Architecture of the Indonesia Welfare State: The reflection of 20 years of Indonesia Reformation Era

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Abstract: After Asian Economic Crisis (AEC) hit many of Asian countries in 1997, Indonesia and Asian countries are experiencing crisis and change, Indonesia had transformed its economic and political structured. From centralistic to be more decentralised. Indonesia has produced various economic policy to recover the destructive of the crisis which has impacted not only on economic dimension but also other dimensions. Alongside of massive economic and political changing, Indonesia also realised to reform its social policy system to protect people especially the lower middle class during the crisis. During 20 years from 1998-2018 Indonesia has a massive transformation in terms of social policy and strengthening their architecture of welfare state. Using several data from various journal articles and research reports which has been analysed through qualitative content analysis this paper is aimed to understand how Indonesia has been committing to address absolute poverty and income inequality. The results of the study found that Indonesia has transforming their social policy to be more institutionalised to tackle poverty and income inequality.

Keywords: Indonesia, Reformation era, Welfare state.

1. Introduction

Since its independence in 1945, poverty is a critical issue in Indonesia. How to build a country which can give welfare to people is a foundation of the Republic of Indonesia. The idea to build welfare state also articulated from the founding fathers in developing Indonesia's constitution. In this part, poverty is an issue stated in the Constitution of the Republic of Indonesia of 1945, the government of Indonesia assures that 'improvised persons and abandoned children shall be taken care of by the state' (Article 34).

Moreover, as s (Latif, 2015) argues that the idea of Indonesia welfare state was aimed for government take the main role to fulfil people's welfare. However, in the history of Indonesia, the idea to conduct universal welfare system was not easy. For 73 years, Indonesia already has three main regimes, which are Sukarno's Era (1945-1966); New Order under Suharto (1966-1998); and Reformation Era (1998 – present). These regimes contribute to making the architecture of Indonesia's welfare state.

Against this background, this article will discuss the development of Indonesia welfare state. Discussion Indonesia will describe how developing middle-income country develop its welfare state, in particular after the 1997 Asian Economic Crisis (AEC).

2. Method

This article will use secondary data from various source in particularly the Government of Indonesia, International Organization and academic journals. As (Bryman, 2012) argues that documents from various sources can be used as sources of data.

Qualitative content analysis is used in this article through several questions as a foundation of analysis. To analyse, this paper then will be divided into two main parts. First, current Indonesia's welfare state architecture. The second part will discuss several primary factors related with the development of Indonesia's welfare state, which are: (i) the role of social protection and poverty alleviation; (ii) social and economic dimension; (iii) inequality, the role of tax and redistribution and (iv) political dimension.

3. Results and Discussion

Current Indonesia's Welfare State Architecture

In 1998, Indonesia entered the new regime which more democratic than before. It implicates in how Indonesia develop its welfare state architecture. It can be seen that Indonesia has been transforming its welfare state into more formal, universal and institutional based. However, the role of informal social protection is still working and supporting the formal social protection. In this section will discuss the current architecture of Indonesia's welfare state with its rationale and the effectiveness.

Three Clusters of Poverty Alleviation

Since 2010, the government of Indonesia established the National Team for Poverty Eradication Acceleration (TNP2K) under vice president office. This initiative also followed with the strategy to classified poverty alleviation into three main clusters:

In the first cluster, cash transfer and in-kind transfer are provided to help the very poor families. Program Keluarga Harapan (PKH) as the Conditional Cash Transfer (CCT) is chosen to support families maintain their consumption since 2007. Under Joko Widodo government, this program is continued and expanded to be more targeted. Currently, the program helps not only poor families but also poor disabilities and poor elderly (Lestari, 2017). Moreover, in-kind transfer through 'Rice Welfare' (Beras Sejahtera) is chosen to support the basic needs of poor families. This program was begun after the crisis in 1998 and maintained until present. Rice is chosen since it is the basic food for most Indonesian people the government presented this program also to strengthen food security (Timmer et al, 2018). This situation also supported Indonesia's condition after 1998, where the government has a problem to stabilize the rice's price, and it affected for poor people. Therefore, the government started to implement this program. Besides that, under Joko Widodo's administration, Indonesia start to give scholarship for a student (demand side) through 'Indonesia Pintar/Smart Indonesia' to change the previous program 'Bantuan Operasional Sekolah'(BOS) (World Bank, 2015). World Bank argue that PKH have positive impact in reducing the number of child worker. However, World Bank also found that the number of money received is relatively small. It implicates does not substantially change the welfare and significantly impact on poverty.

In the second cluster, community empowerment is used to alleviate poverty. Under Susilo Bambang Yudhoyono's administration (2004-2014), Indonesia started to implement PNPM Mandiri which emphasises poverty alleviation through community development. In this regard, the program divided into two specific types which are PNPM Perkotaan (Urban PNPM) and PNPM Perdesaan (Rural PNPM). Both are targeted to give a grant for subdistrict level (Kecamatan) to use the money as the region's needs. It can be used to build an infrastructure and building cooperative. However, since 2014, under Joko Widodo, this program was transformed into 'Village Grant' (Dana Desa) which focus on only for the village level. Different from the previous government, Dana Desa gives more authority to village level (the smallest government unit) to implement the grant. Since Dana Desa begun at 2015, it has decreased income inequality in rural from 0.34 in 2014 to 0.32 in 2017 and poverty rate in rural from 14.09% to 13.93% at the same period (MFI, 2017).

Both PNPM and Dana Desa are based on the situation in Indonesia. During New Order Regime (1966-1998), Indonesia's economic development has developed the city as a centre of development (Said, 2010). It affected the village more left behind than city and drive many village people (especially young people) leave the village to look for a job in the city. The accumulation of this situation impacts in regional inequality. In this regard, (Hall and Midgley, 2004) highlight this situation as the character of poverty in developing countries. Therefore, how government develops villages is part of poverty alleviation strategy. Ensuring village can develop and capable of fulfilling people welfare will benefit in reducing poverty.

The third cluster is giving a credit provision for Small-Micro Enterprise (SME). This policy is related to the fact that many of SME's are vulnerable group (poor and almost poor) (Basri & Papanek, 2010). (Aryo and Dharma, 2013) classify this group as 'economic behavioural activities' which means this group is basically conducting economic activities through micro and small business and still need financial support. The government offers several programs both direct and indirect financial support. Direct, program such as PUAP (grant for farmer) under Ministry of Agriculture; KUBE (Business group for poor families) under Ministry of Social Affairs and soft loan with low interest from Ministry of Cooperative and SME are an example of the microfinance program (Aryo et al, 2014). For an indirect program, the intervention from government to ask several State-Owned Bank to give soft loan

with a low rate (under Joko Widodo's administration the rate is 7%) as an example. The idea to support this group is based on two main facts, it will open job and help economic development (Midgley 2008; Basri & Papanek, 2010). Besides that, research from (Aryo et al, 2014) shows that PUAP and KUBE have a positive contribution at the micro level where the program can give job creation and sustainable income for poor families. Besides that, it also empowers women as a housewife to provide supporting income for the household. From AEC in 1998, the government learns that this real sector can give a real contribution to help Indonesia's economic recovery (MNDP, 2014). Therefore, this cluster is designed to support low economic group as a real sector, so they can run and improve their business which will maintain their income.

Universal Social Security

In addition, to fight poverty, the idea to develop universal social security in Indonesia was more ambitious after 1998. In 2004, Indonesia enacted the Law No. 40 on the National Social Security System which has been increasing the hope for Indonesia to have universal social insurance. Before this Law was enacted, social insurances were focused only on a public servant, military, and formal worker. Therefore, this Law can be seen as the reform in social security in Indonesia. There is two main social insurance under this Law which are health insurance and employment insurance. In health insurance, Social Security Agency in Health (BPJS Kesehatan) is a transformation from Asuransi Kesehatan (Askes). In this new social insurance, the government tries to reach all people over Indonesia. Since the insurance is contributory, poor families are paid by the government, so they gain benefit from this insurance. Until 2017, there 70 percent of Indonesia population has been covered by this insurance (BPJS Kesehatan, 2017).

In employment insurance, Social Security in Employment (BPJS Ketenagakerjaan) is a transformation from JAMSOSTEK (Social Insurance for Employee) and TASPEN (Pension Fund). BPJS Ketenagakerjaan provides four main benefits for a worker, which are (i) working incident; (ii) death; (iii) superannuation and (iv) pension (only for the formal worker) (BPJS Ketenagakerjaan, 2018). The insurance is targeted to the informal worker and Indonesia's migrant worker. However, (Kwon and Kim, 2015) argue that worker insurance not is integrated with

poverty alleviation program which means the system does not prepare a preventive program for the worker if they are dismissed from their occupation. Nevertheless, the government is planning to add another coverage in Social Security in Employment (Thea, 2018). Government is planning to implement unemployment benefit for formal worker which will cover income and training during worker are not working. The government is discussing the mechanism and the best scenario to conduct this program. Therefore, if this program can be implemented, it can be another reform in social security in Indonesia.

The role of informal and non-government social protection

The informal social protection also helps poor people in Indonesia. Traditional value and religion, especially from Islam, can be easily found. From traditional value, '*Gotong Royong*' or cooperation is the basic value which transforms in many actions, such as: provide food, sickness insurance, health and death care and income maintenance (Sumartono, 2017). Besides that, Islam as the majority religion in Indonesia has significant contribution to preparing social protection. As Islam obliges every Muslims to pay Zakat which is targeted to the poorest of the poor and other vulnerable groups such as orphan, widow, and elderly people. Besides that, (Aryo and Dharma, 2013) also mention the importance of Islamic Microfinance called Baitul Mal wa Tamwil (BMT). It has a function as a bank as a financial institution to provide financial services. Aryo and Dharma's research found that BMT has positive contribution not only helping poor people in providing money for borrowing, lending and cash transfer, but also contribute in village development. The government realized with the strategic role of BMT and other microfinance institutions in reducing poverty. Therefore, since 2013, the government of Indonesia enacted the Law No 1 'Microfinance Institutions' which formally admitted the presence of institution.

The role of social protection and poverty alleviation

After 1998, Indonesia has performed declining poverty rate significantly. Several anti-poverty programs have contributed to decreasing poverty rate in this period. Currently, the government is still fighting to reduce absolute poverty. The role of social protection as an instrument is essential in implementing welfare state's

function. The basic idea of social protection is to help and assure poor and vulnerable people, so they are not trapped in poverty and the following consequence of poverty. (ADB, 2001) argues that 'social protection strategy as enabling vulnerable groups to prevent, reduce and/or cope with risk' cited in ADB 2013. From this definition, how countries develop social protection based on countries characteristics is important. In the context of Indonesia, we can see from the position of Indonesia as a developing country. It is highlighted by (Midgley, 2013) that characteristic of poverty in developing and developed countries are different and will influence how developing countries develop their social protection. Different from welfare state in developed countries where social security in particularly social assistance is used to 'ensure minimum levels of consumption that protect poor households from the worst effect of deprivation', in developing countries, the role of social protection is broader and play significant role in development (Barrientos, 2011). It also describes that in developing countries context, they tend to be more focus on poverty alleviation (targeted to poor and vulnerable groups) instead focus on preventing poverty like other industrial developed countries (Barrientos, 2011; Midgley, 2013). Therefore, the role of social protection is not focused only on residual as developed countries do, whereas social protection can be seen as an active tool in development for developing countries.

From this situation, how Indonesia develop social protection can be seen as a part of development in Indonesia, in particular in reducing poverty. In this regard, (Midgley and Tang, 2001) highlight the importance of social protection to increase the opportunity for poor people to contribute to economic development. In other words, poverty alleviation also used to create jobs and support poor people to be involved in economic development. Therefore, three clusters of poverty alleviation can be understood as a strategy from Indonesia to consolidate poverty and development at the same time. It also can be seen to conduct innovation of social protection in developing countries to boost poverty reduction performance (Barrientos 2011; Midgley, 2013). Furthermore, the role of universal social security also fulfills the gap for the need of social security especially for low-income families and informal worker. In this context, Indonesia combines poverty alleviation with developing universal social security, so this transformation will help Indonesia in building sustainable social security.

Social and Economic Condition

After 1998, Indonesia realized that depend only on economic development could not help them. It also shows that economic structure of Indonesia is fragile (ILO, 2017). (Barrientos, 2011) argues that developing countries lean to focus on poverty alleviation in developing social protection rather building efficient market labour. This condition also followed with the fact that industry has low capacity in job creation (ILO, 2017). The manufacturing industry as the most significant industry in New Order is not prospective in providing scale mass job in the current condition. ILO highlights that manufacture is hard to provide job creation in Indonesia. Moreover, Indonesia and other countries around the world are facing fourth industrial revolution which brings two significant changing in the utilization of artificial intelligence and Information and Communication Technology (ICT). Lastly, Indonesia also has the young population (Demographic Bonus) which means Indonesia will have an abundant labour force which must be aware by the government so that it will benefit Indonesia. From the structure unemployment, young people group as the highest compare other groups. Therefore, Indonesia should consolidate potential sectors which will help increase job creation and efficiency labour market.

Regarding this situation, the role of economic development and Indonesia's welfare state architecture are crucial. Comparing industry in Indonesia and other developed countries will be hard for Indonesia to build the same position in a short time. Government's effort to conduct several reforms which are purposed to gain investor must be appreciated. In addition, to support this action, Indonesia should also maximize the specific and current potential sectors. ILO argues that currently agriculture sector and service sector are the two most significant sectors which provide a massive job but the productivity from these sectors are low compared with the manufacturer. Joko Widodo's government have keen interest in involving village as the agent of development (MNDP, 2014). In this part, cluster 2 as discussed above can be used to channel this opportunity to develop further economic. The nature of village as an agriculture sector is the significant opportunity for the government to increase agricultural sector. Village grant will benefit Indonesia in providing the job in the village and help reducing poverty and inequality development between

regional. The village also can be used to support the idea to make 'New Bali Destination' where the government develops many of new tourism destination.

Furthermore, (ILO, 2017) highlights that even IA will disrupt the industry, since Indonesia has no many high technology industries compare with developed countries, Indonesia is not much impacted in a short time. On the contrary, (ILO, 2017) argues that Indonesia has been enjoying economic benefit from ICT. ICT has changed the interaction in the marketplace. It already helps many informal workers and SME to gain a marketplace, so they have a better income than before. Cluster 3 where the government gives attention to empowering SME should be increased. SME with ICT can increase job creation and open an opportunity for women economic empowerment. Many of housewife can be categorized into the informal worker. In this regard, SME is suitable for empowering a woman to be productive in the economic sector. In this point, the idea to promote PKH graduate to get business grant such as KUBE is essential (Aryo et al, 2014). The government should prepare the proper mechanism to accommodate this idea.

The government also need to channel the beneficiaries of SME's program in various training related with ICT. (ILO, 2017) highlights that Indonesia should expand education budget (20 percent of Indonesia budget and as the most prominent component) not only focus on formal education but long-life education. It means Indonesia should make different education and training program for the formal and informal worker. Therefore, how Indonesia support SME and informal sector channeling ICT can help Indonesia support economic development and increase SME and informal worker's welfare. Moreover, in the context of supporting SME and informal worker to be more proactive in economic development, the universal social security is essential to protect the worker. Since the government already have the social security system and institution, ensuring informal workers are registered and active in paying insurance are critical for Indonesia.

Inequality, the role of tax and redistribution

Another aspect that related to this situation is increasing inequality. After 1998, the poverty rate has been decreased which also followed with the increasing of number inequality (World Bank, 2015). The increasing income inequality has contributed to slowing down poverty reduction pace. However, World Bank and

(OECD, 2016) argue that Indonesia has a little attention in addressing inequality. In this context, Indonesia tends to give more attention to reducing long-term inequality and depend only on education. Moreover, this situation is related to the role of tax and redistribution in Indonesia. Different from other developed countries which have strong attention and action to reduce inequality. Indonesia still has a problem in maximising tax and redistribution especially in addressing income inequality.

In supporting poverty alleviation, reducing inequality is crucial for Indonesia. Comparing the total social spending between Indonesia and the average OECD countries, Indonesia only spent around 5 percent of its GDP, and the average OECD countries spent almost five times higher than Indonesia (Lustig, 2015). Therefore, several reforms in using tax and redistribution are needed in reducing inequality and poverty at the same time. In the context of redistribution, the government has been in right track where energy subsidies (especially in fuel) has been decreased significantly. The government commits to allocating more budget for PKH and Village grant instead of fuel subsidies. It is essential since these two components are effective in reducing income inequality. For PKH, the government plan to expand this program from six million beneficiaries into ten million beneficiaries (Kuwado, 2017). However, since the evaluation shows that the amount of money is relatively small, the government should also be increasing the amount of money for every household, so poor families can maximise benefits, and have significant impact in reducing income inequality.

Moreover, the government can allocate subsidies for health spending. (World Bank, 2015) argues that health spending is pro-poor and have significant impact on inequality. In context Indonesia, health spending is limited and has little impact on inequality. Therefore, increasing budget for health services and cover not only poor families but also low-middle income will benefit poor people and vulnerable group and reducing income inequality at the same time. In addition to strengthening redistribution function, the efficiency of tax collection is a crucial issue for Indonesia (OECD, 2016). The government does not maximize income tax and SME's tax. Therefore, reform to increase tax from SME and income tax (both formal and informal) is needed. The government should think how to accommodate the revival of informal worker and SME through ICT which will be potential taxpayers.

Political Dimension

The political dimension is matter in developing social policy. (Livingstone, 1969) highlights the importance of politic in build social policy. In the context of Indonesia, the idea of decentralisation is one of the most significant reform in Reformasi era. It distributes power and authority into local government so that local government can manage their territory. In this context, (Said, 2010) argues that central and local government should think poverty as part of decentralisation. However, the biggest challenge in decentralisation is the centralistic of the budget. Even decentralisation has been conducted for almost twenty years, but local government still has a limitation in using tax as a source of development. The idea to give Dana Desa can be seen as giving decentralisation with the source.

Furthermore, corruption is still related to the political dimension. (OECD, 2016) views corruption as the biggest challenge for the government to provide public service for people. OECD also highlight that corruption in Indonesia lead to decreasing trust of taxpayer since they do not believe that money they pay will return to the public. In this context, how politician involved in corruption is the biggest challenge in Reformasi Era. Mostly, corruption cases place executive and legislative which has an authority to decide budget as main actors. One of the biggest scandals is the corruption in providing electronic citizenship card (E-KTP) which disserve public money until 2.2 billion rupiahs. This case has hampered the idea to provide single data for citizen which will benefit for people. In the context to provide data, E-KTP will benefit implementing universal social security, targeting social protection and targeting taxpayers. Besides that, during 2014-2017 KPK (Anti-Corruption Commission) has been arrested 77 governors and mayor around Indonesia (Viva, 2017). The case mostly related to manipulation of the government budget. Therefore, since implementing welfare state is related to using the public budget, how government seriously fight corruption is critical to increase public trust and maximize the benefit of public budget for people's welfare.

4. Conclusion

In conclusion, as developing countries, Indonesia has been developing welfare state. AEC can be seen as the main entry for most reform welfare state in Indonesia. How Indonesia develop its welfare state is related to characteristic of developing

countries in addressing poverty. Different from developed countries where social protection is aimed to prevent people trapped in poverty, the role of social protection in Indonesia is aimed to reduce absolute poverty and play a significant role in development. In this regard, it prepares poor people and vulnerable group to enter and participate in economic development. Indonesia develops several programs in poverty alleviation based on the characteristics and actual needs. Village, informal worker, and SME can be classified as poor and vulnerable groups. Nevertheless, these groups can be seen as an actor in development and potential change maker in future of Indonesia's economic development. Indonesia also started to provide universal social security which means Indonesia has transformed its social security system to be more formal and reach broader group.

Inequality contributed to slowing down poverty reduction pace in Indonesia. However, the government has little attention to addressing inequality through tax and redistribution. In this regard, the role of tax and redistribution should be increased to reduce income inequality. Besides that, how government manage decentralisation and fighting corruption are crucial factors in implementing Indonesia's welfare state to increase people's welfare.

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