



Strengthening Financial Sectors



Donors and Stakeholders Workshop on Law 40 of 2004

Implementing an Indonesian National Social Security System The way forward

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Tentative TA Targets

- Recipients can be decision makers, providers, regulators, stakeholders or relevant entities that can help develop and disseminate information on policy options, labor, fiscal and monetary impacts, transitional arrangements, etc...
- Commitment-building phase: target the more urgent tasks, the capacity building and background material that will be necessary under any option
- Coalition-building phase: target a critical mass in both the public and the private sector that can
 - make independent and informed reviews of proposals developed between Ministries and Administrators
 - support the socialization that will ensure the System can be implemented successfully and meet reasonable expectations

Work Plan

- **Commitment building phase:** Preliminary background studies, high level system strategy, options, orientations
 - Modelling capacity, projections and impact studies
 - Structure and governance requirements
 - Prudential and regulatory framework
 - Draw on international experience and best practices
- **Coalition building phase:** research on policy options
 - Scope & delivery structure/mechanism
 - Optimizing financing path and the timelines (iterative process)
 - Validating the final results, adjust parameters (iterative process)
 - Developing draft regulations and detailed provisions
- **Implementation phase** ultimate target is the core contents of future regulations and Decrees under Law 40, defining the benefits, the financing, the delivery structure, and other operational aspects such as risks management

Core Targets for Immediate Support

- Council constitution & governance
- Local Modelling capacity
- System Structure & Governance
- Regulatory & Supervisory issues
- Clarification of legal & taxation issues
- Role & contribution of private sector
- *+Any other targets that may emerge*

Council Constitution & Governance

- **Empowerment and credibility**
- **Support to role of Council in policy development and leadership role**
 - **in commitment building**
 - **in coalition building?**
 - **in setting benchmarks**
- **Develop capacity to make recommendations**
- **Adequate support required for studies, research and continuing role in monitoring**

Local Modelling Capacity

- **Social Security Systems entail complex interactions of many variables, over long periods with exposure to risks and uncertainties**
- **Various software products exist that can be customized for Indonesia to jump start the capacity**
- **But essential to provide training and transfer of expertise to enhance local autonomous and permanent capacity**
- **Outputs can provide costs estimates and projections for all programs but also input for impact studies on labour, business, monetary policy, fiscal policy, financial sector and other socio-economic variables**

System Structure & Governance

- For the System as a whole to ensure harmonization and consistency, including the respective roles of the Government, the providers, the private sector and the society in general
- Support real reforms rather than retrofitting to existing structures
- For each of the key players, especially the Administrators that must adapt to the new Law
- Need to define the delegated responsibilities, clarify the accountability, address the relationships and set performance benchmarks
- Fit & proper tests, conflicts of interests, code of conduct

Regulatory & Supervisory Issues

- Unless the System can be covered by modifying an existing prudential framework, a new appropriate and adequate regulation and supervision prudential framework needs to be put in place
- Key issues to be covered include enforcement mechanism, funding, financing and solvency requirements, investments, reporting, disclosure to participants and beneficiaries
- Need to clarify the sharing of risks and financial responsibility between the various stakeholders, the mechanism to monitor solvency and the triggers to take remedial actions if and when necessary

Legal & Taxation Issues

- **Need to clarify interaction of Law 40 with many other existing laws and regulations, transitional impacts and long-term harmonization**
- **Essential to promptly reduce uncertainties to ensure the rule of law can apply and protect the key players from unforeseen consequences of involuntary non-compliance**
- **Clarity particularly essential for the taxation of not only the Administrators but also the contributors, the employers the participants and other beneficiaries**

Role & Contribution of Private Sector

- **Demographic evolution will increase the burden on the state, some of it will need to be shifted to the private sector which thus needs to gradually build up additional capacity to provide an increasing proportion of retirees with the goods and services they will need to consume**
- **World wide experience indicates that diversification of the sources of post-retirement income is essential to increase robustness and resilience**
- **This requires resolving the uncertainties that currently prevent the growth of private retirement savings and balancing the socially needed redistribution with the build up of productive assets**
- **Voluntary private schemes, personal or employer based, allows a better fit between individual needs and preferences and hence contribute to increase the efficiency of the system as a whole**

The Way Forward

- **The strategic orientations in terms of expanded coverage and benefits by comparison with the existing system need to be made transparent**
 - **This should leverage and enhance the potential and willingness for all stakeholders to contribute to consensus building in support of the changes**
- **Set up a process to optimize the allocation of Donors scarce resources**
 - **Need coordination between donors**
 - **Need coordination with counterparts**