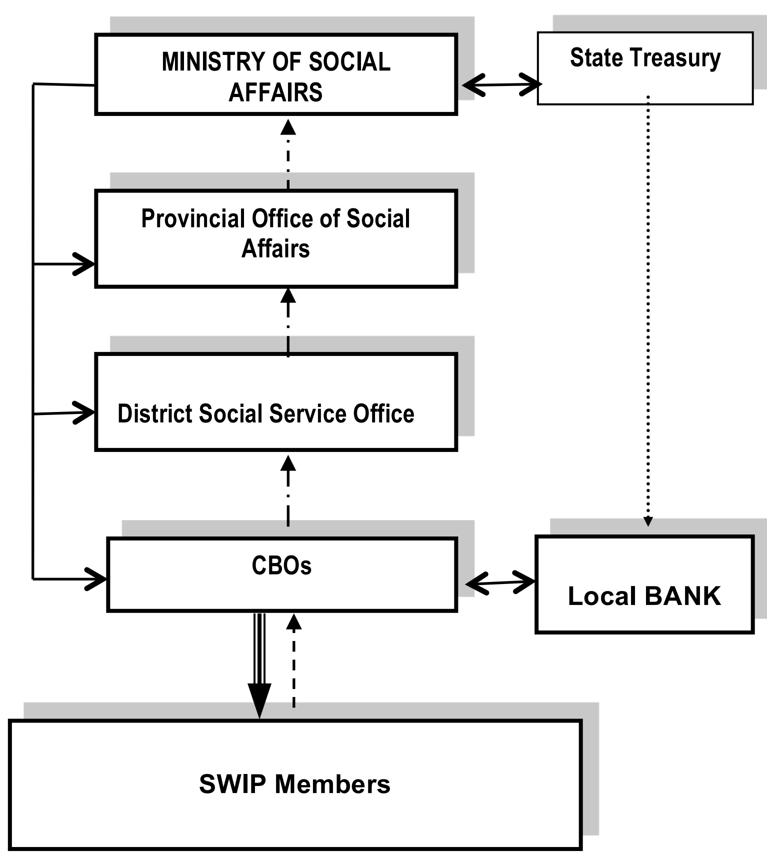
Funding and Allocation

As previously discussed, the design of SWIP emulated that of a preexisting decentralized and local-level social development program named *Inpres Desa Tertinggal* (translated as Executive Order for the Left-behind Villages, or the IDT). This model had been augmented and transformed into the current *Program Nasional Pemberdayaan Masyarakat* (the National Program for Community Empowerment or PNPM). The Indonesian government describes this program as the current national standard for social development that carries at the same time a mission for poverty reduction, as well as that of promoting community economic development. This consists of funding generated by either the national government or the provincial government, directly wired to CBOs

Under the decentralization laws— Law No. /1999 on the proportion of development budget between central and district/municipalities governments and No/2004 regarding regional government—the authority of the Ministry of Social Affairs in social service provision was significantly reduced. Prior to 2004, the Ministry of Social Affairs' organization was extended from the central government down to the subdistrict level. The Ministry no longer has the authority to implement welfare programs. The reach of its power became limited to staff members at the central office in Jakarta. In the meantime, the Provincial Office of Social Affairs merged under the authority of the governor; and the District Office of Social Affairs merged under the authority of *Bupati* or *Walikota* (the mayor or head of district). The authority of the Ministry shrank to standardization of planning and setting the national agendas. Social welfare service delivery, on the other hand, was devolved to local government (regency or district).

In the context of SWIP, funding is transferred from the central government (the Ministry of Social Affairs) to CBOs using two schemes. In the first, funds are transferred directly from the central government (state treasury) to an account belonging to a CBO at a designated local bank. The second scheme involves indirect transfer. The funds are transferred through provincial government as part of a general deconcentration budget. The process is as follow: the Ministry of Social Affairs includes funding for SWIP in a package of a general redistributive budget from central government to provincial government that, subsequently, will distribute the budget to districts/regencies governments. However, the funds have already been earmarked to support SWIP so that neither provincial government nor district/regency government would be allowed to use the funds for other purposes. The following scheme describes the processes:

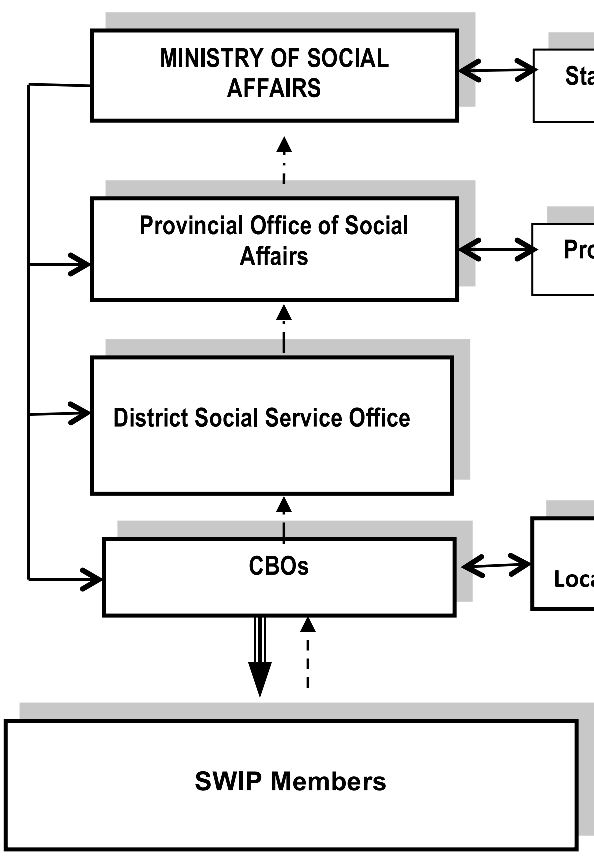
SWIP Financing Scheme 1: Direct Transfer to CBOs



Coordination and information
Financial transfer
Reporting processes
Program Implementation

In the first scheme, the Ministry of Social Affairs would coordinate with both the provincial office and the district offices of social affairs. The Ministry provides information about the program and invites staff members from provincial and district offices of social affairs into a meeting with selected CBOs. During the program implementation process, CBOs are required to provide annual reports to the Ministry of Social Affairs with copies to both district and provincial offices. However, both provincial and district offices of social affairs were not allowed to interfere with the implementation process. Authority and responsibility about the program remains with the CBO and central government. This coordinating method also applies to the second scheme. In implementing SWIP, CBOs were only responsible to central government.

SWIP Financing Scheme 2: Indirect Transfer through Provincial Office



Coordination and information
Financial transfer
Reporting processes
Program Implementation

SWIP funds were directly transferred after a particular CBO was selected and completed preparatory meetings. The training consisted of a general introduction to policy framework, and it emphasized the responsibility of the community to provide welfare protection and promote economic development. The training also discussed the administrative mechanisms of SWIP, as well as recruitment and finance administration. Table 12 summarizes the total of social investment block grants received by the seventeen CBOs in this study.

Table 12: Social Investment Block Grants for 17 CBOs

CBOs	Total Fund	Participants	Notes
A	30,000,000 (US$ 3,225)	200	1 batch
B	25,000,000 (US$ 2,688)	200	1 batch
C	50,000,000 (US$ 5,376)	400	2 batches
D	25,000,000 (US$ 2,688)	200	1 batch
E	25,000,000 (US$ 2,688)	200	1 batches
F	55,000,000 (US$ 5,913)	400	2 batches
G	30,000,000 (US$ 3,225)	210	1 batches
H	60,000,000 (US$ 6,451)	420	2 batches
I	50,000,000 (US$ 5,376)	400	2 batches
J	30,000,000 (US$ 3,225)	210	1 batch
K	60,000,000 (US$ 6,451)	420	2 batches
L	55,000,000 (US$ 5,913)	400	2 batches
M	21,000,000 (US$ 2,258)	200	1 batch
N	55,000,000 (US$ 5,913)	400	2 batches
O	25,000,000 (US$ 2,688)	200	1 batch
P	30,000,000 (US$ 3,225)	210	1 batch
Q	30,000,000 (US$ 3,225)	210	1 batch
TOTAL	**656,000,000 (US$ 70,537)**	**4880**	

Currency: US$ 1 = IDR 9,300

Table 12 shows the total funds received by each CBO, the number of participants in their respective organizations, as well as how many cycles of SWIP they participated in. The total amount of money transferred to all 17 organizations is IDR 656 million, or the equivalent of US$70,537, distributed among 4,880 participants. Only seven participated in the program twice (for a total of six years); the others were one-time participants (three years each). Table 10 also demonstrates that the amount of money allocated to different CBOs for the same number of participants is not always the same. For example, organizations A and B both recruited 200 participants, yet A received US$3,225, while B was only offered US$2,668. CBOs in which respondents I and L work found themselves in a similar situation, with I acquiring US$5,376 for its 400 participants, while L benefitted from US$5,913. Neither the respondents nor the staff of the Ministry of Social Affairs could clarify the reasoning behind these discrepancies. Nevertheless, it may have to do with geographical location. CBOs that are located in remote areas receive higher funding in order to make up for the disadvantages of their location. This could also be due to the total available budget for one particular year, which would change based on economic trends.

How did CBOs allocate the received funds? The SWIP manual suggests that although these funds were transferred for the express purposes of SWIP implementation, it was not limited to the support of its operations. Instead, they were used for broader social-investment purposes:

> *The fund was allocated for two main activities: 50% to be used a sitting fund to pay for benefit claims. This portion should never be used for anything but for benefit payout, so it must remain in our account. The other 50% was to be invested in productive economic activities. In our organization, this portion of the fund was invested in microcredit activities. If there were some profits, we would use them for program administrative support. Because, from the total transfer, there was no allocation for operational cost or for monthly salaries for staff* (Respondent F).

All respondents confirmed this general funding allocation. Because half of the funds were expected to capitalize productive economic activity, SWIP participants could access other programs made available by the organization, even if they were outside the scope of SWIP. Respondent M stated that "*participants of SWIP would automatically become eligible to access our microbusiness, as well as our savings and credit programs.*"

Although the agreement between a SWIP participating CBO and the government was for a three-year duration, the Ministry of Social Affairs only provided operational funds (meant for staff salaries) for a six-month period. For the remaining period, staff would be compensated out of the profits generated by the CBO. Most respondents were not able to provide exact amounts of monetary administrative support received from the Ministry, except for Respondent D, who recalled a sum of IDR 3 million (US$322). Several CBOs, such as J, compensated for their lack of funds by employing volunteers to fill in their nonpermanent positions.

J was not the only CBO to subscribe to that strategy. Some CBOs were able to set aside profits gained from their micro-credit program organized by *Baitul Mal Wat-Tamwil* (BMT). Respondent L even stated that the only reason they could stay afloat was due to their staff salaries being paid for by the BMT. Several respondents, such as J and L, were unwilling to divulge the amount allocated to staff salaries, while D mentioned an incentive of IDR 40 thousand (US$ 4.3/month) for field staffers. Supplementing operational costs and staff salaries out of the 50% of funding kept in a separate account proved to be a good idea. Respondents H and I claimed that the profits earned from productive microcredit and microenterprise could cover basic operational cost, including staff salaries.

Unfortunately, not all CBOs had the capability to generate additional resources to supplement operational costs supporting SWIP. Profit on such small investments was not a likely outcome. Respondent E, for example, received total funds of IDR 25 million (US$2,688). Half of the amount had to be invested in micro-credit and microenterprising. Assuming that these investments were successful, Respondent E assured the researcher that any profits generated would be almost insignificant. Respondents E and G, therefore, had to tap into their "untouchable" account and use it for payroll. Due to such hardships, many SWIP participants withdrew their membership, feeling that their end of the contract made with the CBO had not been met. The operational teams working for these CBOs, therefore, are often volunteer-based.

Premium Payment and Management

One of the obligations of participating in SWIP is paying monthly premiums. The amount of premium is IDR 5000 (US$0.54) as specifically mentioned in the regulations. Each member would have a premium book that recorded the monthly payment and was signed by the CBO's financial officer. Yet, one Respondent (B) charges a slightly higher rate (IDR 6000 or US$ 0.64). The reason being that this respondent's particular CBO would collect weekly dues amounting to IDR 1500 (US$ 0.16). The extra IDR 1000 (US$ 0.11) is saved for a contingency fund. Respondent B's CBO has an agreement with all members, who happen to be a group of informal sector workers organized by this particular CBO. The remaining 16 CBOs claimed that they were strictly following the program handbook and did not modify it.

Although all of the 17 CBOs required all members to pay the premium regularly in the first week of each month, many members were not able to do so. Late payments were due to several factors. One is the distance between places where members were working or their residences and CBO offices. For these members, transportation is an additional cost. In several places, the transportation cost would be much higher than the amount of premium to be paid. Respondent A illustrates that many members of SWIP in his CBO were working in the informal sector out of town, usually in big city such as Bandung (the capital of West Java Province) and Jakarta (the capital of Indonesia), or in the district capitals. They usually return home once every three months.

The nature of income uncertainty among workers in the informal sector was another factor. "*They earn income on daily basis with uncertain amount*" (Respondent F). One day they could earn enough to feed the whole family and still have some savings; the next day they may earn just enough to feed the family for a day; but in another day they may not earn anything and would have to use up their savings or even have to borrow from other people (Respondent F).

Another factor is organizational limitation. CBOs may not have enough staff to visit each member to collect premiums. In the absence of sufficient administrative support and the absence of incentive pay for the staff working to implement SWIP, CBOs could only wait and hope that they would come. CBOs that have a regular staff collecting the premium door to door reported better results and fewer members of delayed payments (Respondent C). In this situation, participating CBOs were able to recognize the above factors.

Respondents recognized that according to regulation, members who missed payments for three months in a row, could lose their membership rights. Yet, nearly all of the 17 SWIP managers interviewed interpreted the regulation flexibly. They preferred to adopt a more tolerant policy. Respondent F maintains that,

> *According to SWIP manual, if members did not pay for monthly premium for up to 3 months in a row, their membership right would ceased. However, our organization tried to be flexible to be empathetic with their hardship. They*

probably were indeed did not have the money because of their income did not cover their daily need or other reasons (Respondent F).

Respondent E tolerates longer late premium periods with a particular condition; that the member would have to accumulate the late payments into one single payment. Respondent D claims:

> *Yes, we would tolerate late premium payment for up to 4 months. Then we would ask if they would prefer to continue or to give up membership. If they preferred to continue by the sixth month, they would pay ID 25,000. If they decided to withdraw, we would return their previous premium payment. If they already member for one year, they would receive 12 x 5000= IDR 60,000 without cut and without interest* (Respondent D).

Other CBOs would tolerate even longer periods of late payments, up to five months (Respondent E) and seven months (Respondent K). However, before the SWIP contracts with these particular persons were terminated, field staff from CBO would visit her/his house and discuss the situation. "Often, they were not able to pay the premium on schedule or even delayed for several months due to financial issues in the family. They simply could not afford it" (Respondent E). For these people, Respondent E would prefer to find a humanitarian solution instead of forcing them to give up membership. The CBO would organize community assistance to assist the family with both in-kind and financial support.

Other Respondents (G, H, L, M, N, and Q) also indicated a similar willingness to be flexible regarding premium collection. Not that they were trying to deviate from the rules and requirements outlined by the Ministry of Social Affairs, but they tried to avoid punishing their members for being behind in premium payments. "*We believe that members understood very well the regulation, their rights and responsibility. But if they did not have the money to pay for it, what can we do*?" (Respondent L). That was among the reasons why several CBOs had difficulty ensuring the punctuality of premium payment. As summarized by Respondent M, the most important thing was "*they are trying to pay and continue learning to save.*"

How, then, do CBOs manage the premium money? CBOs mentioned two ways of managing the fund. They recognized that by the end of the program period (36 months) all the premium payments must be returned to members in full. Each member would have collected around IDR 180,000 (US$ 19.35). Therefore, CBOs must be able to secure these premium payments. Every month, CBO would collect the total amount of monthly premium payments ranging from IDR 1 million (US$ 107.5) if the number of total SWIP members is 200 to IDR 1.5 million (US$ 161.3) if the total number of members is 300. Within 36 months durations, each CBO would be able to accumulate the premium around IDR 36 million (US$3871) for 200 members and IDR 54 million (US$5806) for 300 members.

Nine of 17 CBOs preferred to keep the money at the bank (Respondents A, C, D, I, J, K, O, P, and Q) and not use it for any other purposes. They believed that this would be much safer because by the end of the program they would have to return all the money to members (Respondents A, C, and I). Another reason was to avoid risks of default (Respondents D and J). Respondent D, for example, had tried to lend the money to other members, but the result was not quite positive. The borrowers were not able to repay the loan because their microbusinesses activities were not successful. As a result, Respondent D had to take responsibility to cover the loss. Hence, Respondent D invested only a portion of the money out of the total transfer from the Ministry of Social Affairs.

Nevertheless, eight CBOs used the premium payments as additional capital for their microlending programs. Seven of them (B, E. F. G, H, L, and M) invested it in microlending and one (N) used it to support cooperative-retailer activities run within the CBO. Since the source of money was premium payment, Respondents E, H, L, and M applied a policy to lend it only to SWIP members. Another respondent (F) was experimenting with a "revolving fund" approach among SWIP members, similar to the practice of ROSCA. The practice was quite simple. SWIP members were divided into several groupings depending on their geographic areas and each assigned a number. On the designated date, usually the first week of a month, these subgroups would get together and collect the money. The subgroup coordinator would shuffle the numbers and pick several lucky ones. The turn would continue until everyone received a turn. Respondent B claims that this technique was very successful in helping the CBO collect the funds as well as to ensure that everyone met their dues. Another respondent (G) attempted to cap the amount between IDR 500 thousand (US$ 53.8) and IDR 1 million (US$ 107.5) that each SWIP member could borrow at a given time.

Claim Procedure

Although the relationships between CBOs and members of SWIP were generally close, for most of them had been participating in several activities implemented by CBOS, all SWIP managers confirmed that they were trying to apply claim procedures according to a program guideline developed by the Ministry of Social Affairs. The guideline functions not only to represent the expected, ideal program implementation but is also the only single reference that was expected to ensure consistency of practice among difference CBOs working in various socio-economic and cultural contexts. Moreover, it also was a part of formalizing the practice. Regarding claim procedure, the SWIP guideline and management manual included several templates of paperwork to be used by all participating CBOs. Included in the SWIP program manual or handbook, were about 20 forms to be used at various phases of the program.

The templates, according to Respondent C, were the standard document that would be audited by the staff of the Ministry of Social Affairs. A template form to claim sickness and injury benefits is different form the one to be used for claiming survivor benefits. Therefore, with regard to the claim procedure, there was almost no variation among the 17 CBOs. Within the form, claimants must include name, address, polis number, ID card number, and four signatures of authorities: signature of field staff member; SWIP member; coordinator of benefits, and SWIP manager. In addition, the letter must also be signed by the neighborhood chief (*Ketua Rukun Tetangga*/RT). Respondent A recognized that the claim procedure was rather complicated for most members. Getting all the required signatures was also not easy since they may not always be available; hence, the rights of members to receive the payout as soon as possible could be delayed. Realizing this condition, Respondent A preferred to assign field staff to help members prepare the required documents. For example, Respondent A reveals what the process looks like for a SWIP member to make a claim for sickness or injury benefits:

If we knew that one of our members were sick, we would bring the required documents and fill them out together. If they were hospitalized for 2 to 3 days, we also have the proper paperwork. We do aware and know our members at personal level. Except, it they were sick a week ago and they claim it today, it would be rather difficult" (Respondent A)

Respondent E illustrated a case example:

Mr. Sutardji, SWIP member with Polis No. 1121A064, would make a claim for sickness benefit. Claimant must provide a copy of identity card, filling out a form number 10 from our field staff. The form must include a letter from neighborhood official attesting that Mr. Sutardji was indeed sick for at least 3 days. The form and a letter from neighborhood official would be submitted to our office. Our office would pay the benefits and Mr. Sutardji or family members would sign the receipt (Respondent E).

For death/survivor benefits, the claim procedure is exactly the same. A family member of the deceased needs to fill out form No. 11 and obtain signatures from SWIP and neighborhood officials.

Several CBOs reported that the claim process often created misunderstandings between SWIP field staff with members. Many of the SWIP members did not understand the administrative processes needed to claim benefits. The required signatures and filling out forms were a big deal for them. Respondents G, H, and K for example, admitted that many SWIP members in their CBOs were not able to fill out the forms. Respondent K even mentioned that he often had to deal with rumors spread among members that the claim process was too complicated and bureaucratic. Aware of this situation, these CBOs attempted to speed-up claim process within 24 hours, although this may also mean CBOs must help members prepare all the required paperwork.

SWIP AND SOCIAL RISK MANAGEMENT

This section examines CBO managers' evaluations on the effectiveness of SWIP as a social protection instrument. It covers the differing perceptions among SWIP managers about the effectiveness of SWIP benefits to reduce the vulnerability of members falling into deeper impoverishment. Their responses were divided into three categories: those who perceived the benefits were effective, somewhat effective and not effective at all.

Social Risk Management

How did CBO managers perceive the effectiveness of SWIP as a social risk management instrument? Social Risk Management (SRM) in this context is defined as "public interventions to assist individuals, households and communities in better managing income risks. The objectives of these interventions are a subset of the overall development objectives of economically sustainable participatory development with poverty reduction" (Holzmann and Jorgensen, 1999, p. 1008). From a social risk management perspective, SWIP is intended as a coping mechanism to reduce vulnerability.

The assumption behind the program was that workers in the informal sector did not have adequate social protection mechanisms that would help them avoid falling into poverty had they ceased earning income due to sickness, injury, or death. Embedding SWIP into CBOs that previously had some kind of income generating activities or traditional mutual benefit association, such as ROSCA, would result in an improved community-based social protection system. That was one of the main reasons why, by design, the fund could be allocated for payout as well as for investment in the existing productive activities.

During the interviews and observations in each of the 17 CBOs, the researcher attempted to get a sense of the proportion of SWIP members who claimed any of the three benefits available during a program period. The researcher asked CBO leaders or SWIP managers if they would permit the researcher see the record of claims in the last two or three years. Unfortunately, none of them were willing to give the researcher permission to see their files. Their reasons were generally similar, saying that information about members was confidential and only authorized personnel in the organization could have access to it. Yet, they were willing give the researcher gross estimates about the number of claims per month, which varied greatly between one and another; and between the months in a year. The least number of claims mentioned was three and the most was 16. On average, each CBO could have about six claims a month. Despite the limited information about the number of claims given to the researcher, respondents have quite a good sense about the effectiveness of SWIP as a social risk management program.

Table 13 summarizes the perceptions of 17 CBO leaders about the risk management functions of SWIP. As can be seen, four respondents (D, H, L, and O, or 23.4%) perceived that SWIP was an effective risk management instrument for workers in the informal sector; particularly to the extent that it reduced the vulnerabilities of families from falling into deeper poverty if the breadwinners were unable to work and earn income. Seven, or 41.2%, of respondents believed that SWIP was somewhat effective, not effective enough but useful. The remaining six, or 35.3%, had a negative perception and saw SWIP as not being effective at all as a social risk management.

Table 13: Perception about Risk Management

No.	General Perception	Frequency	Proportion
1.	Effective	4	23.5%
2.	Somewhat effective	7	41.2%
3.	Not effective	6	35.3%
	N	**17**	**100%**

SWIP was Effective

The four respondents who had positive perceptions about the effectiveness of SWIP offered different arguments. Respondent D argued that the vast majority of SWIP participants were from the bottom end of the poor spectrum. Despite having some income from their informal work, the size of their income was just too small for them to save. Their participation in informal employment was not a choice, but a matter of survival. Given the fact that the majority of them had not even finished junior high school and a substantial number of them had not even graduated from elementary school, their choices were severely limited. Therefore, their income was also small and according to Respondent D, participants of SWIP earned less than IDR 40 thousand (US$ 4.3) a day. Situating SWIP in this context, benefit payouts from SWIP was indeed effective:

> *Not too bad, of course, it was useful. They (participants) said it was very helpful. That was why when we recruited participants we preferred those who earn less than IDR 40,000 a day and uncertain* (Respondent D).

Another respondent (H) confirmed this opinion. Respondent H mentioned that for some SWIP participants, the benefit payout was a kind of subsidy for the poor, *"this was a subsidy, not that big, but helpful."* The positive perception of Respondent H was based not on the actual value of SWIP, but on the general attitude of being grateful to any kind of social assistance regardless of its size. Yet, as Respondent H indicated, members could utilize the benefit payouts for whatever they considered important. For example, Respondent H added, it could be used to pay for transportation costs to bring the person to the hospital in the city. H maintains,

> *The payout complemented the reduction in family income due to sickness or death of the breadwinner. Yet it did not substitute their income since their regular income generally much bigger than the size SWIP benefit payout. Nevertheless, we believe that the payouts were helpful and valuable at least it could be used to pay for transportation, just in case we need to go to hospital. For these participants were very grateful* (Respondent H).

In line with Respondent H, Respondents L and O believed that benefits were useful and effective. Respondent L, in particular, mentioned the effectiveness of SWIP in the context of retaining its constituencies. Since members of SWIP also participated in other activities run by the CBO, they could augment the value of SWIP benefits in relation to other activities. For example, members of SWIP would be on a CBO's priority list to participate in micro-cooperative or microcredit programs. As members, they were also almost certainly able to access loan programs. Therefore, according to Respondent L, the effectiveness of SWIP can be seen not in its stand-alone activity, but in its complementary relations with other programs.

Respondent O suggested a slightly different point of view. For Respondent O, evaluating the effectiveness of SWIP as a social risk management activity must be considered in the overall context of the program, not in relation to the expected values. The size of benefits may be small compared to the actual daily survival needs of a family, yet meeting their basic needs is not the objective of SWIP. SWIP was intended to provide limited "income replacement" to ease the burden of families due to the loss of income. From this point of view, Respondent O notes "*of course, it was helpful, to the extent it was intended. Beyond that, that would be outside the scope of SWIP.*"

SWIP was Somewhat Effective

Furthermore, seven (41.2%) respondents believe that SWIP was somewhat effective but inadequate. Although they appreciate the benefit values, they still have reservations about its adequacy. This second category of response generally recognized that the size of benefits was simply too small to be effective and yet, members generally accepted this condition. Respondents E and F, for example, attempted to quantify the proportion of benefits against the needs of a typical family in the neighborhood:

> *I would estimate, the proportion of SWIP benefit payout against member's monthly cost of subsistence is only around 5%. If you are sick or injured and must go to hospital, you must put down payment that is much larger than IDR 100 thousand of SWIP benefit* (Respondent E).

Further, in a rather similar tone, Respondent F added:

> *The proportion of payout for sickness and injury benefits to the actual household monthly budget of average SWIP members at this organization is about 0.6%. While payout of death benefits cover around 30% of typical household monthly budget* (Respondent F).

Although the gross estimation from Respondents E and F might not be applicable to the conditions in other CBOs, the above quantification was useful to understand the value of the benefits in relation to family budgets at that particular CBO.

Realizing the proportion of the benefits with the basic survival need of a family, Respondent A, cautiously avoided rushing to judgment.

> *To be honest, the benefits are not sufficient to effectively protect members against risks. Benefits replace the potential income loss due to several days out of work. For example, if you are ill and could not work for three days or ten days, SWIP could only pay for unemployment benefit of IDR 100 thousand (equivalent to US$ 10.2). This does not sufficient to cover for daily consumption need of a household with three family members for more than four days* (Respondent A).

Given the above situation, Respondent A concludes that the benefits would only delay a family from falling into deeper poverty or choosing other informal social protection mechanisms.

> *Therefore, SWIP benefit is not sufficient to avoid families from falling into deeper poverty cliff. It only delays it before they chose other usual coping mechanisms such as borrowing money from family, neighbor or moneylender or selling their property. The burden of poverty will be much heavier with debt* (Respondent A).

Three other respondents (C, M, and N) share a similar perception about benefit inadequacy. While Respondent C avoided elaborating an opinion saying that it is useful but "insufficient" (Respondent C and B), two other respondents (M and N) chose to appreciate the program. "Although inadequate, it did give some help" (Respondent M).

Furthermore, Respondent I attempted to rationalize the limited social risk management function of SWIP. While recognizing that all three categories of benefits were small compared to other microinsurance programs, Respondent I assured that this does not make SWIP useless. He was quite aware of other microinsurance practices run by private-for-profit insurance companies that were trying to expand their market basis among low income communities. His organization once received an offer from an insurance company giving him the opportunity to cooperate by enrolling members of microfinance in his CBO into a microinsurance program. Comparing SWIP with commercial microinsurance practices, Respondent I claims:

The real value of SWIP benefits is that it secures poor family's financial liquidity to purchase rice and temporarily avoid starvation. Therefore, the direct effect of SWIP is, when the breadwinner get sick, they will still have some income to feed the family for a week at the most" (Respondent I).

In this instance, Respondent I highlighted an important aspect of the program that was not recognized in the program design. That is, the aspect of financial liquidity that a household could hold on to while transitioning to other survival mechanisms. In other words, financial liquidity would help a household to smooth their consumption for, at least, several days. From a social risk management perspective, consumption smoothing is another important value of social protection.

Interestingly, one respondent (B) claimed his CBO did not want to criticize the limited capacity of the program. Instead, he was trying to find an alternative approach to augment the social protection value of SWIP. This particular CBO was trying to do it differently. With regard to premium payment, this CBO charged members weekly and a slightly higher amount. The same was done with regard to benefits. Respondent B declared that,

In our organization, there is value added. If members were sick, we did not pay only the 100,000 of their benefit value, but we gave them full medical cost. We knew that SWIP benefit was not intended to cover for the medical cost but limitedly for consumption or maintenance cost. That was why it was insufficient. Here we gave them more benefit we generated from our productive economic activities (Respondent B).

In the case of Respondent B, this CBO did not limit itself according to program guidelines from the Ministry of Social Affairs. Instead, this CBO attempted to innovate in order to generate value added to the program. Building solidarity within the community and raising funds from charity activities were among their efforts to generate value added:

We are trying to build solidarity. Those who are better off economically are usually willing to help the poor but they do it directly to recipients. We use SWIP program as a legal umbrella to solicit charity and gift to complement the initial benefits (Respondent B).

As a result of mobilizing solidarity and a charity fund, this particular CBO was able to increase the value of benefits. For survivor benefits, Respondent B mentioned a case example:

A few days ago one of our members died. We raised his claim up to IDR 2 million. Here we were able to pay anytime they were sick, because it was about our member, our family. If one of our members was absent from work, we would visit her/his house. If she/he was sick, we would proceed their claim immediately, we even paid the IDR 100 thousand benefit from SWIP right away, later we would pay some more up to IDR 500 thousand (Respondent B).

As described above, this particular CBO was attempting to build broader solidarity among members and to gather some additional resources to complement SWIP.

SWIP Was Not Effective

Finally, six out of 17 respondents (35.3%) perceived that SWIP was not effective as a social risk management program. This does not mean that they were not grateful for whatever amount the benefit was, but was because of the absence of other government services that were presumably available and accessible for low-income communities. At various meetings, according to Respondents E and G, the high ranking official from the Ministry of Social Affairs described various so-called “pro-poor” national policies that were in place that could be accessed by members of SWIP. These officials indicated that although SWIP benefits partially cover consumption needs, the cost for primary health care services would be covered by another government program called *Jaminan Kesehatan Masyarakat* (Jamkesmas)—which can be translated as Community Health Insurance—run by the Ministry of Health.

Launched in 2010, *Jamkesmas* is a means-tested indirect social assistance health program for the poor. It is a 100% tax-financed program. The fund is transferred directly to government-run hospitals as reimbursement for health services for the poor. The Ministry of Health would select the “deserving poor” from those selected and means-tested by village government officials and those individuals who met the criteria would receive a “*Jamkesmas Card*.” Those who were given the card would be eligible to receive basic health services in government hospitals or clinics. In every government hospital, service for these *Jamkesmas Card* holders are performed in a designated place, separated from services for non-*Jamkesmas card* holders. In 2011, the Ministry of Health announced that *Jamkesmas* would reach 74 million poor individuals. The program was initially called Social Safety Net (SSN) Health Sector in the aftermath of the Asian financial crisis of 1997/1998. The name “SSN Health Sector” was replaced by “*Asuransi Kesehatan untuk Keluarga Miskin*” (ASKESKIN), which can be translated as “Health Insurance for Poor Families” following the radical increase in consumer fuel prices between 2005 and 2008. The increase in fuel price was the result of government’s fuel subsidy cutback. Although the program has different names, the core policy principle and practices are the same.

However, six CBO leaders interviewed revealed very similar stories regarding the difficulties of getting access to the *Jamkesmas* program. The main problem members of SWIP had in accessing the program was the selection process according to Respondent E. To select recipients, local government officials relied on the information from the neighborhood chiefs (*Ketua Rukun Tetangga/RT*) or chief of hamlet (*Ketua Rukun Warga/RW*). A small hamlet could consist of one neighborhood chief but a large one could consist of several *RT*. In other villages, the government could also work with other CBOs. In a village where Respondent E was situated, there were two other CBOs running similar activities, but did not run SWIP. The relationships between them, according to Respondent E, were not always harmonious. Sometimes, they were competitive with each other.

The impact of the competitive relationship can clearly be seen in the recruitment process. Respondent E preferred to recruit his existing members instead of openly recruiting whoever was eligible to become a member of SWIP. The other CBOs did the same thing when they were helping village government recruit recipients of the

Jamkesmas program. Although this competitive relationship did not feature prominently in other CBOs, it has had quite a notable impact on SWIP members. The majority of them did not get a *Jamkesmas Card* despite the fact that their social economic status was not much different from those who did receive it. Respondent E claimed that:

> *Although there is a government program providing the poor free access to primary health care services, in fact, not all of them can access the services. Those who can access such kind of service are usually those who have close relationships/connection with field staff of the program. This situation is exacerbated by the complicated procedure to obtain paper works that normally cost a lot of money when, in fact, they do not even have enough to feed their family* (Respondent E).

The absence of appropriate complementary programs made the SWIP judged to be ineffective. Respondent E also mentioned administrative procedures that deprived many of the deserving poor in the neighborhood from getting access to the program. To be able to apply for *Jamkesmas*, an individual must present reference letters from the neighborhood chief, hamlet chief, and village head (*Lurah*) attesting that the particular individual deserves to participate in the program. These three layers of administration were essentially conducting a means-testing procedure. Many members of SWIP, according to Respondent E, were not able to apply and be means-tested because they did not understand the procedure.

Furthermore, Respondent G highlights the management of social assistance programs at the community level. Respondent G was quite aware of various social assistance and local-level development projects run by the government. He acknowledged that by the time the interview was conducted he had been working as a district-level consultant for the National Program for Poverty Reduction (*Program Nasional Pemberdayaan Masyarakat*/PNPM), which was responsible for providing technical training for field facilitators. Field facilitators would be deployed to villages and work with community self-reliant groups (*Kelompok Swadaya Masyarakat*/KSM) that would receive social investment block grants for various local-level and small-scale development projects. As a district consultant, Respondent G had an opportunity to build a network with both district and provincial levels of governments as well as with high-ranking officials from the central government. Hence, it was not surprising that he had a lot of information about the current social development and social assistance programs that could be made available to poor communities. In assessing the effectiveness of SWIP, Respondent G rated it in relation to other programs:

> *Basically, the government's social assistance concept was quite good but it has to be organized under one roof. Now these programs scattered all over the places, where some who participated in SWIP were excluded from Jamkesmas; and some who got Jamkesmas Card but not member of SWIP…. Yet, these families are poor and deserve to be included in all these programs. As a result, neither of them is effective* (Respondent G).

Respondents G and J also assessed that the ineffectiveness of SWIP in reducing the vulnerability of workers in the informal sector had to do with the policy's failure to recognize the economic survival behavior of the poor. The size of benefits, according to

Respondent G, was not decided on the basis of careful consideration about how the poor made decisions regarding their survival, maintaining the welfare of their families, and how to use resources. Respondent J contended that the benefits were determined arbitrarily and far below the poverty line, as if the basic survival needs of the poor informal sector workers and their families were less than those of average income people. Respondent J maintains,

> *I do not understand how the Ministry of Social Affairs came up with such number. Here, in our organization, members usually used sickness benefit for transportation taking the sick person to primary health services or hospitals. They did not use it to replace the loss of their income, because it was inadequate. Often, the money was used up to process documents needed to make a claim such as letter from a doctor or to obtain a death certificate* (Respondent J).

According to Respondent G, poor families who were members of SWIP were also rational and knew how to prioritize their needs. Yet, resource scarcity forced them to make priorities on the basis of the level of urgency. If they were sick, they would try to ignore it and keep working. But if the sickness made them unable to work, it meant it was very serious and it became the number one priority:

> *When someone in the family is sick, the family's priority immediately shifts toward curing the illness. Therefore, family would automatically use payout from SWIP to pay for some portion of medical bills. We know for sure that even the most basic health care services are very expensive* (Respondent G).

Respondents who perceived SWIP benefits as not being effective proposed a different line of arguments. One argument pointed out the disconnections and the absence of coordination among various social protection and local-level development programs. The value of SWIP, in fact, depends on its systemic relationship with other government programs, such as *Jamkesmas*. Yet, the use of different channels available in the community also exacerbated the disconnectedness among programs at the community level. The other reason was that SWIP's policy and designs did not take into consideration survival and economic decision behaviors at the household level.

SWIP AND SOCIAL DEVELOPMENT

As described in the previous section, the social investment block grant from the Ministry of Social Affairs to participating CBOs is generally allocated for two main purposes. One half is allocated to cover for SWIP benefit payouts, and the other half is to be reinvested in support of productive microcredit and other microenterprise activities implemented at CBOs. This section describes the perception of SWIP managers regarding the social development effects of SWIP. It addresses the third research question: How do managers of SWIP perceive the impacts of SWIP on the social and economic well-being of participants?

Respondents generally perceived their roles within the community to be much bigger than simply that of a manager of SWIP. In this instance, several respondents were able to make intricate connections between various activities, some of which were supported by the government. In the case of the implementation of SWIP, they wove complex networks of programs that might generate developmental value added within the community. They were not bound by formal regulations or guidelines about how the program should be run. Instead, several respondents accepted the rules and guidelines only to maintain the thread of connection with the funder. In the context of SWIP, the funder was the Ministry of Social Affairs. Beyond meeting the formal requirements, CBOs were able to innovate to generate bigger impacts on the social and economic well-being of SWIP members. The following subsections describe perceptions about community-economic development and social and human capital development.

Community Economic Development

Although the actual benefit of the program was believed to be too low, respondents saw that SWIP participants understood the broader incentive for participation. Participation in the SWIP program, in fact, opens the door to other opportunities and development services available at the CBOs. Members could also have access to a microcredit program, and be eligible to access a saving program run by CBOs. What is important here, as one respondent summed up, is

> *A member of SWIP is automatically eligible to borrow some portion of SWIP fund that is saved at microcredit program as long as it is used for developing their livelihood or productive activities* (Respondent E).

Only one out of 17 SWIP managers preferred not to run any community-economic development activities.

> *We did not dare to use SWIP fund for either microcredit or other economic activities, too much risks and our CBO did not have resource to do it* (Respondent D).

Nevertheless, 16 respondents claimed that their CBOs ran several community-economic development activities using the portion of a fund to support SWIP. Among the most common community-economic activities are microcredit, micro-cooperative retailing (shop), and party equipment rentals.

Cooperative and Baitul Mal wa-at-Tamwil

The microcredit program is organized in the form of cooperative mutual benefit associations. Respondents H and J called it cooperative mutual benefits, another respondent (C) called it *Baitul Mal wa-at-Tamwil* (BMT) or ROSCA. BMT and microcredit cooperatives generally have been more formalized and registered at the Ministry of Cooperative, Medium, Small and Micro Enterprises. Their operation must be in compliance with cooperative regulations unless they operate with a much larger fund. In that case, they would have to comply with banking and financial industry regulations. The BMTs and Microcredit Cooperatives that operated at several CBOs included in this study are micro in size (operating with a total asset under US$1 million) and were operated under the Ministry of Cooperative Regulation and subject to government oversight and audit. In nine of the 17 CBOs whose leaders were interviewed, both BMT and microcredit cooperatives were the result of formalization of various forms of informal ROSCA and mutual benefit associations organized among members of religious congregations and neighborhood activities. BMT is the latest form in the evolution of community-based income generating and mutual benefit associations.

The elementary form of ROSCA and mutual benefit associations would involve a financial contribution of every member to a financial pool collected by organizers appointed by the group. Depending on the agreement reached among members, they would meet weekly, monthly, or bi-monthly. Financial contributions would be given to the treasurer on the spot. If a member had missed a previous payment, she/he would have to pay double at the next meeting. Members would get access to the fund based on the procedure created in the initial meeting. This could be through fixed term or open term. On the fixed-term arrangement, the times that all members would receive access would be scheduled in advance. If there were 24 members in the group and the total cycle of the activity was limited to one year, then every month there would be two members who would receive the credit. In the process, if a member had an emergency need and could not wait for their turn, she/he could trade their schedule with that of another member. In an open-term arrangement, everyone's schedule would depend on chance. All members would write their names on a small straw. Then all the straws would be put into a box with a small hole on one side of it and the leader of the group would shake the box until a lucky straw came out. That would the lucky winner and his/her name is removed. The whole process involves both "credit" and "saving" at the same time. For those who received the fund early in the cycle, the following contributions mean "credit repayment"; but for those who received the fund later, it would mean saving. Both are intertwined in the relationship-based cooperation.

Historically, microcredit cooperatives have been in existence since the early 1960s and became a national movement in the 1980s. Between the 1980s and the 1990s, several national NGOs, funded by international funding agencies, proliferated the number of microcredit cooperative programs to community-based non-formal Islamic education organizations, called *Pondok Pesantren* (Pohl, 2006). In the early 1980s, *Pondok Pesantren* was considered as potential community-based institutions for promoting rural development because it had direct influence over the lives of people in the village as well as direct control over natural resources. In the close-knit Muslim communities in Indonesia, *Pondok Pesantren* often functioned more as the heart of a community than as a non-formal education institution. A local elite leader of *Pondok Pesantren*, called *Kyai* (*ulama* or religious scholar) or *Nyai* (female ulama associated with or wife of *Kyai*) and their family also act as informal social and spiritual leaders of the community. *Kyai* is the man to whom community members would go to for advice, comfort, and problem solving in both good and bad situations. Besides social and spiritual functions, in rural Java, *Kyai* and the family of *Pondok Pesantren* were also generally among the economically better-off in the community and controlled significant amounts of agricultural land. In Javanese communities (people who live in Java island), these multiple functions and roles of *Pondok Pesantren* have been maintained through multiple mechanisms, including maintaining genealogical lineage and marriages among children of *Kyai* (Dhofier, 1982).

In the early 1980s, development NGOs saw that these qualities and the power of *Pondok Pesantren* could be transformed into the force of community-based development initiatives through implementing cooperative programs. The cooperative program implemented at *Pondok Pesantren* was called "*Koperasi Pondok Pesantren*" (KOPONTREN), which can be translated as "Pondok Pesantren Cooperative" (Sujianto, 2011). The introduction of the "cooperative" model was not intended to be limited to promote local-level economic development but also to create new space in which ordinary people from outside the family that controlled *Pondok Pesantren* could participate in the governance of *Kopontren*. In other words, the program introduced participatory processes and egalitarian principles to the close-knit and hierarchical culture of *Pondok Pesantren*.

As mentioned previously, 13 out of the 17 CBOs included in this study were initially established as *Pondok Pesantren*. From the 13 *Pondok Pesantren*, nine of them have established *Kopontren* as an income-generating unit (D, E, G, H, M, N, O, P, and Q). *Kopontren* operated different kinds of community-based income-generating activities. The most common forms of activities were retailing (selling food items, agricultural products, educational supplies, and crafts), credit and saving activities for communities surrounding the *Pondok Pesantren*, developing home-based industries, and, in several places, also included running fishery and livestock fattening businesses. Although *Pondok Pesantren* taught classical literature on Islamic economics, the operation of *Kopontren* usually did not use specific economic terminologies from the literature. The most common elementary Islamic economic principles used in *Kopontren* were generally limited to anti-usury practices, profit and loss sharing systems, and trustworthiness in using weight scales. However, since the early 1990s, there was an effort to promote "Islamic Microfinance" programs called *Baitul Mal-wa-at-Tamwil* (BMT) that was inspired by the growing confidence in the integration of Islamic finance principles into microcredit and microfinance programs.

SWIP members and Microcredit program

For members of SWIP to be automatically eligible to participate in the cooperative, they must formally declare their intention and express their willingness to comply with the cooperative (or BMT and ROSCA) rules. The rules are different from that of SWIP. The rules are quite broad and basic; members would: participate in monthly meetings; contribute to a common fund to be used to help other members in need; promise to repay loans; and set aside some amount of their income to be saved regularly. "Therefore, to be eligible for a loan, member of SWIP must declare they are also interested in becoming members of the cooperative" (Respondent H). Respondent J added,

> *Once the leader of cooperative mutual benefit associations and other members registered their names and the new members declare compliance to the rules, they will have equal access to the program including borrowing and saving activities* (Respondent J).

Other SWIP managers confirmed that the 50% portion of the SWIP social investment fund was used to capitalize existing BMT and other microcredit activities (Respondents A, B, and C). Respondent J explained how the process works:

> "*We set aside 50% of SWIP transfer to capitalize micro-cooperative program that provide micro-credit and saving program to our members. Members usually borrow money to support their productive activities such as producing homemade snacks, noodle soups, or to pay for down-payment to purchase motorcycle. They use motorcycle as taxi serving people in the neighborhood who want to go to market, to hospital or to work. So far, our members always repay their loans in*

> *full with some additional voluntary gift (infaq) to the organization. We do not set a fixed interest for the loan"* (Respondent J).

Respondent J highlights several important points in the activities. The loan is given limitedly to support productive economic activities run by SWIP members to earn income. Another important element of the microcredit program was that it is not bound by fixed interest rates and yet it encourages voluntary gifts to CBOs.

Three other respondents claimed that they were trying to implement prudent micro-credit practices. Respondents E, F, H, and I suggested that they would lend money not only to SWIP members but also to non-SWIP members who intended to develop their microenterprises. Non-SWIP member borrowers were usually already known to CBOs. "They borrow to further develop their microbusinesses such as street vending, vegetable sellers, noodle soup shop owners, or cookie producers and sellers" (Respondent E).

Other respondents provides credit for household supply needs. Respondent F maintains that his CBO did not give out financial credit. Instead, it facilitated SWIP members to be able to purchase products they needed from the marketplace through CBO. CBO would purchase particular products needed and members would pay CBOs in installments, including some additional charges. For example, one SWIP member needed to change the wheels of a cart needed to sell food products around the village. The wheels would cost about IDR 800 thousand (US$86). The CBO would purchase the wheels and give them to the SWIP member. Then, the SWIP member would pay CBO in several installments that would cover the actual cost and include an additional undetermined gift for CBO.

Respondent H prefers implementing microcredit activity to avoid risks associated with microbusineses activities. According to Respondent H, his CBO had an unpleasant experience in investing in trading agricultural products (rice, corn, and vegetables). This CBO was initially established as a *Kopontren* run by teachers at *Pondok Pesantren* in the District of Garut. However, this CBO had failed several times due to bad weather conditions and market fluctuation. Tough competition against distributors that had access to wider market networks in the city also had forced this CBO to cease trading operations. These failures had forced this CBO to stop the program and use the portion of the SWIP fund for ROSCA activity.

> *Our experience so far, micro-credit is much safer than other activities. We only lend the money to people we have already known and have productive activities that we can monitor. Although we know the risks of microcredit activities, these are still within our capacity to manage* (Respondent H).

Although access to microcredit facilities offer additional incentives for SWIP members, two respondents claimed that their CBOs applied quite tight procedures. Respondents N and O did not rely on personal trust or guarantees from their peers. Instead they preferred to impose collateral.

> *If there is no collateral, there is a risk that they borrow money not for improving their livelihood and raising their income but for consumptive spending. We can't do anything about it. But if they leave something as collateral against the loan, they will work very hard to pay it back* (Respondent N).

Respondent O also applied prudent microcredit practice to SWIP members. Respondent O specifically "*connects collateral against the loan and the loan must be paid back in one full payment instead of in installments."* Although Respondent O did not say so, this kind of activity resembles "pawn" practices.

Although CBOs are trying to provide incentives for retaining SWIP membership through exclusive access to microcredit programs, one CBO did not have a positive experience and ceased to offer a microcredit program due to credit default. Respondent K revealed that his CBO discontinued the program that had been implemented for over two years. Initially, the program was intended to provide an alternative microcredit program to protect the community and SWIP members from predatory microlending practices. His CBO also had tried several activities, including micro-cooperative (selling and buying handicrafts and food products) and ROSCA. However, most of the borrowers defaulted and could not repay their debt. This respondent also mentioned that the failure may also have been due to their inability to insure repayment compliance like other microlending practices that required daily installments.

> *Our microcredit program intended to address the problem of predatory lending that charged interest over 25% of the loan. They would collect payment every day in the afternoon. We thought that if our organization could utilize some portion of SWIP fund to support the existing ROSCA program so that we would be able to provide bigger loans to our members. Therefore we might be able to release some of our members out of the predatory lending practices. We loaned our members ranging from IDR 500 thousand (US$52) to IDR 2 million (US$230) with 0% interest rate. Yet, in addition to repaying the loan, borrowers were also required to contribute to welfare fund if their businesses were profitable. In fact, most of them were unable to repay the loan in full, let alone contributing to welfare fund. We did not have the courage to impose daily payment and required collateral as the moneylenders usually do. That was why we eventually decided to stop the program* (Respondent K).

Furthermore, although CBOs offer microcredit activity, not all SWIP members utilize it. In one CBO, the distance between the location of the CBO and the residences of SWIP members deferred their prospects for participation.

> *We did have credit and saving activities, organized by cooperative. We called it "Community Cooperative" that was managed by different team. Although it was not created in relation to SWIP, but SWIP members could certainly take advantage of it. Yet, so far, no SWIP members participate in the cooperative. We learn that the main reason for not participating is distance and our organization does not have staff that would collect regular contribution* (Respondent D).

Respondent D, in particular, refers to the condition of rural areas in West Java province that are not always accessible. Respondent D explained that the location of most SWIP members with respect to the CBO secretariat would take about a three hour walk each way (six hours roundtrip). For SWIP members who were mostly sand and rock miners, these are tremendous time losses that they could not afford. The only available transportation was *Ojek* (motorcycle taxi), which would cost equal to two months of premium payment (IDR 10,000 or US$1.2) each way. These conditions have prevented SWIP members from participating in the credit program provided by the CBO.

Retailing and Rental services

In addition to microcredit activities, three respondents (L, M, N, and P) preferred not to use the portion of SWIP social investment fund for microcredit activities. Instead they used it to capitalize micro-retailer activities. Respondents L and M mentioned that their CBOs run several micro-retailing activities under micro-cooperative programs. Although the activities were organized directly by the CBOs, they are owned by members. CBO management and leaders of the cooperative directly controlled the activities, and hired and trained several members to run them. One activity run by the CBO in which Respondent L worked was a shop selling noodle and meatball soup. Workers who ran the shop would report their income to the CBO and, in return, they would receive a daily salary. The salary is not a fixed rate but is in the form of profit sharing in proportion to net profit earned every day. Another respondent (M) mentioned that his CBO ran a store that sold products used every day in the community, from food supplies, sanitary/hygiene products, school supplies, and agricultural products (seeds, fertilizer, insecticide, tools). Another productive activity is producing garment products to be sold on the market directly or through middlemen. A portion of the SWIP fund was used for financing and capitalizing these two activities. Both workers and consumers of these two activities include, but are not limited to, members of SWIP.

Respondent P, in particular, preferred to reinvest the SWIP fund for micro-cooperative retailer activity because it was considered to be more prudent than microlending. The CBO in which respondent P works offers both formal and non-formal education ranging from preschool to high school. About 300 students were living in the dorm provided by the CBO. The micro-cooperative retailer provides daily needs to the community as well as to students living in the area. SWIP members would receive benefits from this activity in the form of lower priced products. Respondent P also mentioned that some profits earned from this activity were allocated to pay for some portion of SWIP's operational costs and pay for some incentives for SWIP staff members.

In addition to micro-cooperative retailers, two CBOs used the portion of the SWIP social investment fund to purchase rental party equipment. Respondent O, for example, purchased several big tents, folded chairs, and a stage. The tent and chairs could be used for parties of up to 200 people. Respondent Q purchased rental sound systems sufficient for both indoor and outdoor activities. Both respondents O and Q asserted that these rental equipment purchases were profitable because they served the needs of communities in many different events, including family parties (wedding parties) and religious celebrations. Unlike micro-cooperative retailing or buying-selling activities, rental party equipment activities were solely managed by CBOs and did not involve any SWIP members. Both respondents claimed that their rental businesses have been, so far, profitable. Respondent O mentioned that the net profits (after paying for salaries and maintenance costs) from rental practices could reach the breakeven point of its initial investment within less than 20 months. The benefit for SWIP members from this activity has been indirect. Nevertheless, according to Respondent O, it helps his CBO to cover some portion of administrative costs to keep running SWIP and serve its members.

Social and Human Capital Development

In addition to supporting community economic development, participation in SWIP also facilitates members to strengthen social and human capital. There is no mention in the program manual or regulations of SWIP that this particular program would strengthen social and human capital among SWIP participants. Nevertheless, respondents show that the value related to participation in SWIP is not limited to providing a minimum social risks management instrument in the form of income replacements. As described above, participation in SWIP opened up new opportunities to its members to improve their livelihood through participation in other productive social development activities such as savings and microenterprise development. Participation in these activities created a condition under which participants could improve their livelihood and their income. In addition to economic development, respondents also indicated that participation in SWIP also facilitated members to improve and strengthen their social and human capital.

In this instance, social capital is understood as both networks and relationships among individuals within a group or community and networks and relationships among individuals from different groups or communities. Human capital is defined as improvement in human capabilities of SWIP participants or their family members, particularly children, through education, training, and health programs that improve their knowledge and skills. In the context of SWIP, human capital development specifically refers to education and training.

Supporting children's education

Respondents generally confirmed the existence of strong connections between participation in SWIP with support of the promotion of children's education. Fifteen out of 17 SWIP managers confirmed that they intentionally linked SWIP with education. Although they recognized that there was no formal requirement for CBOs to connect SWIP with the promotion of human capital, they took the liberty to add education into the process. Only Respondents A and D did not make conscious efforts to do so. Respondent A argued that educational issues were outside the domain of SWIP, while Respondent D was trying to avoid taking up additional burdens.

Respondents B, E, and G maintained that education has been an integral part of their programs. These CBOs linked participation in various programs, including SWIP, to education. Respondent B intentionally seeks additional resources outside SWIP members to complement the SWIP program. His CBO experimented with providing selective scholarships, up to high school, for children of several SWIP members. Another respondent systematically links SWIP with education:

> *From the very early stage of recruitment, they were informed that to be able to participate in SWIP they have to make strong commitment to supporting their children's education. We tried to convince them that education is a key for them to improve their life. Nevertheless, we do not have any educational program for SWIP members because we do not have the resources to support it* (Respondent E).

Another respondent (G), claimed that his CBO regularly support parents and provides information about the value of education.

> *We believe that members of SWIP are aware of the value of educational opportunity for their children. In every meeting and religious meeting being held at our organization we as much as possible include education message and support parents who were struggling to support children's education* (Respondent G).

In addition to providing information and encouragement to SWIP members in order to support their children's education, several CBOs such as those of Respondents H, F, and I attempted to link SWIP members with other resources. Respondent H, for example, mentioned that his CBO helps SWIP members by channeling scholarships to their children.

> *Our organization has a middle school and we were able to receive scholarship for children from low-income families. With scholarship that covers educational fees, parents could support other education activities, including purchasing school uniform. They could purchase it at our cooperative store and could pay them with credit system* (Respondent H).

Nevertheless, Respondent H recognized that his CBO has not been able to provide additional educational activities to improve the skills and knowledge of SWIP members. Although he claimed that once he was able to invite a trainer to teach knitting and sewing skills, only a handful of SWIP members participated. Yet, to invite the trainer regularly would cost the CBO a lot of money. Therefore, at the time being, this CBO no longer offers skill training for adults. Instead, it focuses on children's education.

Respondents F and I provided different forms of support to SWIP members to help them keep their children at school. Both respondents provided support in the form of educational loans. The educational loans usually peak at the beginning of the school year. "At the beginning of the school year, we receive a high number of requests for loans intended to support their children's education" (Respondent F). Respondent I claimed that his CBO intentionally created a special educational loan program complementing SWIP. His CBO set aside a certain amount of funds to be lent to SWIP members to support their children's education.

> *Our loan program intended to improve welfare. Complementing SWIP, we specifically allocate 10% of our IDR 6 billon (about US$ 610,000) credit budget for education program (around % US$61,000). Our ROSCA and BMT members are required to pledge for "supporting children's education" in every group meetings. We know that Human Development Index in the District of Bogor is lower than the average West Java province. The average level of education of poor household in this district is elementary school. That very much reflects the average education of our members* (Respondent I).

Furthermore, four respondents (C, N, O, and Q) specifically mentioned educational saving activities. These four respondents claimed that in their CBOs, many of SWIP members deliberately open educational savings accounts. These savings accounts were not encouraged by CBOs but mostly by the members' own initiatives. Respondent C conditioned SWIP members to think about the future of their children. His CBO attempted to educated SWIP members to see beyond their current conditions. This particular CBO did not encourage SWIP members with school-age children to save, but required them to do so.

Furthermore, Respondents O and Q confirmed that many of SWIP members opened savings accounts as a way to avoid borrowing money to pay for their children's education. Respondent N mentioned that their saving accounts were generally short-term and "by the end of the year, many of them would withdraw their saving because they need it to pay for school fees and by educational materials." In addition, Respondent Q mentioned that some SWIP members intentionally opened savings accounts in their children's names. They trained their children to save their non-regular "pocket money" at CBOs.

Self-improvement

CBOs that support human capital development focus on children's education. Nevertheless, one respondent (J) took a different initiative. In addition to providing information and support for SWIP members to invest in their children's education, this CBO also used SWIP member gatherings as a medium of building networks and information sharing.

> *Through group meetings and religious education, we continuously educate parents who are members of SWIP to support their children's education. We defined education not limitedly to children education but also include adult education. As parents they also need to continue learning and improve themselves. Through participation in regular meeting, members of SWIP could get connected to other members, help each other, share information. We were able to provide some vocational skills training that was provided and organized by our members for our members* (Respondent J).

Respondent J also provided skill training to SWIP members. This CBO was able to use expertise available among its members to educate SWIP members in additional skills that might be useful to improve their livelihood and generate income.

> *Within SWIP program, our organization also provides skill and vocational training for members. Among the skills include cooking, sewing and knitting skills. After participating in the training, some of them were able to continue to make it as microbusiness activities. We usually allow members to introduce and sell their products in our regular meetings. If our organization has large gatherings or events, we would purchase foods, beverages, and other necessary items from our members* (Respondent J).

This skill training directly facilitates the ability of members to improve their capabilities. These new skills would enable members to diversify their sources of livelihood. Another important component in this training is the way the CBO was directly involved in facilitating SWIP members to become connected to a larger network of membership.

CHAPTER 7
CONCLUSION: SUMMARY AND IMPLICATIONS

This chapter summarizes the main findings from the research undertaken in Indonesia into the SWIP program and assesses its implications for improving SWIP policy and for future studies. Results and findings are situated in contemporary academic enquiry in the fields of social protection and microinsurance. Findings of this research fill some of the knowledge gaps in the literature regarding the roles of government in promoting microinsurance as a way to extend social protection coverage to workers in the informal sector. The case of SWIP presents an example of microinsurance that is designed to link government social protection initiatives with that of community-based organizations.

Summary of Findings

The diffusion of social security in developing countries was fuelled by the logic of linear growth and dual economy models. This view that once dominated international development and economic policy thinking had been severely criticized. As shown earlier, it also showed thinking about social security in the developing world which assumed that the expansion of the modern wage employment sector would automatically bring the vast majority of workers into the formal social security system. However, this approach has proved to be unworkable. Social security system has only been able to provide protection for small number of workers in the formal sector. While workers in the informal sector who comprise the vast majority of working population were excluded. In the last fifteen years, policy scholars and international development agencies have devoted substantial effort to address the challenges for extending social protection to what van Ginneken (1999) of the ILO called "the excluded majority" of workers in the informal sector.

To this ends, several policy initiatives have been proposed and implemented. The ILO for example, proposed the creation of social protection floor, the promotion of decent work and supported experimentation with microinsurance (Reynaud, 2002; ILO, 2001; Dercon, et.al., 2008; Coheur, 2007). The World Bank and the International Monetary Fund advocated the expansion of social protection with particular emphasis on social assistance (World Bank, 2001; Barientos, 2011). Social assistance was believed to be one of several methods for extending coverage to the most vulnerable members of the population (Midgley, 1984b; van Ginneken, 1999). In particular, social assistance serves as a safety net and an instrument of social risk management during economic turmoil (Holzman and Jorgensen, 1999; World Bank, 2001).

In Indonesia, policy debates revolve around the similar themes. As in other developing countries, informal sector workers comprise the vast majority of the working population and yet they are excluded from statutory social security schemes. The proportion of workers in the informal sector since the 1970s until 2012 remained above 60% of the total working population. The government of Indonesia has sought to address this problem through different initiatives. One major approach proposed the expansion of social insurance to cover larger number of workers. This reform was initiated by a constitutional amendment (2002) that mandated the government to universalize the contributory social insurance model to the whole population, regardless of their occupation. Proponents of social insurance reform attempted to overhaul the system through the enactment of Law No. 40/2004. This law complements other reforms in the areas of labor managements adopting several core ILO conventions.

However, the current government has declined to implement these reforms. While disagreeing with the expansion of social insurance, the current government under President Susilo Bambang Yudhoyono - which has been in power since 2004 - preferred to expand social assistance. Social assistance was an integral part of the country's structural adjustment program and was written in the Memorandum of Understanding (MOU) between the government and the International Monetary Fund (IMF). Social assistance was used to mitigate the impact of the economic and social crisis of 1998-1999. The current government uses this approach under the guise of compensating poorer families for the reduction in fuel subsidy which accompanied structural adjustment. Geared toward meeting the Millennium Development Goals, social assistance has become a model for poverty reduction through *Conditional Cash Transfers* (CCT) and other means tested programs which are sometimes called *Unconditional Cash Transfers* (UCT) and *Community Driven Development* (CDD). Social assistance as also being used in the health sector through an agency known as *Jaminan Kesehatan Masyarakat* (Jamkesmas) (Sumarto et.al., 2011). These programs are targeted at the most vulnerable member of the community.

Microinsurance has also played a role in expanding Social Security to the excluded majority. It entered national social policy discussions in 2004 with the support of the ILO. However, microinsurance programmes were in existence much earlier although on a limited basis. Less formal practices such as local ROSCAs known as *arisans* and other mutual aid activities have been in existence for many decades. However government wants seldom involved. The *Social Welfare Insurance Program* (SWIP) is an example of a government-supported microinsurance intended to extend social protection coverage to workers in the informal sector. The following sections summarize and discuss several findings that emerged from this research.

Community-based Social Protection

SWIP reflects a broad turn in contemporary development thinking that converges on the notion of "the local" (Mohan and Stokke, 2000). Unlike the earlier notion of "local" in the context of Basic Need approach (Streeten and Burki, 1978; Streeten 1984) that emphasized small-scale forms of productions, for Marxists the local was the site of resistance against the state and the market and for liberals, the local is the space for civil society to offer alternatives against the inefficient and unresponsive state. Both perspective, according to Mohan and Stokke (2000), contain serious problem because both essentialise the local either as a discrete and homogenous communities or as a the site for resistance and underplay local inequality, power relations and the inseparable interconnection between "the local" and "the global." In other words, the local is a conjuncture in which the relations, tensions and contradictions of force take place in everyday practice. These tensions and contradictions practices, according to Hart, "hold open the possibility for something different to emerge" (Hart, 2009, p. 135). This study reveals some tensions and contradictions in the implementation of SWIP that resulted in different form of local-level social protection practice.

Previous studies on the contribution of local-level institutions in promoting local-level development highlight some attributes associated with efficiency, value added and the participatory process. The participatory democratic process is also believed to be effective in minimizing the effects of elite capture (Dasgupta and Beard, 2007; Fritzen, 2007; Alatas, et.al., 2012). Elites, in their view, consist of both formal local-level government organizations and non-formal elites within the community. Their privileged position in the village can dominate decision making and setting priorities about local-level development projects that disproportionately benefit these groups instead of ordinary people and the most vulnerable members of these localities. To address the problem of elite capture current *Community-Driven Development* (CDD) projects in Indonesia put strong emphasis on the re-creation of new village institutions through democratic elections, encouraging open participation in planning and decision making and transparency in financial administration (Dasgupta and Beard, 2007; Platteau, 2004; Fritzen 2007; Alatas et.al., 2012). In other words, the CDD model emulated what Blair (2000) called "Democratic Local Governance" (DLG) that championed participation and accountability as both a means and end of local-level development. The emphasis on social capital, democratic process, decentralization and local level institutions featured prominently in current Indonesian development policy (Li, 2007).

As a local-level community-based social protection project, SWIP operates on the assumption that "the local" is inherently hierarchical and that the power structure within the community is inherently unequal. However, contrary to CDDs that regard local elites as a threat to development, the Ministry of Social Affairs regards local-level organizations or Community-Based Organization (CBOs) as an alternative partner outside the hierarchy of the local-level government bureaucracy (Subroto, 2007). Although SWIP initially adopted the concept of decentralized participatory development in the *Inpres Desa Tertinggal* (Executive Order to Assist the Left-behind Villages or IDT), in practice, the Ministry of Social Affairs did not encourage the creation of new local-level organizations through democratic elections. To reach out to the grassroots community, the Ministry of Social Affairs preferred to by-pass the government bureaucracy and work directly with existing CBOs associated with traditional village level leaders. Therefore, SWIP essentially deviated from the government's Local Democratic Governance principles.

In the context of SWIP, the Ministry of Social Affairs has chosen to work with traditional CBOs created by traditional local elites. Thirteen out of 17 respondents stated that their CBOs were rooted in traditional community-based Islamic education institutions called *Pondok Pesantren.* Clifford Geertz (1960) called the *Pondok Pesantren* a traditional Islamic education institution rooted in Javanese tradition and disconnected with Middle-Eastern Islamic orthodoxies. Therefore, they represent a "local Islam". These local-level institutions were established by a few families that occupied an elite position within the local communities' social hierarchy because of their education, material wealth and influence within the community and networks with individuals and institutions outside the villages (Dhofier, 1999). The Ministry of Social Affairs regards CBOs that are rooted in the *Pondok Pesantren* tradition as an asset rather than a problem. Since the early 1980s, the Pondok Pesantren institutions have become key players in local-level community development initiatives. Besides maintaining their core emphasis on traditional Islamic education, they began to provide formal education and facilitated community economic development activities, such as micro-cooperative, microfinance, home-based industries and small-farming activities (Pohl, 2006; van Burinessen, 1994a; 1994b).

The decision to work directly with CBOs rooted in the *Pondok Pesantren* tradition was indicative of the central government's reluctance to adopt a conventional decentralization policy. Decentralizations laws (law No. 25/1999 on development budget; law No. 32/2004 on local government authorities) took over key aspects of the Ministry of Social Affairs' authority in planning and implementing social welfare services and transferred these authorities to district governments. The remaining authorities of the Ministry of Social Affairs are policy development, standardization of program priority, and funding (Subroto, 2007). In implementing SWIP, the Ministry of Social Affairs retained its budgetary authority at the central government and transferred it directly to the CBOs. It oversteps the authority of, at least, three levels of government at the provincial, district/regency, sub-district and village. The official government representatives that are closest to the community at sub-district and village levels were disconnected and uninvolved in the implementation of SWIP program. As a result, the power of government in the community was not represented by the ability of local-level government to exercise its administrative control over the program. Instead, the presence of government power is embedded in the authority of non-formal CBOs. In other words, CBOs become a power franchisee of the state (central government).

Linkage of Government and CBOs: Two-levels of Patron-Client Relations

The administration of SWIP presents a different form of linkage in microinsurance. Previous studies about the delivery of microinsurance involving community-based microfinance organizations tend to be overly optimistic. Linkage between commercial insurers and community-based microfinance institutions was claimed to be more promising than if commercial insurers or microfinance organizations operating on their own. In this linkage, commercial insurers become "a partner" while community-based microfinance organization becomes "an agent" (Loewe, 2006; Coheur, 2007; McCord, 2001). A recent study of the Allianz microinsurance program in Indonesia also confirmed the positive attribute of the "partner-agent" approach (Hintz, 2010). Through the "partner-agent" linkage approach, a commercial insurer can access the low-income market indirectly using existing community based microfinance organizations to sell the products, collect premium and pay the benefits. However, Roth et.al., (2005) warn that the linkage approach could turn into "piggy-backing" that puts community-based microfinance organization in a disadvantaged position. Community-based microfinance organization could merely become a microinsurance agent that sells its microfinance clients to a big commercial insurer.

The linkage approach in the implementation of SWIP is neither emulating the "partner-agent" nor "piggy-backing" approaches. The relationship between the Ministry of Social Affairs and CBOs is more dynamic and mutualistic in the form of creating two-levels of patron-client relations. At one level, SWIP enables the Ministry of Social Affairs to recreate and sustain patron-client relations with CBOs that already exist through previous relations and program cooperation. At another level, CBOs also reinforces and maintains their patron-client relations that have been established with local communities. In these two-levels patron-client relations, CBOs did not act as neutral facilitators of the program. Instead, they took advantage from their cooperation with government organization to maintain their privilege position within the community. In the meantime, CBOs also use their strategic position within the community to manage their relative advantage with the Ministry of Social Affairs. They position themselves as what Ronald Burt (1992) called "structural holes" that facilitate connections between government and local communities. As a broker, CBOs retain a significant amount of power, particularly in managing the flow of information and resources between government and the community.

Eight respondents (N=17) claimed that the participation of CBOs in developing and implementing SWIP were generally based on relationships that had been previous established with the Ministry of Social Affairs. The other nine respondents learned about SWIP from their connections with the West Java Provincial Office of Social Affairs. Although the Ministry of Social Affairs claimed that CBOs participating in the program were selected competitively based on objective criteria, about fourteen of the 17 SWIP managers interviewed confirmed that their previous relationships were more important than their basic knowledge and experience in microinsurance and microfinance activities. They acknowledge that prior to implementing SWIP they already had cooperated in implementing several other programs funded by the Ministry. They also run some kinds of productive social development activities, such as various forms of traditional mutual aid association such as ROSCAs that facilitate members of CBOs to have access to microcredit and saving program, micro-cooperative and retailing activities. Two respondents that did not have previous relationships with the Ministry of Social Affairs used backdoor relationships with senior staffs at the Ministry to participate in the program.

The reliance on the relationships and previous work experiences between CBOs and the Ministry of Social Affairs or the Provincial Office of Social Affairs has deeply compromised the implementation of SWIP. Except for five respondents who claimed that their CBOs have both skills and organizational capability to manage microfinance business in the community effectively, the remaining 12 respondents recognized that their CBOs have only minimal skills and organizational capability to manage microinsurance and microfinance activities. The five CBOs have microfinance and the promotion of microenterprises and self-employment as their core activities. They have also trained their staff to manage these activities. However, the remaining twelve respondents indicated that their CBOs stretched out their organizational capability beyond their core competencies. Although respondents reported that their CBOs have some forms of productive development activities including ROSCA, microcredit and microcooperative shops, their core competencies lie in managing orphanages, education programs (both formal and non formal) and elderly care. The Ministry of Social Affairs depends on preparatory training held after the CBOs were selected to participate in the SWIP program. However, this training did not focus on financial management skills but on the administrative aspect of SWIP. Nearly all SWIP managers claimed that the training was not adequate. The content of the training mostly reiterates the same material written in the SWIP manual.

Furthermore, CBOs were generally capable of adapting various development initiatives to the local context and aligning them with their organizational interests. In addition to implementing SWIP, the CBOs also received program-related funding from various central government organizations. This research reveals that 52.9% of the CBOs received funding from other programs through the Ministry of Social Affairs; 35.3% from the Ministry of Religious Affairs and 29.4% from the Ministry of Cooperative and Microenterprise. 11.7% also from other programs operated by the Ministry of National Education. In implementing SWIP, the CBOs did not follow SWIP program manual entirely and at the same time create their own room for adjustment. Although they were committed to implement SWIP successfully, they also sought to maintain the loyalty of the community and SWIP members. It is precisely for this purpose that CBOs recruit participants from their existing memberships and they are flexible in managing premium collection and claims procedure.

The recruitment of SWIP participants is a critical process within which CBOs made strategic choices either to include or to exclude eligible individuals form the program. The limit of the number of workers in the informal sector than can be recruited by the CBOs during a particular program cycle (36 months) has put the CBOs in a difficult situation. This is because the number of potential member is much larger than the maximum capacity of the program. As a result, nearly all respondents confirmed that recruitment into the program was integrated into their efforts to consolidate the existing memberships and networks within the community. It strengthened the bond and patron-client relationships between members and CBOs. This pattern of relationships allowed CBOs to help existing members to have access to multiple services and benefits in exchange for their loyalty and support. In other words, the relationships between CBOs and their communities that were forged in the context of the implementation of SWIP reinforced the status quo of village level patron-client. Some managers claimed that their CBOs utilized the SWIP recruitment process to both maintain and expand their influence within the community. However, no specific male or gender biases in the recruitment process could be observed or was reported by respondents.

Social Protection Effects

The results of this study also highlight the importance of SWIP for understanding the current development of social protection policy in the post 1997/1998 economic and social crisis in Indonesia. More broadly, this study suggests that the case of SWIP adds another piece of information to the social policy and development literature, particularly on microinsurance. SWIP represents a different social policy approach that is currently playing out in the social protection arena in Indonesia. Unlike the social insurance and social assistance that dominate national policy and development debates, SWIP has not been given the attention that it deserves. A small number of previous studies about SWIP have not yet explored its effectiveness as a social protection instrument (Suharto, 2007b; Sutaat, 2009; Hikmawati, 2011). Conducted by staff at the Ministry of Social Affairs, these studies have focused primarily on the administrative aspects of SWIP’s implementation.

The second research question of this study addresses the effectiveness of SWIP as a risk management instrument. In this study, vulnerability was defined as the risk of falling into dire poverty in the absence of appropriate social protection. As a social protection mechanism, SWIP is intended to help families maintain their incomes in the event that the breadwinner of the family is sick, injured or deceased. The perception of SWIP managers about the effectiveness of SWIP in reducing these risks is divided into three categories. Four respondents (23.5%) believed that the benefits were effective. They claimed that SWIP serves as an additional financial safety net by which members can cope with adverse situation. Having access to alternative financial sources when faced with these adverse events, regardless of the size and adequacy of benefits, were considered meaningful. The payout could significantly delay the risk facing informal sector workers and their family members which could result in them falling into poverty.

Seven (41.2%) of the seventeen respondents belonged to the second category. They perceived SWIP benefits as somewhat effective as a risk management instrument. They recognized that the size of benefits were inadequate for SWIP members to manage risks and vulnerabilities pointing out that compared to the monthly needs of SWIP members, the value of benefits were hardly sufficient to cover minimum living expenses for more than ten days. Nevertheless, they appreciated that regardless the amount, SWIP benefits give informal sector workers and their families an additional source of financial liquidity to help them survive for several days.

Finally, six (35.3%) respondents argued that SWIP was not effective in helping members manage risks and vulnerabilities. They referred not only to the small size of benefits but also to its disconnectedness with other government social protection programs. The absence of interconnection among existing poverty reduction programs at the village level had reduced the value of SWIP benefits. In their communities, SWIP managers noticed that almost all members did not have access to other programs such as *Jaminan Kesehatan Masyarakat Miskin* (Jamkesmas) that provides access to basic health services. Although not all respondents gave reasons for why this was the case, respondent (E) attributed it to competition among CBOs within a community. In a village in which CBO E is located, two other CBOs also run projects funded by other government agencies. Respondent E noted the tendency of CBOs to recruit their-own loyal constituents and exclude others that were associated with rival CBOs.

SWIP and Social Development

Currently, empirical evidence of how microinsurance can contribute to social and economic development at the micro-level is emerging. A study by Cai et.al., (2009), for example, indicates a potential of risk taking behavior that may contribute to the ability of individuals to improve their livelihood. Recent case studies from India, the Philippine and Sri Lanka (Okamoto, 2011; Alip and Amenomori, 2011; Hosaka and Gamage, 2011) highlight the dual benefits of formalized microinsurance. These studies are good examples of microinsurance program that are able to provide not only income protection but also income generation to participants. In the case of a women cooperative in Sri Lanka, for example, microinsurance was also able to address wider collective issues such as disaster rehabilitation, resettlement and community infrastructure development (Hosaka and Gamage, 2011).

These studies confirm an aspect of microinsurance that represents what social policy scholars (Midgley, 1999; Midgley and Sherraden 2009; Midgley and Tang, 2001) call a “normative social development principle.” Normative principles include the harmonization of economic and social policy, people-centered and inclusive economic development that promote the well-being of the population as a whole and investment oriented social programs that contribute positively to economic development. These normative principles can be achieved through several social investment strategies such as investment in human and social capital, promoting employment and self-employment, investment in individual and community assets, removing barriers to economic participation and investment in cost-effective social programs (Midgley, 1999; Midgley and Tang, 2001; Midgley and Sherraden, 2009).

This study reveals the potential contribution of microinsurance to social development. Sixteen respondents acknowledged that participating in SWIP enhances the capability of CBOs to support social and economic development among their members. One respondent (D), however, did not engage in social development investments. This particular CBO chose to avoid putting more burdens on his organization with additional economic development activities. This CBO preferred to use all SWIP social investment block grant to meet the needs and to support volunteers reaching out to members who reside in remote rural areas.

The sixteen respondents perceived that the roles of CBOs within community were more extensive than simply managing the SWIP program. They allocated the SWIP social investment block grant according to the requirements of the program manual. One half of the fund is allocated to underwrite SWIP benefits payouts while the second half is used to capitalize the existing productive economic activities. In particular, the fund was invested to support microcredit activities, micro-cooperative retailing, renting party equipment and other productive activities that were already in place. The potential profits earned through these activities supported SWIP's administrative cost and to grow existing productive economic activities at CBOs. Members of SWIP are generally eligible to access these programs. In most CBOs, access to microcredit and saving provided are very important incentives for members to retain their memberships for duration of the program cycle. What is outstanding in this context is that organizing SWIP helped CBOs to formalize ROSCA, mutual aid and micro-cooperative activities.

Members of SWIP were given priority in accessing microcredit program. Access to microcredit is an additional incentive provided by CBOs for SWIP members to not only retain their memberships but also to improve their sources of livelihood. In addition to microcredit, SWIP members also participate in saving programs and saving education activities organized through CBOs. Although these additional "benefits" were not directly and formally intended as an integral part of SWIP, CBOs were able to improvise activities that could augment the value of participation in SWIP and being connected to a CBO.

Fifteen respondents claimed that participation in SWIP helped members invest in human and social capital. They reported that many members save for their children's education. Three respondents reported that their CBOs provide a soft loan program for SWIP members to help them pay school fees. Although SWIP members' attention to children's education may not be due only to participation in SWIP, it has enabled them to access additional resources and supports. Three respondents also reported that participation in SWIP has encouraged members from similar jobs and the same neighborhoods to organize regular meetings. Although this practice is common within local communities in Indonesia, participation in SWIP gives them access to another layer of social networks that widen the web of community-based social solidarity.

Implications for Future Research and Policy

This study reveals that SWIP is an integral part of the social protection in Indonesia and is playing a significant role in the country's social security reform. The national social insurance reform that emphasizes the introduction of universal contributory system has not yet formulated a plan to include workers in the informal sector. On the other hand, the expansion of social assistance which is currently prioritise, is short term oriented and dependent on government political preference and broader economic policies. SWIP offers a third alternative for extending social protection to workers in the informal sector in Indonesia.

The study has unearthed three aspects of SWIP that have not been identified in earlier studies into microinsurance. It has revealed the relationship between the Ministry of Social Affairs and CBOs and the effectiveness of SWIP as a community-based social protection and social development instrument. SWIP operates as a two-level patron-client system that has by-passed the provincial, district and local governments. It perpetuates a patron-client relationship between the Ministry of Social Affairs and CBOs at one level and consolidates patron-client relations between CBOs and SWIP participants on the other. Furthermore, despite some limitations with regard to the selection of CBOs, the size of social investment block grant and the small amount of benefits provided, SWIP also presents a new avenue for building a community-based social protection system. Although SWIP pays small benefits, it is somewhat effective in providing some degree of protection against social risks. Finally, the research also identified some potential positive effects on the social and economic wellbeing of SWIP participants that confirm previous research in the field.

These findings, however, come with caveats. The study is clearly limited in scope, and its findings cannot be readily generalized. It focused on only one area of Indonesia, namely West Java Province and there may be significant differences in the way the program operates elsewhere in the country. Also, as a qualitative study which is not based on the random statistical selection of respondents, its findings cannot be used as a basis for wider generalization. Findings also refer to the perceptions of managers of SWIP and did not include the perceptions of SWIP participants. Nevertheless, findings from this research maybe helpful in understanding how SWIP operates and of how it impacts informal sector workers and the risks they face. It has also gained insights into the relationships between CBO's and their members, and between local elites and ordinary people. Although preliminary, these findings hope to make a contribution to the growing literature on microinsurance and social development around the world. Hopefully, the study will also prompt further and more detailed investigation into the SWIP program in Indonesia.

Future studies on SWIP should include a closer examination of three interrelated areas. The first is the effects of SWIP on the wellbeing and social development of participants. Several research questions on this topic include to what extend has participation in SWIP enabled participants to improve their social and economic resilience? Similarly, the study's findings on the ways that SWIP improves the livelihood of its members should be augmented by further investigation.

The second is the potential as well as barriers to the sustainability and growth of SWIP. It includes examining such questions as "what are the institutional factors that may impede or enable CBOs to sustain and grow SWIP? How do the regional characteristics of communities in which CBOs are operating in West Java affect the variance of CBOs' strategies in implementing SWIP as well as the variance in interaction between CBOs and SWIP participants?

The third area for future research concerns the governance of SWIP. Several research questions that worth pursuing include uncovering the reasons why, in operating SWIP, do the Ministry of Social Affairs by-passed provincial, district and local government and work directly with CBOs? What are the implications of two-level of patron-client system on the relations between CBOs and local government at the community level? Does patron-client relationship between SWIP members with particular CBO limit their opportunity to access other services that were implemented through different CBO patron or local government?

Additional research into these three areas could make a valuable contribution to scholarly enquiry on microinsurance and could also further illuminate the policy and practice of SWIP in Indonesia. Research of this kind in Indonesia could also inform international enquiry into the subject of microinsurance and contribute to the debate that are taking place today about its value as a social protection mechanism and its role in social development.

Finally, the study recommends that SWIP needs to pay more attention to the organizational and financial capabilities of CBOs as well as on the size of social investment block grant if it is to enhance both its social protection and social development impact. The study has obtained useful, albeit limited information on these questions, but it is clear that much more needs to be done to enhance the program's effectiveness. More systematic evaluations of the SWIP program also need to be implemented. Effective use of participatory evaluation at the local level could provide useful insights, particularly when linked to wider national level outcome studies. It is important also about SWIP be more fully integrated with national efforts to expand social protection to the population as a whole and to address the challenges facing informal sector workers in the country. In turn, these programs need to be infected and integrated with the government antipoverty strategy. It is clear from the research that the government's interest in microinsurance and its proposals to expand these programs that greater coordination between different agencies will be needed. The prospects of linking SWIP/CBOs with innovations in the microinsurance programs operated by *Jamsostek* need to be assessed. *Jamsostek* will undergo substantial institutional change within the next two years because the national social insurance law is likely to be implemented in 2014. Social protection programs such as SWIP are most likely to be effective when they are fully integrated with a wider commitment to extend social protection to the population as a whole.

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APPENDIX

INTERVIEW GUIDE

MICROINSURANCE AND SOCIAL PROTECTION
FOR WORKERS IN THE INFORMAL SECTOR IN INDONESIA:
A Study of the Social Welfare Insurance Program (SWIP/ASKESOS)

A. BACKGROUND

1. Could you please describe the main mandate of this organization?

2. How do you characterize the segments of communities that this organization serves?

3. Besides SWIP, are there any other programs that are managed by your organization?

4. How do this organization fund these programs?

B. SWIP/ASKESOS PROGRAM

5. How did your organization get to know SWIP/ASKESOS program?

6. Does your organization have previous experiences of cooperation with the Ministry of Social Welfare? If it does, can you explain?

7. Are there anyone in your organization that have experience and skills in insurance/microinsurance?

8. What did the Ministry of Social Welfare do to help prepare your organization for implementing SWIP/ASKESOs program?

9. What is your assessment about the preparation sessions? To what extent did these preparatory sessions equipped you with necessary knowledge and skills to implement SWIP/ASKESOS program?

10. How much funding that your organization received from the Ministry of Social Affairs to implement SWIP/ASKESOS program?

11. How should the fund be allocated for? Is there certain proportion allocated for operational cost and salary?

12. Who are the SWIP/ASKESOS participants/clients in your organization?

13. Can you please explain how did your organization recruit SWIP/ASKESOS clients?

14. How do you select workers in the informal sector in this community to participate in the program?

15. Can you explain if there are any changes in memberships over time (retention and dropped out)?

16. Other than participating in SWIP, how do participants manage risks in their everyday life? Do they engage in any sort of traditional social security mechanisms? What are these traditional mechanisms (if any)?

17. How did your organization determine the amount of premium?

18. Does your organization tolerate a late premium payment? Please explain.

19. What did your organization do with the premium money?

20. Can you describe the claim procedure? Can you give me an example?

C. SWIP AND SOCIAL PROTECTION (ADEQUACY OF BENEFITS)

21. Could you explain what is the average monthly family budget of SWIP participants? Can you give me an example?

22. In your knowledge, what is the proportion of payout compare to average monthly family budget among SWIP members? Can you give me an example?

23. In your opinion, does SWIP provide sufficient protection for workers in the informal sector against the risks of income loss (due to sickness, injury or death)? Can you give me an example?

D. SWIP AND POVERTY REDUCTION

24. In your assessment, does SWIP contribute to the reduction of risks of poverty among workers in the informal sector?

25. Could you please explain how so and why? Can you give me one case example?

E. ECONOMIC DEVELOPMENT

26. How do your organization manage social investment block grant from the Ministry of Social Welfare for your organization?

27. How much from the total money is allocated for SWIP benefit payout?

28. If at the end of the term, after three years, you still have the remaining money that initially was allocated for paying out SWIP claims, what do your organization do with it?

29. What kind of economic activities that are financed by the money from the Ministry of Social Welfare?

30. If you have a microcredit program, do SWIP participants automatically eligible to access credit?

31. Does your organization provide financial/saving education for SWIP participants? Please explain, how do your organization do it?

32. In your observation, are there any SWIP participants that have saving accounts? Please explain?

33. What are the roles of your organization in helping SWIP participants to save?

34. Can you tell me how do SWIP/ASKESOS use their premium saving and other saving?
    - Keep saving?
    - Improving their business activities? Please give me an example.
    - Education of their children? Please give me an example.
    - House renovation? Please give me an example?

35. Are there SWIP/ASKESOS members who are able to grow their micro business activities? Can you give me an example?

<u>F. SWIP AND HUMAN/SOCIAL CAPITAL</u>

36. How do SWIP/ASKESOS members support their children education?

37. How does SWIP facilitate connections and cooperation among informal sector workers?

38. How do SWIP participants involve in group meeting?

39. What do SWIP participants do if any one of them are experiencing unfortunate events?

G. LIMITS AND POSSIBILITIES OF SWIP

40. If you reflect on the overall picture of SWIP/ASKESOS, what are the main challenges and limits of this program?

41. Given the limits and possibilities, what need to be done to improve the likelihood of SWIP/ASKESOS to provide better social protection as well as promote social development of workers in the informal sector?

POST INTERVIEW COMMENTS: