

# **Key points of the ILO's New Report:**

## **Labour and Social Trends in Indonesia 2012:**

### **Working for a sustainable and equitable economy**

#### **Rational behind the theme**

Indonesia is fast becoming a world leader in the promotion of sustainable development and it has committed itself to not only achieving job rich economic growth, but has also set ambitious targets for the promotion of development that is environmentally sustainable. Reconciling these objectives and driving forward sustainable growth with equity represents a distinct set of challenges for the world of work that are analysed in this year's Labour and Social Trends report.

#### **Employment trends in Indonesia**

##### ***Indonesian economy***

- The overall outlook for Indonesia in 2012 was largely positive thanks to the country's strong focus on the development of economic infrastructure to address constraints to growth as well as to robust household consumption and growing investment. The economy continued to grow in 2012, with GDP growth at 6.23 per cent despite a backdrop of global uncertainty.
- It is noteworthy that growth in the non-oil sector has been accelerating (6.8 per cent), while the oil sector has been declining (-3.3 per cent). Indonesia's recent strong economic performance is therefore linked to strong domestic consumption, as well as strong investment growth in the non-oil sector.
- Indonesia's positive economic growth trends are uncertain in 2013 as investors wait to see the macroeconomic impact of recent trends in wage growth and deteriorating social dialogue.

##### ***Labour force participation***

- The labour force participation rate in August 2012 was estimated at 67.9 per cent, slightly lower than 2011 estimates. However, employment growth continued to outpace labour force growth, with employment growing by 1.0 percentage point and an additional 1,137,755 jobs added to the economy between August 2011 and August 2012.
- The labour force continues to be clustered around the islands of Java, Sumatera and Bali (81.2 per cent in 2012), with Indonesia exhibiting persistent regional inequalities in both its economic and employment outcomes.

##### ***Unemployment***

- In 2012 the unemployment rate declined from 6.32 per cent in February to 6.14 per cent in August.
- Unemployment decreased in almost all provinces between August 2011 and August 2012, with the notable exceptions of Aceh and Sulawesi Tenggara. Reductions in unemployment rates were most notable in DKI Jakarta, Banten, Java Barat, Riau, Kalimantan Timur and Papua Barat - all of which have been identified as important growth centres in the Government's MP3EI.
- It is worth noting that unemployment in DKI Jakarta was estimated at 9.87 in August 2012, which is the first time unemployment in Jakarta has been under 10 per cent in over ten years.
- Despite downwards trends, unemployment remains high for youth. Youth are still 5.97 times more likely to be unemployed than those aged 25 years and above, and that youth accounted for 56 per cent of the unemployed population in August 2012.

##### ***Educational attainment***

- The educational attainment of the economically active population has been gradually increasing over time. However, Indonesia still has a large workforce with modest educational attainment. 9.0 per cent of the economically active population in Indonesia had senior high school or further tertiary education in August 2012.

##### ***Working hours***

- Part-time employment has been growing in Indonesia and has played an important role in expanding employment opportunities and reducing unemployment. In August 2012, part-time employment accounted for 19.42 per cent of the employed population, revealing a continuing trend in the expansion of part time work in Indonesia.

- Many people in Indonesia work long hours. Long hours are considered those totalling more than 40 hours per week as specified by Indonesia's Manpower Act No. 13/2003. 55.96 per cent of employed people worked more than 40 hours per week in August 2012.

### ***Vulnerability***

- In 2012 it was estimated that 60 to 63 per cent of all those employed could be considered "vulnerable workers". A vulnerable worker is defined as the sum of own-account workers and contributing family workers as well as casual workers and employers assisted by temporary worker/unpaid workers. Vulnerable workers typically work in the informal economy and lack decent working conditions. They have inadequate earnings, low productivity and working conditions that can undermine workers' fundamental rights.
- Women are also three times more likely than men to be considered vulnerable workers due to their status as family workers, while men are more likely to be considered in vulnerable employment due to their employment status as casual or own-account workers. As it is much more difficult to transition from being a family worker to work that is external to the family unit, the gender dimension of vulnerable employment in Indonesia requires particular attention.

### ***Formality***

- Between 2001 and 2009 the share of employment that was in the informal economy remained relatively stable; 61 to 66 per cent of all jobs were found within the informal economy during this period. However, trends over the last three years have seen a substantial shift towards formality emerging in the Indonesian economy.
- In 2012 it was estimated at 53.6 per cent per cent of employed people were working in the informal economy.

### ***Sectoral structure***

- Structural shifts in the sectoral composition of the Indonesian economy have continued to unfold in 2012, with employment in the agricultural sector declining and jobs in the services sector on the rise.
- Employment in the manufacturing sector has also been growing rapidly and is now higher (in terms of sectoral share and absolute numbers) than it has been in over a decade.

### ***Wages***

- Average nominal wages have been increasingly steadily over the last number of years; in August 2012 average nominal wages per month for employees and labourers were estimated at IDR 1,630,193. This is an increase of 6.2 per cent from the previous year.
- In 2012 the average minimum wage for Indonesia was estimated at IDR 1,121,460 (BPS, 2012), up by 11.8 per cent from the previous year.
- Over time the gap between average minimum wages and average nominal wages has been shrinking. In 2001 the minimum wage was 58.5% of the average wage. In 2012 this gap had narrowed to 68.8%.

## **Working for a sustainable and equitable economy**

### ***Economic sustainability***

- While Indonesia is currently on track to achieve its unemployment rate reduction target, it faces challenges in providing quality employment. To achieve decent work for all, further emphasis should be placed on indicators that measure employment quality rather than on reducing the unemployment rate.
- Research from Better Work Indonesia finds that the quality of social benefits influences productivity in manufacturing firms. It was found that firms which spend more on social benefits typically have lower production gaps and lower workforce turnover rates.
- Differences in the hourly and monthly compensation of men and women are a persistent feature of labour markets throughout the world. Factors such as educational attainment, work experience, industry and occupation choice contribute to differences in pay equity between the genders. However, discrimination also plays role. Overall it is estimated that approximately 59 per cent of the gender pay gap is unexplainable and could therefore be attributed to gender discrimination.

- Indonesia has had impressive track record of growth in previous years and the challenge now is ensuring that this growth is translated into sustained improvements in livelihoods.

### ***Social sustainability***

- An additional 2.45 per cent of GDP by 2020 would be required to guarantee a minimum level of social protection for all and to “close the social protection floor gap”. This is in addition to existing social protection expenditure, which represented 1.2 per cent of GDP in 2009.
- Research on the economy wide effects of public works programmes and cash transfer programmes finds that public works programmes are more likely to have a larger impact on sectoral output and employment creation relative to cash transfer programmes. However, cash transfer programmes are expected to be more efficient at increasing the household income of poor households. It is found that the two types of social protection programmes work together in a complementary fashion - stimulating the economy and reaching different target groups.

### ***Environmental sustainability***

- The ILO and UNEP have jointly defined green jobs as direct employment created in different sectors of the economy and through related activities that reduces the environmental impact of those sectors and activities, and ultimately brings it down to sustainable levels.
- Understanding green jobs involves a step-by-step process of examining trends that promote green development and connecting this information with standard methodologies for estimating employment. Criteria for defining what is “environmentally friendly” and what is a “decent job” need to be identified in collaboration with the government, employers’ organizations and workers’ organisations.
- In 2008 approximately 8.5 per cent of all jobs could be considered “environmentally friendly” and 3.8 per cent of all jobs could be considered “green jobs”.
- In 2012 the Ministry of Tourism and the Creative Economy launched a Strategic Plan for Sustainable Tourism and Green Jobs, which provides an integrated framework for the promotion of a job rich sustainable tourism industry.

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