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The Development of Indonesian Social Policy in the Context of Overseas Development Aid

Brooke Wilmsen, Alexandra Kaasch and Mulyadi Sumarto

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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020
Fax: +41 (0)22 9170650
info@unrisd.org
www.unrisd.org

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Acronyms

AAA	Accra Agenda for Action
ADB	Asian Development Bank
ASEAN	Association for South East Asian Nations
AUD	Australian dollar
BAPPENAS	<i>Badan Perencanaan dan Pembangunan Nasional</i> (National Planning and Development Agency)
BDT	Biomet Database Tool
BPJS-Kesehatan	<i>Badan Penyelenggara Jaminan Sosial—Kesehatan</i> (health insurance program)
BSM	<i>Bantuan Siswa Miskin</i> (cash transfer program)
CGI	Consultative Group of Indonesia
DFAT	Department of Foreign Affairs and Trade
DJSN	<i>Dewan Jaminan Sosial Nasional</i> (National Social Security Council)
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNP	Gross National Product
GoI	Government of Indonesia
IDA	International Development Assistance
IGGI	Intergovernmental Group on Indonesia
ILO	International Labour Organization
JICA	Japanese International Cooperation Agency
JKN	National Health Insurance Program
JPS	<i>jaring pengaman sosial</i>
JPY	Japanese yen
MAHKOTA	<i>Menuju Masyarakat Indonesia Yang Kokoh Sejahtera</i> (PRSF renamed)
MIC	Middle Income Country
ODA	Official Development Aid
OECD	Organization for Economic Co-operation and Development
PKH	<i>Programme Keluarga Harapan</i> (conditional cash transfer program)
PNPM	<i>Programme Nasional Pemberdayaan Mandiri</i> (National Programme for Community Empowerment)
PRSF	Poverty Reduction Support Facility
RPJPN	<i>Rencana Pembangunan Jangka Panjang</i> (National Development Plan)
TNP2K	<i>Tim Nasional Percepatan Penanggulangan Kemiskinan</i> (The National Team of Poverty Reduction Acceleration)
UNICEF	United Nations International Children's Fund
USD	United States dollar

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Summary

In the last decade, social protection has risen in prominence as a strategy to address poverty and vulnerability in developing countries (Barrientos 2011). International organizations such as the United Nations and development banks have adopted strategies and policies on social protection.¹ To this end, the International Labour Organization's (ILO) role in promoting social protection floors has been particularly prominent (Deacon 2013). Less is known about the role that Overseas Development Assistance (ODA) plays in the reform of social protection. ODA typically supports the social sector in recipient countries in various ways: general budget support, funding for particular projects with social objectives or investment in infrastructure, such as schools or hospitals. However, it is in filling the gaps in the social programmes of emerging economies that ODA can be most effective.

This working paper explores the specific example of Australia's ODA in shaping the social protection programmes of Indonesia. It begins by reviewing the literature about social protection in Indonesia, with a specific focus on the political and economic history that has influenced its transformation. It then presents the results of interviews conducted with staff of the Australian Government's Department of Foreign Affairs and Trade (DFAT) in Jakarta and Canberra and GRM International (since renamed Palladium). These interviews were primarily concerned with understanding the history, functioning and outcomes of one initiative—the Poverty Reduction Support Facility (PRSF). This programme is interesting because it did not seek to implement its own development initiatives in the social protection space, but rather to support and advise ongoing efforts by the Indonesian government in this area.

By observing the PRSF we observe the actioning of many of the principles of aid effectiveness as outlined in the Paris Declaration. In its engagement with the Government of Indonesia (GoI), Australia acted as a “constructive partner” rather than a “demanding donor”, which contributed to the recipient government retaining ownership over its activities. Two other principles of aid effectiveness—harmonization and alignment—were also observed. The PRSF was embedded within the Indonesian governance structures and operated in a manner that was sensitive to the political culture of the Indonesian bureaucracy. Finally, this paper suggests that two-way transformation can occur as a result of effective ODA investment in social protection reform.

At the time of contribution, **Brooke Wilmsen** was Australian Research Council DECRA Fellow at La Trobe University (Australia), **Alexandra Kaasch** was Junior Professor in Transnational Social Policy at the University of Bielefeld (Germany) and **Mulyadi Sumarto** was a faculty member at the Department of Social Development and Welfare, Gadjah Mada University (Indonesia).

¹ Asian Development Bank (2001), Department for International Development Bank (2001), Department for International Development (2005), Inter-American Development Bank (2000), International Labour Office (ILO, 2001), United Nations (2000) and World Bank (2001) (Barrientos 2011).

Introduction

Social policy and development aid are connected. Development aid that is focused on supporting or transforming social policy is considered more likely to be socially responsible and less self-interested than other forms of foreign investment. Furthermore, utilizing development aid to progress social policy can enhance the financial and technical capacities of the recipient nation. Here there is potential for investment that is mutually beneficial. Unfortunately, the conceptual and practical alignment of social policy and development aid is often difficult. Recipient and donor perceptions of social problems and social risks may not align and, accordingly, donors may have different priorities for investment than the recipient. Moreover, some countries may put economic growth ahead of social welfare when defining development goals, creating friction with potential donors.

This research regards good social policies as an inherent part of sustainable and equitable economic growth. Social policies play a critical role in the transitional processes of emerging economies (De Haan 2013:1). As such, we are interested in transformative social policy and the innovative ways in which developing countries are addressing social issues. In this paper, we are particularly interested in Official Development Aid (henceforth, ODA) that is directed into social policy, including its institutions. We seek to understand the role of the donor, the process of aid allocation to the social sector and the strategies used to negotiate ODA investment by exploring the case of Indonesia—a country classified as an “emerging” economy. Given Indonesia’s remarkable progress in expanding and reforming its national social policies as well as the involvement of bilateral and multilateral actors in this process, it provides a remarkable example from which to learn.

Today’s emerging economies are experiencing high levels of social stratification and income inequality, threatening the social stability that is the bedrock of economic growth and international economic competitiveness (Kohlmorgen 2004:59). Emerging economies typically undertake economic adjustment without cushioning the social impact of economic transition. Economic liberalization and policies of market openness also increase demand for social policy in emerging economies. Incongruously, however, during times of economic and political transformation in emerging economies, the main beneficiaries of social policy are often the relatively privileged income groups of formal sector workers rather than the poor and disadvantaged (Kapstein and Milanovic 2003:1). Middle-income groups and those working in the formal sector are better able to engage with policy and have their concerns heard than those on the lowest rungs of society (Kapstein and Milanovic 2003, Betz 2004:7). At the same time, however, in building a social policy system it might be more practical to focus on vulnerable groups in society first and then expand and universalise.

Given that the benefits of social policy are often skewed towards the wealthier segments of society, some claim social policy programmes in emerging economies are mainly introduced as a way of winning political support from those who benefit most (that is, the formal sector workers) and do not, as a general rule, target the poorest in society (Kapstein and Milanovic 2003:1). Indeed, in the case of Indonesia, its social protection programmes are popular and potentially critical to the success of presidential elections. However, universal social programmes in certain sectors (for example, pension reform and unemployment compensation) are more likely to win

the support of the upper stratum than those than targeted responses that underscore cash transfer and subsidies. This is because universal social programmes “may lead to long term pay-offs to the rich, who need productive workers to operate their capital” (Bell 1974:54). Hence, emerging economies mostly invest in universal social programmes that can stimulate the growth of capital markets, promote the privatization of industry and stabilize the budgets of government rather than more targeted poverty reduction programmes (Kapstein and Milanovic 2003).

Development aid can support the social sector in recipient countries in various ways. It can take the form of general budget support or funding for particular projects that have a social outcome, such as to increase employment or health coverage. It can also be used to build infrastructure, such as schools or hospitals. However, it is in filling the gaps in the social programmes of emerging economies that development aid can be most helpful. ODA can reduce the fragmentation of social protection systems, noting, however, that streamlining ODA along particular priority fields or groups can also be exclusionary.

The need for greater inclusive economic growth and risk mitigation has led to the expansion of policies, strategies and programmes under the banner of social protection. The aim of a functioning and effective social protection programme is a comprehensive system of social security covering all major life risks (illness, old age, unemployment and so on), and a reduction in the impacts of economic shocks on the poor and non-poor. Under the umbrella of social protection are a collection of programmes that address risk, vulnerability, inequality and poverty through a system of transfers in cash or in kind (Fiszbein et al. 2014).

In the last decade, social protection has risen in prominence as a strategy to address poverty and vulnerability in developing countries (Barrientos 2011). This is particularly apparent within international organizations such as the United Nations and development banks, which have adopted strategies and policies on social protection.² Particularly prominent has been the role of the International Labour Organization (ILO) in promoting social protection floors (Deacon 2013).

This paper explores a specific example of the role that ODA can play in shaping social protection programmes in developing countries—Australia’s ODA programme to Indonesia. Rather than providing general budget support to Indonesia or program-specific investments, Australia provided high-level support to reform social protection institutions and programs. In light of this unique approach, this paper asks: how has Australian ODA influenced Indonesia’s social protection development? To answer this question, interviews were conducted with staff of the Australian Government’s Department of Foreign Affairs and Trade (DFAT) in Jakarta and Canberra and GRM International (since renamed Palladium). Interviews focused on the history and outcomes of a particular program—the Poverty Reduction Support Facility (PRSF). Supporting interviews were also conducted with the Japanese International Cooperation Agency (JICA) and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ). To supplement the qualitative data, a literature review was completed that detailed social protection in Indonesia, with a specific focus on

² Asian Development Bank (2001), Department for International Development Bank (2001), Department for International Development (2005), Inter-American Development Bank (2000), International Labour Office (ILO, 2001), United Nations (2000) and World Bank (2001) (Barrientos 2011).

the political and economic history that has influenced its transformation. Finally, the results of recent independent appraisals of the programme (Ashley et al. 2014; Ashcroft 2015) and a workshop with the Government of Indonesia (GoI), TNP2K (*Team Nasional Percepatan Penanggulangan Kemiskinan*, The National Team of Poverty Reduction Acceleration), PRSF and the Indonesian ministries were also reviewed.

The PRSF example is interesting because the Australian Government did not seek to implement its own development initiatives in the social protection space, but rather to support and advise ongoing efforts of the GoI. This paper details the role of ODA in programme development, the changing influences of multilateral and bilateral relationships, the interests and alliances that have shaped social protection in Indonesia, the unique role Australia has played in social protection reform in Indonesia, and the conditions that need to be met in order to make ODA work in transforming social protection in the future. In conclusion, the paper considers what can be learned from the Australia-Indonesia model and whether it can be applied fruitfully elsewhere.

Social Policy and Mixed Welfare in Indonesia

The importance of social policy in Indonesian development has increased gradually since Indonesia's independence in 1945. Nevertheless, it is still relatively modest in terms of its percentage of GDP and scope when compared to the welfare states of Europe. This is mainly due to the capacity of the labour markets of welfare states to absorb the labour force compared to that of Indonesia. In established welfare states, social policy relies heavily on formal labour markets, especially for its funding, whether through private or public schemes. The participation rate in the formal labour force is relatively high so that, on one side, the government can finance social programmes through taxation of salaries. At the same time, by helping workers deal with accident, sickness, unemployment and retirement, good social protection policies ensure a healthy and motivated formal workforce.

In contrast, Indonesia possesses a large informal labour sector (see Table 1). Notwithstanding, a decline in the informal employment rate in recent years and a rising formal sector, participation in the formal sector is still comparatively low. Moreover, despite an increase in the scope and number of social protection programmes in Indonesia in recent decades, about 60 percent of workers do not have access to formal social protection programmes through work-based social insurance

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