



International
Labour
Organization

Global Jobs Pact Country Scan

Indonesia



International Labour Organization

**Global Jobs Pact Country Scan,
Indonesia**

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Foreword

Leaders of Governments, workers and employers adopted the Global Jobs Pact at the International Labour Conference in June 2009 as a portfolio of tried and tested policies that puts employment and social protection at the centre of crisis response. It is based on the ILO's Decent Work Agenda and commitments made by the ILO constituents in the 2008 Declaration on Social Justice for a Fair Globalization. The Global Jobs Pact addresses the social impact of the global crisis on employment and proposes policies aimed at job creation, extending social protection, respecting labour standards and promoting social dialogue, for countries to adapt according to their national needs. Support for the Pact continues to grow with endorsement from, among others, the United Nations General Assembly and the Group of Twenty (G20) States. The ILO is providing technical assistance and financial support to its Constituents who decided to apply the Pact to national contexts. Following a request from the Government of Indonesia, the ILO has been working with local constituents to support their application of the Global Jobs Pact.

The Global Jobs Pact Country Scan for Indonesia was prepared by the International Labour Office and made available to constituents as an input into their national policy dialogue and setting processes. It examines the country situation and policy responses, using the Pact as a framework of analysis. The structure of the Scan is based on the Global Jobs Pact. It thus truly reflects the information that policymakers, employers' and workers' organizations need to effectively respond to the crisis and prepare policies that accelerate a job rich recovery. This draft Scan was presented to Constituents for comments and feedback at various occasions. The Constituents provided invaluable information, which was not available elsewhere. We thank them for their enriching contributions.

Experts of the Decent Work Team in the Bangkok Regional Office led by William Salter, staff members of the ILO Jakarta Office coordinated by Peter van Rooij and Kazutoshi Chatani, and experts at ILO headquarters coordinated by David Lamotte, all jointly contributed to this report. We thank all those who were involved in creating this report.

We hope that this document will be a useful contribution to policy dialogues in Indonesia.



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List of Acronyms and Indonesian Terms

ADB	Asian Development Bank
Apindo	Asosiasi Pengusaha Indonesia (The Employers' Association of Indonesia)
ASEAN	Association of Southeast Asian Nations
AC-FTA	ASEAN-China Free Trade Agreement
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BCI	Bipartite Cooperation Institutes
BI	Bank Indonesia
BLK	Regional Training Centre
BNP2TKI	Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia (National Agency for the Placement and Protection of Indonesian Overseas Workers)
BPS	Badan Pusat Statistik (Statistics Indonesia)
BTS	Business Tendency Survey
CBA	Collective Bargaining Agreement
CEARC	The Committee of Experts on the Application of Ratified Conventions
DPR	Indonesian National Parliament
EIIP	Employment-Intensive Infrastructure Programmes
EEO	Equal Employment Opportunity
EU	European Union
GDP	Gross Domestic Product
GJP	Global Jobs Pact
ICCSR	Indonesia Climate Change Sectoral Roadmap
IJP	Indonesian Jobs Pact
ILO	International Labour Organization
IRC	Pengadilan Hubungan Industrial (Industrial Relations Court)
IYEN	Jejaring Lapangan Kerja Bagi Kaum Muda (Indonesia Youth Employment Network)
JEJAKMU	Jejaring Lapangan Kerja Bagi Kaum Muda (IYEN Secretariat)
Jamsostek	Jaminan Sosial Tenaga Kerja (National Social Insurance Fund)
KSBSI	Konfederasi Serikat Buruh Sejahtera Indonesia (Confederation of Indonesian Prosperous Workers' Union)
KSPI	Kongres Serikat Pekerja Indonesia (Congress of Indonesian Trade Unions)
KSPSI	Konfederasi Serikat Pekerja Seluruh Indonesia (Confederation of All Indonesia Workers' Unions)
KUR	Kredit Usaha Rakyat (People Business Credit)
LSPs	Standard-setting and Certification Centres
MOMT	Ministry of Manpower and Transmigration
MSME	Micro, small and medium-sized enterprise
PNPM	Program Nasional Pemberdayaan Masyarakat (National Programme for Community Empowerment)
RENSTRA	Rencana Strategis (Strategic Plan)
RPJM	Rencana Pembangunan Jangka Menengah (Medium-Term Development Plan)
Rp.	Indonesian Rupiah
SME	Small and medium-sized enterprise
SPN	Serikat Pekerja Nasional (National Worker Association)
SYB	ILO Start Your Business Programme
TVET	Technical and Vocational Education and Training

¹Introduction

The damage to employment created by the financial and economic crisis has caused hardship to many working women and men, families and communities, and worsened poverty. Recognizing that any recovery will not be sustainable unless decent and productive jobs are created and maintained, the Global Jobs Pact, adopted by the International Labour Conference in June, 2009 contains a portfolio of policies to promote jobs, protect people and rebalance policies in line with a more sustainable and inclusive future, based on the Decent Work agenda and a fair model for globalization. It is a framework for the period ahead and a resource of practical policies for the multilateral system, governments, workers and employers that will enable each country to formulate a policy package for a sustainable recovery.

Since the crisis started, the International Labour Organization (ILO) has been supporting member states, at their request, in their crisis response and recovery measures. This support has been organized around specific crisis-related policy measures requested by Member States and prioritized in Decent Work Country Programmes. This has involved all the areas of the decent work agenda: employment, social protection, labour standards and social dialogue.

The Government of Indonesia requested assistance from the ILO to consider the application of the Pact as an integrated policy package. Representatives of the ILO's tripartite constituents in Indonesia met on the 18th February 2010. The organizations participating in this meeting concluded that the Global Jobs Pact was relevant to Indonesia because of its tripartite nature and its internationally endorsed and integrated policy framework for protecting people and supporting job-rich recovery. Moreover, the representatives at the meeting considered it essential that:

- The Global Jobs Pact be adapted specifically to the needs of Indonesia in the form of the Indonesian Jobs Pact
- The development of the Indonesian Jobs Pact be based on the commitment and engagement of employers and workers for joint action with the government; and
- The Indonesian Jobs Pact is developed in accordance with and to give support to the Government's National Medium Term Development Plan (RPJM).

To advance the development of the Indonesian Jobs Pact, the Government, Employers' and Workers' Organizations (social partners) have formally established a tripartite Steering Committee with support from the Office of the Vice-President. The Steering Committee is seeking technical support from the ILO to develop the Pact and its associated policies and programmes.

A key element of the ILO's strategy to support constituents in applying the Global Jobs Pact is the preparation of the "*Global Jobs Pact Country Scan*". This document is intended to provide a description of the impact of the crisis in the country, a detailed description of the policy responses using the GJP portfolio as a checklist, and recommendations on how national policies can contribute to shaping a fair and sustainable globalization. It looks at the country situation and policy responses "through the lens" of the Pact and has three essential parts:

- Part I: Overview of crisis impact on Decent Work in the country
- Part II: Description of crisis response and recovery policies
- Part III: Shaping a fair and sustainable globalization

This document provides the Global Jobs Pact Scan for Indonesia. It is intended to support constituents as they extend and review crisis response policy packages and to be used as an input into national policy dialogue and implementation processes.

¹ Note: Throughout the report the following exchange rate is applied: 1 US\$=Rp. 9,000

Part I: Overview of crisis impact on Decent Work in Indonesia

1. Impact on major macroeconomic variables

The Indonesian economy grew by 6.1 per cent in 2008, and by 4.5 per cent in 2009, a much slower pace than in recent years. In the fourth quarter of 2009, the economy grew by 5.4 per cent over the same quarter of 2008² and showed early signs of recovery. The economy is forecasted to expand by between 5 and 6 per cent in 2010.

Various factors have cushioned the Indonesian economy from the volatile global environment. These include: prudent management of macroeconomic conditions by the Government; strengthened oversight of the financial sector and the relatively closed nature of the economy. In 2008 exports represented some 30 per cent of Gross Domestic Product (GDP) – a low figure compared to many East and Southeast Asian economies. With a population of over 225 million, household consumption, on the other hand, accounts for about 60 per cent of GDP (Table 1).

Table 1 Percentage Distribution of Gross Domestic Product at Current Market Prices (per cent)

Type of Expenditure / Year	2000	2004	2008	2009
Private consumption expenditure	61.7	66.8	61.0	58.6
General government consumption expenditure	6.5	8.3	8.4	9.6
Gross domestic fixed capital formation	19.9	22.4	27.7	31.1
Change in stock	2.4	1.6	0.1	-0.1
Statistical discrepancy*	-0.9	-3.8	1.6	-2.0
Export of goods and services	41.0	32.2	29.8	24.1
Less import of goods and services	30.5	27.5	28.6	21.3

* The difference between GDP by industry and GDP by expenditure

Source: BPS

2. Impact on the real economy - key sectors affected and regional differences

The global crisis and associated decline in global demand had knock on effects on Indonesia's export industry. Exports declined by 28.9 per cent in the first half of 2009 compared to the first half of 2008. Oil and gas exports were worst hit, declining by 55.4 per cent, and manufactured exports declined by 26.9 per cent. Exports of electronic equipment, for example, fell by 30.9 per cent in the first half of 2009 compared to the same period in 2008, vehicles by 57.0 per cent and iron and steel by 61.8 per cent. As the global economy slowed down and plunged into recession, foreign direct investment (FDI) to Indonesia declined sharply. The total value of FDI inflow was US\$ 9.3 billion in 2008 which fell to US\$ 4.9 billion in 2009.³

3. Impact on labour market and employment

The drop in economic growth has had numerous impacts on the labour market. There has been a steep fall in the rate of growth of wage employment which grew by 1.4 per cent between February 2008 and February 2009, compared to 6.1 per cent in the previous year. Reflecting the decline in export value, employment in the tradable sectors grew just 1.1 per cent between February 2008 and February 2009. In comparison, employment in the non-tradable sectors grew by 4.0 per cent.

² Unless otherwise noted all statistics are from Statistics Indonesia (BPS).

³ UNCTAD: *World Investment Report 2010*.

The global financial crisis has also resulted in a significant number of job losses. According to the Employers' Association of Indonesia (Apindo), over 237,000 workers were laid off between October 2008 and March 2009. The textile and garment sector accounted for 100,000 of the retrenchments; palm oil plantations 50,000; the automotive and spare parts industry 40,000; construction 30,000; and the footwear sector, 14,000. Subcontracted, casual and temporary workers in export-orientated industries have borne the brunt of these job losses due to the drop in demand for exports and because it is easier and less costly to dismiss these workers than permanent staff. According to Apindo, 90 to 95 per cent of those who lost jobs were casual or subcontract workers.⁴ Nonetheless, many of the displaced workers appear to have found other jobs, mostly in the informal economy, as the unemployment rate continued its downward trend, falling to 8.1 per cent in February 2009 from 8.4 per cent in August 2008.

The crisis has had different effects on men and women workers (Table 2). Firstly, women's employment grew 2.8 per cent between 2008 and 2009, significantly above the pre-crisis rate of growth, which stood at 1.5 per cent between 2000 and 2008. A similar pattern was observed during the 1997 Asian financial crisis. When women face a decline in income as a result of declining economic activities of male earners, it appears that they attempt to supplement household income by participating in the labour market. There was no significant deviation in the male employment growth rate between 2008 and 2009 from past trends. Secondly, the sectors with the largest contractions in employment growth rate for men and women were different. For men the largest drop was in the construction sector, where employment growth rates fell from 5.9 percent (2000-2008) to 0.8 per cent (2008-2009). While for women, growth rates in the transportation, storage and communication sector fell from 18 per cent to -17.6 per cent. This partly reflects existing gender differences in the labour market. Thirdly, there was a distinct shift in employment from the financing, insurance, real estate and business services sector to the trade, restaurant and hotels sector and the community, social and personal services sector. The trade, restaurant and hotels sector absorbed labour at the cost of productivity. The growth of the sector between 2008 and 2009 was 0.2 per cent, which was significantly lower than previous years.

Given the continuing trend of declining levels of unemployment, it may appear on a superficial level that the global financial crisis has only had a minimal impact on employment in Indonesia. However, as formal employment creation stagnated, the number of workers employed in the informal economy increased by about 2 million (men by 0.66 million and women by 1.36 million) from August 2008 to February 2009 (Figure 1). This reversed earlier gains made through a consistent decline in the share of informal employment. The expansion of informal employment has become a concern of policymakers as earnings and productivity are lower, there is little or no social protection, and channels for representation and voice are limited.

Trends relating to employment status indicate a decline in the quality of employment. The number of casual workers, increased by 5.2 per cent between February 2008 and February 2009, the number of unpaid workers increased by 4.0 per cent and the number of own-account workers increased by 3.6 per cent (Table 3). This compares to the growth in wage employment of just 1.4% over the same period. The seemingly paradoxical fall in unemployment and simultaneous increase in informal employment is not surprising. In situations where there are high levels of poverty and where social safety nets are lacking, workers who lose formal wage employment, or other types of employment, frequently have little alternative than to turn to lower productivity and informal economic activities.

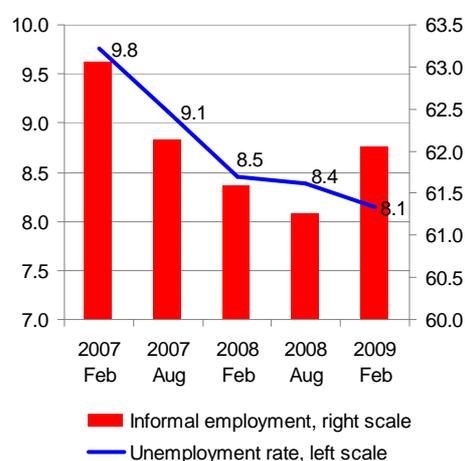
⁴ The Jakarta Post: *Total workers laid off reach over 200,000: Apindo*, (12 March 2009).

Table 2. Employment growth rates by sector (per cent)

	Men		Women	
	2000-2008	2008-2009	2000-2008	2008-2009
Agriculture	0.7	1.1	-0.5	0.0
Mining & quarrying	12.3	8.4	6.2	4.2
Manufacturing	0.7	1.3	1.2	3.7
Electricity, gas & water	13.9	9.9	15.0	21.6
Construction	5.9	0.8	-1.2	3.3
Trade, restaurant & hotels	1.0	2.2	2.5	4.6
Transportation, storage & communications	2.9	1.2	18.0	-17.6
Financing, insurance, real estate & business services	6.4	2.1	6.8	1.1
Community, social & personal services	3.5	5.3	4.7	9.0
Total	1.8	1.9	1.5	2.8

Source: BPS

Figure 1. Unemployment rate and the share of informal employment (per cent)



Source: Statistics Indonesia (BPS)

Table 3: Trends in employment status, 2008–2009

	Feb. 2008 (millions)	Feb. 2009 (millions)	% change
Employees	28.52	28.91	1.4
Employers	24.58	24.61	0.1
with permanent workers	2.98	2.97	-0.3
with temporary workers	21.60	21.64	0.2
Own account workers	20.08	20.81	3.6
Casual workers	10.93	11.50	5.2
In agriculture	6.13	6.35	3.6
Not in agriculture	4.80	5.15	7.3
Unpaid workers	17.94	18.66	4.0
Total	102.05	104.49	2.4

Source: BPS

4. Impact on systems for social protection

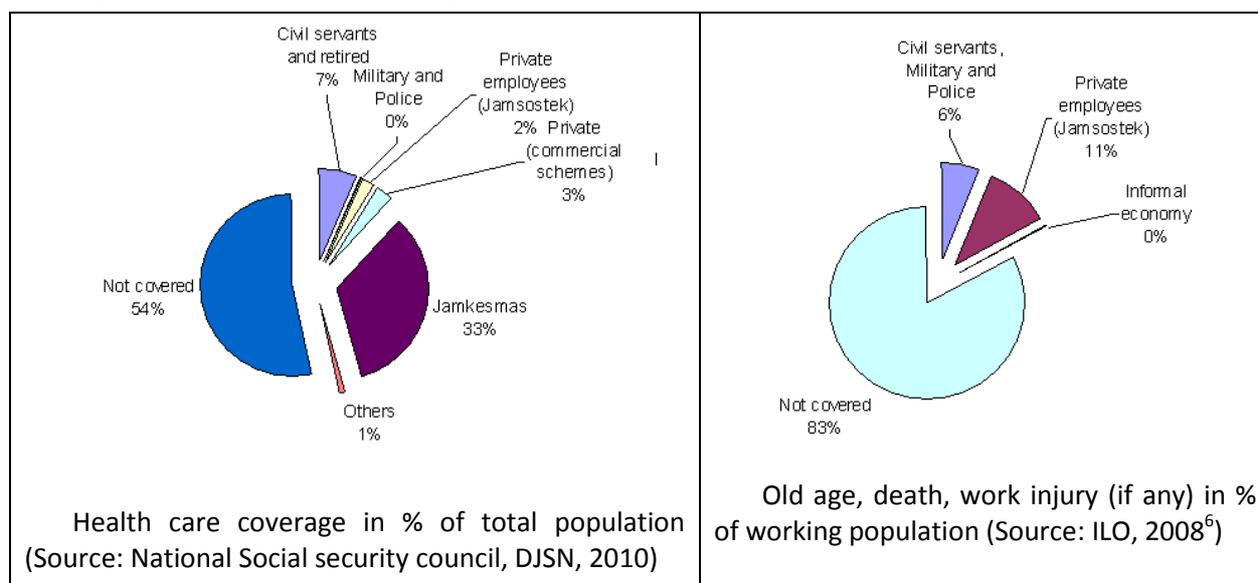
Accurate statistics on the number of formal workers who were laid-off and received their full severance payment entitlements are not currently available. However, even some of those workers

who did receive severance payments may have had to rely on finding other forms of employment or on family members for income security. Lay-offs occurring as a result of the crisis may have had a significant impact on the incidence of poverty. Indeed the number of households living in poverty increased by some 659,300 in 2009⁵.

With the passage of the National Social Security System Law, 2004 (No. 40) and related Ministerial Decree, 2006 (No. 24), the National Social Insurance Fund (Jamsostek), started expanding coverage to informal economy workers. Prior to 2004 only workers in the formal economy were entitled to coverage. Some 400,000 informal economy workers are now covered under this scheme though there is still progress to be made. The Government also emphasised the extension of social health protection for poor and vulnerable, which has extended health coverage to some 76.4 million people, i.e. one third of the total population under the Jamkesmas scheme.

Despite efforts to extend social protection, some 54% of total population has no access to social health protection and 83% of workers do not have access to other social security benefits (old age, death, work injury). Most of the excluded are workers in the informal economy and their families. The coverage of cash transfer programmes and other income transfer schemes has been expanding but these programmes still reach a limited part of the population (See Part B, section B for more information).

Figure 2. Social Security coverage



A recent ILO Survey (2009)⁷ of informal workers in Indonesia found that some 80 per cent of respondents have no social security protection. The study also found that 54 per cent of the informal workers surveyed felt that the crisis has had an impact on their own work situation and that they have been affected by an influx of laid-off formal sector workers. In the same survey, 40 per cent of

⁵ Overseas Development Institute, *The Global Financial Crisis and Developing Countries: Synthesis of the findings of 10 countries case studies*, Working Paper No. 306. (London, 2009).

⁶ ILO: *Social security in Indonesia: Advancing the development agenda*. (Jakarta, 2008).

⁷ Van de Loop, T: *Social security for informal economy workers in Indonesia; Looking for flexible and highly targeted programmes*, (Jakarta, ILO, 2009).

informal employers have found it more difficult to acquire orders for services since the start of the crisis. A greater proportion of women than men in the sample indicated that they felt the crisis has had an impact on their own work situation. The survey also examined the effect of the crisis on 15 formal sector workers, who were laid-off from various factories in Central Java in the textile, garments and furniture sectors. Of the 15 workers laid-off in early 2009, only 4 were still unemployed at the time of the survey (mid-2009) while more than half (eight) had already found work in the informal sector. Further research into the effects of the crisis on the informal economy and social protection is needed.

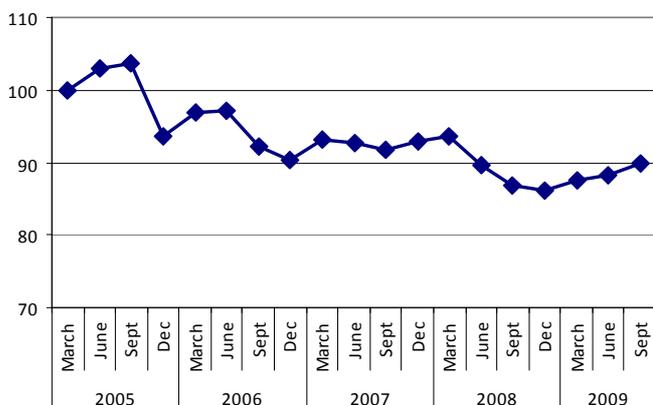
Implementation of social security protection legislation for formal workers also faces challenges. For example, over 90 per cent of workers in North Sumatra were left unprotected due to inadequate enforcement of the social security law. Data from Jamsostek shows that only 450,000 out of five million workers in the province or less than ten per cent were covered by company contributions for social security programmes. Endang Sunarto, Chairman of the Jakarta chapter of the National Worker Association, said that some 95 to 97 per cent of companies where union members work do not provide life and accident insurance for their employees as mandated by regulation⁸.

5. Impact on wages and working conditions

The crisis has exerted downward pressure on wages, the impact of which was offset by low inflation in Indonesia. A drop in external demand for Indonesian goods and services from industrialized countries pressed the real average wage of production workers below the supervisory level in industry (Figure 3) throughout 2008. Real wages, however, picked up in 2009 when the worst period of the crisis was over.

The decrease in inflation from 11.06 per cent in 2008 to 2.78 per cent in 2009 appears to have lessened the impact of the crisis on the purchasing power of workers. While the average real wage declined between 2004 and 2008, the overall average real wage increased for both men and women between August 2008 and August 2009. With the exception of those in the agricultural, hunting, forestry and fishery sectors, the average real wages of male workers rose in every sector between August 2008 and August 2009. Female workers also experienced almost universal increases in average real wages, with the exception of those in the wholesale trade, retail trade, and restaurant and hotel sectors. In the past, wage increases have lagged behind inflation. A notable example of this occurred in 2005, hitting workers hard when fuel prices spiked due to cuts in fuel subsidies.

Figure 3 Real average wage of production workers below supervisory level in industry (March 2005=100)



⁸ ITUC: *Annual Survey of violations of trade union rights 2009: Indonesia*, (2010).

Source: Statistics Indonesia (BPS)

The average of regional minimum wages,⁹ though minimum wages have high regional discrepancies, has been rising¹⁰ since 2005 but its growth rate has remained within the growth of labour productivity. The minimum wage to average wage ratio changed from 0.65 in 2004 to 0.76 in 2009. While some observers claim the increase in minimum wages is hurting the economy or distorting the labour market, it may be that the stagnant average wage growth as compared to labour productivity growth requires policymakers' attention.

The Business Tendency Survey¹¹ of the last quarter of 2008 revealed a declining trend in working hours among large and medium-sized enterprises in the manufacturing and mining/quarrying sectors. Companies have adjusted labour inputs by limiting overtime, reducing daily shifts (in the case of factory workers), cutting working hours, and by ordering stand-by at home with base pay (without transportation allowances) before deciding against renewing the contracts of fixed-term employees. While a reduction in total working hours at a firm can prevent a reduction in the number of workers employed, it is worth noting that some workers may suffer from the loss of overtime pay.

The impact of the crisis on working hours is also evidenced by the distribution of workers by number of hours worked per week. Between February 2008 and February 2009, there was a decline in the number of males working 45 or more hours per week and a notable increase in the number working between 10 and 34 hours per week. There has also been a decline in the growth of the number of men working between 35 and 44 hours per week¹². Among women, a rise in the number of those working between 5 and 34 hours per week was observed, while slow growth or decline could be seen among those working 35 or more hours per week.

6. Impact on labour standards, including freedom of association and the right to collective bargaining

The impact of the crisis on labour standards has not been formally assessed. At this stage, it is too early to identify general trends or major changes in standards. Accurate information on standards is also not available due to limitations in the collection and management of data by labour inspection. It can be assumed that since the formal sector is generally characterized by labour standards and wages that are, on average, better than those in the traditional or informal economy in Indonesia¹³, the growth of the informal economy as a result of formal sector lay-offs has resulted in an increase in

⁹ Dit. Pengupahan & Jamsostek, Ditjen PHI & Jamsostek, Depnakertrans, Upah Minimum Propinsi 2010, <http://www.gajimu.com/main/Gaji%20Minimum>

¹⁰ Though some observers claimed that the rapid increase in minimum wages harmed Indonesia's competitiveness, empirical evidence does not necessarily support the claim. See (Islam and Chowdhury).

¹¹ Business Tendency Index (BTI) fell below 100 for working hours in these two sectors (93.2 and 96.3 respectively), reflecting the reduction in international demand. BTS is conducted by BPS in cooperation with Bank Indonesia, covering around 2,000 large and medium companies in all provinces. The index ranges between 0 and 200. A BTI value of 100 indicates no change in business conditions. Below 100 indicates a decline and over 100 signifies an upward change in business conditions.

¹² Source: Statistics Indonesia (BPS).

¹³ National Development Planning Agency: *National Medium Term Development Plan (RPJM) 2010-2014: Job Creation*.

the number of workers exposed to poorer labour standards and protection and more precarious employment relationships in Indonesia.

It is unclear whether or not the crisis has contributed to an increase in labour rights violations. There is, similarly, a lack of gender-disaggregated data on the impact of the crisis on men and women. There are, however, ongoing violations of workers' rights and serious decent work deficits faced by many workers throughout Indonesia and instances of poor implementation and enforcement of labour laws have continued during the crisis¹⁴. Some enterprises in Indonesia do not respect the basic provisions of Indonesia's labour laws. Even where Collective Bargaining Agreements (CBAs) have been created, employers sometimes ignore the terms of these agreements and worker entitlements under labour law. Further, trade unions often encounter barriers to the enforcement of rights as a result of their limited capacity to represent workers through the formal dispute resolution system or due to challenges faced by labour inspectors in the implementation of their duties. Anecdotal accounts from trade union representatives in Indonesia have suggested that the right to freedom of association and collective bargaining has been further compromised during the crisis.

There are currently three new Freedom of Association cases, before the ILO Committee on Freedom of Association. These three cases were submitted between September and December 2009 and relate to various violations of the right to freedom of association in state-owned enterprises. One of these recent cases demonstrates local governments' lack of awareness concerning Freedom of Association. As such, the cases are indicative of some of the challenges of decentralization of Indonesian governance on the implementation and enforcement of labour laws and regulations. There also remain outstanding recommendations and information requests from the Committee on Freedom of Association in relation to earlier cases. These challenges to the recognition of freedom of association reflect shortcomings in protection against anti-trade union discrimination and the difficulties faced by workers in establishing collective agreements at the enterprise level. These challenges to collective bargaining and freedom of association are further compounded for workers in precarious employment relationships such as outsourced, contract and casual labourers.

The effect of the crisis on violations of the right to freedom of association and on female workers requires further research, sample surveying and analysis for improved policy-making.

Important knowledge gaps that exist in understanding the impact of crisis which need to be filled for improved policy-making

Accurate and timely statistical information is indispensable in analyzing and responding to the impact of a large-scale demand shock. There is a need to enhance labour statistics in Indonesia. Currently labour force surveys are conducted biannually and survey results are published about six months later. The limitations on data availability affected the ability to understand the impact of the crisis on the labour market in a timely manner. Statistics Indonesia (BPS) plans to start conducting the labour force survey each quarter.

In addition to the frequency of the labour force survey, updating the survey questionnaire is necessary to reflect changes in employment relations. An increasing number of workers are hired on short-term contract which enable employers to legally avoid paying social insurance premiums and severance pay. Outsourcing has also become a common practice wherein workers are hired by contractors and work for different companies than the one that hired them. As this report noted, it was largely workers on short term or precarious contracts that were laid off first when the crisis hit. However, due to data collection limitations, there is no accurate estimate of the number of workers who are on short-term contracts or who are in triangular employment relationships.

¹⁴ ITUC: *Annual Survey of violations of trade union rights 2009: Indonesia*, (2010).

Part II: Description of crisis response and recovery policies

A. Accelerating employment creation, jobs recovery and sustaining enterprises

1. *Measures to boost effective demand and help maintain wage levels through including macro-economic policies such as:*

a) Monetary policy, e.g. quantitative easing and credit expansion

The current prudent macroeconomic policy stance in Indonesia has helped the country to weather the recent global downturn. Bank Indonesia formally adopted an inflation targeting regime in 2005 and the target rate of inflation for 2010 and 2011 is 5 per cent with a margin of 1 percentage point. The exchange rate is used as a nominal anchor and forms part of Bank Indonesia's anti-inflation strategy. The Indonesian government also operates an open capital account. Regarding fiscal policy, the Government has been relatively conservative. Indonesia has a budget deficit of some two per cent of GDP, and a debt-to-GDP ratio that has fallen below 30% (a level considered prudent). In addition, the government plans to further reduce the debt-to-GDP ratio.

In response to the downturn, Bank Indonesia lowered lending rates and eased loan approval criteria. Small and medium-sized enterprises (SMEs), which play an important role in the economy and in the labour market, were adversely impacted by relatively high interest rates and low credit availability. As 70 per cent of commercial financing relies on bank lending, credit availability is vital for the survival and growth of SMEs¹⁵. Although Bank Indonesia lowered the policy rate (BI rate) to 6.5 per cent from its recent peak of 9.5 per cent in November 2008 in an attempt to reduce the cost of capital in support of business, average bank lending rates remained as high as 14.5 per cent by the end of March 2009¹⁶. During the downturn, banks were cautious in lending due to the perception of higher risks of nonperforming loans in the adverse business environment¹⁷. Although Bank Indonesia eased loan approval criteria to boost lending, continued low credit availability to SMEs held back a stronger economic rebound and labour absorption.

b) Fiscal policy, e.g., stimulus packages

In February 2009, the Government approved an economic stimulus package worth Rp. 73.3 trillion (US\$ 8.1 billion) equivalent to approximately 1.4 per cent of GDP in anticipation of the impact of global economic crisis. The stimulus was primarily intended to: maintain people's purchasing power; maintain endurance in the business sector to face the global crisis, and to increase the absorption of labour through labour-intensive infrastructure development policy. The stimulus provided tax cuts and subsidies, resulted in a decline in diesel prices and electricity tariffs for industrial production and led to the expansion of the National Programme for Community Empowerment, and infrastructure programmes.

¹⁵ The Jakarta Globe: *Banks' stubborn rate freeze will stall growth*: BI, (13 May 2009).

¹⁶ Ibid.

¹⁷ See, Bank of Indonesia, *Financial stability review, No.12*, (March 2009).

Table 4. Components of the stimulus package and budget realization

	Budget (Rp., trillion)	Expenditure (Rp., trillion)	% to Budget
I. Tax Cut	56,300	45,849	81.4
Personal Income	31,000	24,707	79.7
Corporate Income	19,300	19,300	100.0
Value Added Tax	3,500	1,835	52.4
Import Tariff	2,500	7	0.3
Subtotal	56,300	45,849	81.4
II. Government Spending			
Subsidies	4,523	4,158	91.9
Government Transfer to Corporate	500	500	100.0
Infrastructure Expenditure	11,335	10,812	95.4
National Programme for Community Empowerment	602	602	100.0
Subtotal	16,358	15,470	94.6
Total	73,259	61,920	84.5

Source: Government of Indonesia

c) Social stabilizers

Severance pay upon termination of employment is the only income security for unemployed workers from the formal economy, as there is no system of unemployment insurance in Indonesia. Compliance with severance pay legislation was very patchy even before the crisis - only seven per cent of eligible workers received the full amount of severance pay in 2008¹⁸. Anecdotal evidence suggests the compliance rate lowered during the financial crisis. For informal workers various social programmes including cash transfer schemes provide protection against the loss of income. The Government has increased budget allocations for poverty reduction as part of its crisis response package as well as ongoing efforts to establish a social protection floor (see Part B Section B).

2. *Investment in infrastructure, public services, green production, and R&D*

The stimulus package included up to Rp. 12.2 trillion (US\$ 1.4 billion) for infrastructure development and empowerment programmes for people living in rural areas. Plans included the improvement of highways, ports, bridges, rural roads and irrigation systems, and it is anticipated they will result in the creation of some 1 million short-term job opportunities. At the end of 2009, 93.1 per cent of these components of the Government's stimulus package had been absorbed, creating over 1 million additional jobs in the Indonesian economy (see table 4). The average duration of these jobs was in the order of 40-50 days according to recent ILO research¹⁹. It is worth noting that to ensure the timely implementation of the stimulus package and to benefit from existing administrative structures, many current or ongoing public works schemes were given additional funding. In addition, new programmes followed standard administrative procedures and much of the funding was broken into

¹⁸ World Bank: Indonesia Jobs Report: *Towards better jobs and security for all*. (Jakarta, 2010).

¹⁹ Allen, E: *Recovery through increasing investments in social and economic assets: Infrastructure, job creation and fiscal stimulus*. (Jakarta: Forthcoming)

small grants that went to small local contractors and local labourers. To enhance the employment outcomes of the infrastructure component, the government advocated the use of local stakeholders comprising local contractors, labour and local suppliers.

Table 5. Estimates of job creation from infrastructure development and empowerment programmes funded by the 2009 stimulus package

Government Ministry/ Department	Budget allocation		No. of jobs created
	Rp. billion	% of total	
Public Works	6,601	54.1	952,674
— Centre	3,617	29.6	160,708
— Regional	2,984	24.5	791,957
Transport	2,198	18.0	72,898
Energy and Mineral Resources	500	4.1	6,434
Public Housing	400	3.3	5,000
Maritime Affairs and Fishery	100	0.8	12,590
Labour and transmigration	300	2.5	10,983
Health	150	1.2	146
Trade	335	2.7	7,653
Cooperatives and SMEs	100	0.8	4,234
Other departments	1,515	12.4	0
Total	12,199	100.0	1,072,603

Source: Coordinating Ministry of Economic Affairs (2009)

The 2009 stimulus package allocated Rp.6.6 trillion (US\$ 733 million) to the Department of Public Works, the majority of which was invested in water resource development, roads and sanitation systems. An ILO survey²⁰ conducted in Java in late 2009 confirmed that disadvantaged groups were the main beneficiaries of the stimulus: 71.3 per cent of the jobs reached out to the poorest 50 per cent of households, 60.6 per cent of beneficiaries had less than six years of schooling, 47 per cent of the jobs went to youth (15 to 29 years) and 67 per cent of the sample had been unemployed. Despite the well-targeted implementation, however, the survey results show that women had limited access to job opportunities created through the fiscal stimulus. This highlights a need to enhance the gender inclusiveness of job creation programmes, particularly those that target vulnerable groups and have poverty alleviation objectives.

The infrastructure investments under the stimulus package have been effective in addressing immediate needs for income transfers and cash injections into local economies and have also boosted economic development in the long term by improving the quality of infrastructure assets. The investments in transport infrastructure, for example, have had a positive impact on the household income of farmers and potentially contributed to poverty reduction among small hold farmers, who depend heavily on land transport for crop distribution²¹. There are indications that improved rural road infrastructure has also contributed to better employment opportunities and to higher income of non-agricultural rural enterprises.²²

²⁰ *ibid.*

²¹ Hartono, D. and Irawan, T: *Infrastructure improvement and its impacts on Indonesia economic performance*, (University of Indonesia, Jakarta, 2009)

²² Gibson, J. and Olivia, S: *The effect of infrastructure access and quality on non-farm enterprises in rural Indonesia*, Working Paper in Economics 17/08, (Department of Economics, University of Waikato, New Zealand, 2008).

During the formulation of the stimulus package in 2009, the government sought to gain a better understanding of the impact of public spending on employment and the cost-effectiveness of different strategies. At the request of the Coordinating Ministry of Economic Affairs, the ILO has developed a diagnostic tool, a dynamic social accounting matrix, which can be used to analyze the direct, indirect and induced employment impact of government spending. Preliminary analysis of the construction sector indicates that investing in labour intensive road construction generates twice the number of jobs compared to investments in capital intensive road construction and irrigation. Consequently if the main policy objective is to generate employment for low and unskilled workers, investing in labour intensive road construction will have the highest labour multiplier and highest return on investment.

The Government has launched a plan for a US\$ 1 billion Climate Fund, largely for reductions of emissions resulting from deforestation and has taken some measures to strengthen its efforts towards greening the economy. These include the provision of loans to industry at lower interest rates than prevailing market rates, so that outdated equipment could be replaced with newer and more efficient technology.

3. Protection of employed workers through employment retention measures through well-designed schemes implemented through social dialogue and collective bargaining.

Although there are no statistics on the number of collective agreements mentioning employment retention measures, there is anecdotal evidence that some companies made use of social dialogue mechanisms to implement working hour reductions in the interest of employment retention. Managers of a large clothing factory in West Java, for example, consulted the union on how to cope with a decline in orders of 10 to 15 per cent. As a result of constructive dialogue, the company decided to invest in the skills of its workforce while reducing overtime. The company believed that the decision to keep experienced workers and enhancing productivity by investing in workers' skills would strengthen its market position when orders recover.

4. Help workers find employment through active labour market measures like:

a) Public employment services

Although not directly related to the economic slowdown, the Ministry of Manpower and Transmigration (MOMT) has prioritized the role of public employment services for better labour market outcomes and created an online bulletin board for available jobs named "Bursa Kerja On-Line" (Job Market Online)²³.

b) Job orientation measures

No specific crisis response or recovery job orientation measures were introduced. However, as part of the fiscal stimulus package to improve vocational training centres and the ongoing reforms to the educational and vocational training systems, career guidance and job orientation curricula are being developed.

²³ LPPM Universitas Surabaya: *Final Report for Pasuruan Employment Service Center*. (2010).

c) Special youth employment measures

The National Development Planning Agency (BAPPENAS) decided to enhance the role and function of the Indonesia Youth Employment Network (IYEN) by providing a permanent Secretariat and staff members within the Ministry to coordinate policy measures and activities concerning youth employment. The Secretariat was inaugurated in April 2010 and is known as JEJAKMU in Indonesian²⁴.

During a stakeholders meeting organized by BAPPENAS in July 2010, government agencies involved in youth employment measures agreed to make formal ties with the Secretariat by appointing liaison officers.

d) Incentives/subsidies to hire

There are no specific hiring incentives or subsidies provided in Indonesia, although the fiscal stimulus package indirectly contributed to retention of employment by reducing corporate tax and other duties as well as subsidizing diesel and electricity which helped lower businesses operation costs.

e) Skills development, skills upgrading and re-skilling to improve employability²⁵

In response to the current slow down, the government allocated Rp.300 billion (US\$33.3 million) to the MOMT, increasing the ministry's annual budget to Rp. 3.3 trillion (US\$ 366.7 million). Some Rp. 136 billion (US\$ 15.1 million) were spent on additional training for jobseekers, retrenched and returning migrant workers and Rp. 164 billion (US\$ 18.2 million) were allocated to improving the physical infrastructure of Training and Vocational Education Centres (BLKs).

The MOMT distributed the additional training budget among regions using three criteria: crisis; and existing capacity of BLKs to deliver quality training. Stimulus funding resulted in 3,000 additional courses and additional 50,000 jobseekers received short-term training throughout the country.

Local governments defined training courses based on identified needs. Most training courses were technical, in areas such as motorcycle and automotive repair, welding, construction, sewing, computer and language skills. BLKs also provided entrepreneurship training. Public-private partnerships enhanced the effectiveness and relevance of the training - local governments partnered with private training providers which delivered over 670 courses in business and management skills. Most BLKs are managed by local governments, however, leaving them with limited capacities and funding. Consequently, part of the MOMT stimulus funding was aimed at enhancing the infrastructure of BLKs through renovation of old training centres and the purchase of new training materials and equipment.

Effective utilization of the additional training budgets in a short period (six months at the time of writing) has been a challenge for the Government, given the limited capacities of local governments to plan and execute training needs assessments, plan and deliver high quality training with the involvement of industry and to ensure placement and employability of the trained workforce.

f) Entrepreneurial skills development programmes

Though entrepreneurial skills development was not directly part of the crisis response, it is one of the presidential priorities. The RPJM and the plan of the Ministry of National Education Department of Education include the integration of entrepreneurship training into the curricula of high schools and junior high schools. It is expected that an introduction to enterprise and business will provide young

²⁴ See <http://jejakmu.BAPPENAS.go.id>

²⁵ See background paper and presentation: *Indonesia: APEC Forum on Human Resource Development 2009. Implementing Public TVET Programme in the Midst of the Financial Crisis*. (Chiba 18-20 November 2009).

men and women with the opportunity to see self-employment and entrepreneurship as a viable and attractive alternative to formal sector wage employment.

5. Address youth unemployment through the provision of vocational and technical training and entrepreneurial skills development

The Indonesian Government clearly identified broad expansion of vocational education and training to equip young people with skills to succeed in the labour market. Similarly, major reform efforts have been initiated to increase access to non-formal training for vulnerable groups such as rural communities, women, youth, and unemployed and underemployed men and women. Current Technical and Vocational Education and Training (TVET) reforms and various initiatives by the Ministry of National Education and the MOMT seek to effectively improve the quality and effectiveness of training in order to reduce skills mismatch, effectively address skills shortages in fast developing sectors and to increase the overall employability of the Indonesian workforce.

6. Other targeted programmes such as public employment guarantee schemes, emergency public works, and other direct job creation schemes

Under the stimulus package, the Government increased the budget allocation to public works programmes in order to create temporary employment (see Part B section A-2).

7. Support to public and private enterprises (including cooperatives) and micro-entrepreneurs through measures like:

a) Credit facilities, access to credit, guarantees

Access to capital, especially bank lending, has been crucial for the survival of many SMEs during the crisis. As noted earlier in this paper, Bank Indonesia lowered the policy rate to support enterprises. However, a substantial gap existed between the policy rate and average bank lending rates due to the conservative lending stance of commercial banks. The Industry Minister lobbied the Bank Indonesia to put pressure on commercial banks to reduce lending rates to SMEs.²⁶ The Minister also lobbied to reduce interest rates on loans under the People Business Credit (KUR) from 16 to 12 per cent.²⁷

KUR was established in 2007 with the goal of strengthening the ability of micro, small and medium-sized enterprises (MSMEs) to secure financial support and expand. By extension, the policy is designed to contribute to the broader goals of poverty reduction and job creation²⁸. In addition to lowering interest rates on certain types of loans, the Indonesian Government also pledged Rp. 2 trillion (US\$ 222 million) to create a “loan guarantee facility” for KUR²⁹. Increasing access to credit will

²⁶ The Jakarta Globe: “Indonesia to Help Small Firms Get Lower Interest Rates”, 27 October 2009.

²⁷ Ibid.

²⁸ Retnadi, D: “People Based Small-Business Loan KUR: Prospects and Challenges “ Economic Review No. 212, 2008 <http://www.bni.co.id/Portals/0/Document/Loan%20KUR-June2008.pdf>.

²⁹ Suharmoko, A: “Government relaxes rules on micro credit,” *The Jakarta Post*, 13 Jan. 2010, <http://www.thejakartapost.com/news/2010/01/12/govt-relaxes-rules-micro-credit.html>.

potentially facilitate the development of MSMEs, which could, in turn, could have positive effects on job growth and poverty reduction.

b) Payment facilities

No specific strategies on payment facilities have been applied in Indonesia since the onset of the economic downturn.

c) Access to public tenders

At the time of writing no changes have been made to the Government procurement rules and regulations³⁰ since the crisis deepened in October 2008.

d) Subsidies of various sorts (non-wage labour costs, export credit facilities)

To bolster competitiveness, business resilience and exports, the Government provided stimulus through tax cuts, provision of various subsidies and access to capital. The tax relief involved reduction in the corporate tax, payroll tax, import duty and VAT. The subsidies lowered electricity rates for industrial users and automotive diesel prices.

e) Facilities for training programmes, skills development, upgrading and re-skilling

As elaborated earlier, the Government enhanced training schemes, targeting retrenched and unemployed workers, returning migrant workers, micro entrepreneurs, and women. Forms of training include short-term training courses provided by formal training institutions and by mobile training facilities. There is no subsidy for companies that retain and train their workers instead cutting the number of workers.

f) Special measures for SMEs, micro-enterprises, and cooperatives³¹

The Government of Indonesia enacted a new Law in 2008 on credit guarantee institutions and credit re-guarantee institutions (No. 222/2008, Ministry of Finance, and Presidential Law No, 2/2008). With these new laws the legal form of credit guarantee institutions was expanded to include private companies, public companies, and cooperatives. The new legislation set the minimum capital requirement to form a credit guarantee institution at Rp. 50 billion (US\$ 5.6 million) for a provincial institution and Rp. 100 billion (US\$ 11.1 million) for an institution operating nationwide. The province of East Java has now established a credit guarantee institution and the central bank and the Ministry of Finance are actively promoting the establishment of such institutions in other provinces since a credit guarantee scheme reduces perceived risks of non-performing loans and is thus expected to increase loans to SMEs.

g) Tax reductions

The Government lowered the corporate tax rate by 3 percentage points to 25% in 2010. For other tax incentives, see Part B section A-1 b.

³⁰ Government procurement rules are stipulated in the following Decrees: Presidential Decree, 2003 (No. 80) concerning Guidelines for Implementation of Government Procurement of Goods or Service; Presidential Decree, 2004 (No. 61), which amended Presidential Decree No. 80; and Decree Number 339/KPTS/2003 issued by the Ministry of Residence and Regional Infrastructure concerning Guidelines for Implementation of Procurement of Service Construction by Government Institution.

³¹ Policies concerning the acceleration of real sector development and empowerment of MSMEs are based on the Presidential Decree, 2007 (No. 6) concerning the Policies to Accelerate Development of the Real Sector and Empower of MSMEs.

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- h) Supportive regulatory environment conducive to job creation through sustainable enterprises

Since this is more of a long-term development issue and dealt in the RPJM 2010-2014 that was developed in 2009 and launched early 2010. No specific actions were undertaken as short-term crisis response.

8. Support job creation across sectors of the economy, recognizing the value of the agricultural sector and the need for rural infrastructure, industry and employment

As mentioned above, the stimulus package financed infrastructure investment for immediate job creation. The public work schemes emphasized the value of the agricultural sector and the need to improve rural infrastructure including roads and water resource development. In addition, funds were allocated to revitalize vocational training centres, some of which are located in rural areas.

Box 1. Greening the economy and challenges

The Government of Indonesia has taken steps to facilitate the shift to a more environmentally friendly, low-carbon economy. It has developed a long-term strategic framework for climate change mitigation with special focus on the energy sector, setting out a policy package for geothermal power, land-use change and forestry³². Under the Copenhagen Accord, December 2009, the Government pledged to reduce greenhouse gas emissions 26 per cent by 2020, and if international assistance is provided by up to 41 per cent. In this context, the Government has launched a plan for a US\$1bn Climate Fund to invest in emission reduction projects across the country, largely for reductions of emissions resulting from deforestation³³ through the Reduced Emissions from Deforestation and Degradation scheme and the use of geothermal and other forms of “green” energy³⁴.

Indonesia has a number of challenges that must be addressed as it moves towards a greener economy. Indonesia provides heavy fuel subsidies, which can lead to unsustainable consumption and production patterns and contribute to over use of energy.³⁵ In addition, energy subsidies can slow the development and use of cleaner and more sustainable energy sources.³⁶ In recent years, the Government has successfully introduced the Kerosene to Liquid Petroleum Gas Conversion Programme³⁷. By encouraging households to convert to cleaner

³² Ministry of Finance: *Green Paper on the economic and fiscal policy strategies for climate change mitigation in Indonesia*, (2009).

³³ An initial backing of US\$100m from the Government Investment Unit into a new Indonesia Green Investment Fund is expected to help raise the remaining US\$900m from institutional investors and governments from industrialized nations that have pledged to fund low carbon projects in developing countries. It is expected the fund will increase to US\$5bn in the next five years.

³⁴ Ministry of Finance, Working Group on Fiscal Policy for Climate Change: *Climate Change & Fiscal Policy Issues: 2009 Initiatives*. (2009).

³⁵ UNESCAP: *Turning Crisis into Opportunity: Greening Economic Recovery Strategies*. (2009).

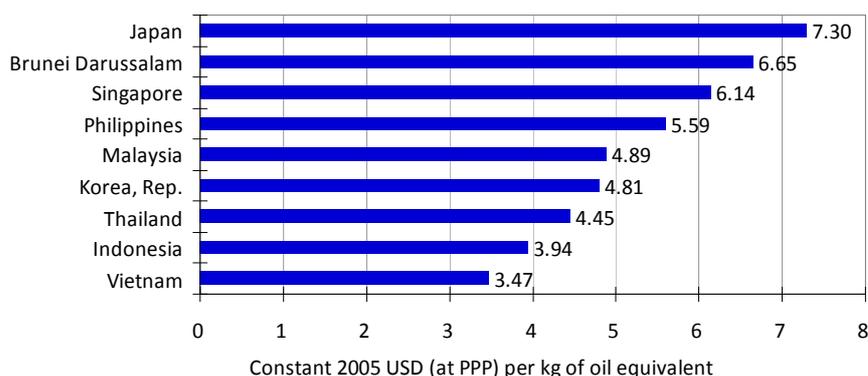
³⁶ Ministry of Finance, Working Group on Fiscal Policy for Climate Change: *Climate Change & Fiscal Policy Issues: 2009 Initiatives*. (2009).

³⁷ Kerosene consumption was reduced by 80 % by distributing a stove and a three kilogramme liquid petroleum gas canister to targeted households. Expenditure on kerosene subsidies (US\$ 7 billion in 2008) were drastically reduced in the process.

fuel, the programme has brought down greenhouse gas emissions, indirectly generated households savings estimated at US\$11 per month and saved some US\$1.1 billion in fuel subsidies in 2010.³⁸

In response to recent spikes in energy costs, the Government significantly increased total energy subsidies in the 2010 budget. However, the Government has declared its intention to phase out energy subsidies by 2014 while maintaining measures to protect the poor³⁹, maintaining its commitment to the 2010 G20 Summit political statement.⁴⁰ In this context, the Government cut energy subsidies by 7.1 percent in the 2011 draft State budget.⁴¹ Reduction in fuel subsidies would create fiscal space for poverty reduction, education, social programmes and infrastructure investments.⁴²

Figure 5: GDP per unit of energy use (constant 2005 PPP US\$ per kg of oil equivalent)



Source: World Bank, World Development Indicators

³⁸ Xinhua: *Indonesia to conclude kerosene to LPG conversion by mid 2010*. 23 Dec. 2009. www.chinaview.cn

³⁹ Jakarta Globe: *Indonesia to End Energy Subsidies 'by 2014'*. 22 March 2010. <http://www.thejakartaglobe.com/business/indonesia-to-end-energy-subsidies-by-2014/365233>
The announcement just followed an important increase in energy subsidies in February 2010 that made it the second-largest energy subsidy budget over the last 10 years. <http://www.thejakartaglobe.com/home/indonesia-to-increase-fuel-food-subsidies/360981>.

⁴⁰ Political leaders at the G20 Pittsburgh Summit committed to phasing out inefficient fossil fuel subsidies over the medium term while providing targeted support for the poorest households as a way to improve energy security, encourage investment in clean energy sources, promote green growth, and free-up resources to use for pressing social needs such as health, food security, and environmental protection. <http://www.pittsburghsummit.gov/>.

⁴¹ Al Azhari, M.; Bisara, D: *Praise for subsidy cuts, mixed with concern over rising costs*. Jakarta Globe. 22 Aug. 2010. <http://www.thejakartaglobe.com/business/praise-for-subsidy-cuts-mixed-with-concern-over-rising-costs/392298> [10 Oct. 2010]

⁴² ADB, ILO and IDB: *Indonesia: critical development constraints*. (Manila, 2010)

Important knowledge gaps

One weakness that has been noted in the implementation of the stimulus package, including in the disbursement and delivery of funds, is that no formal assessment has been made regarding the impact of crisis response measures. There is a need to enhance technical capacity, including monitoring and analysis, in order to better understand the impact of public spending on employment and poverty reduction among target groups (across sectors and geographical areas) and to assess the cost-effectiveness of different investment strategies. More research and training are necessary to improve this capacity.

An additional challenge lies in Indonesia's decentralized administrative structure, whereby implementation of policy and programme planning at both the provincial and district level. Technical assistance and capacities building is needed at the local level to enhance analysis, planning and implementation of strategies focused on employment, decent work and workforce development. Finally, there is a need to increase local level data collection on labour market trends and skills gaps to facilitate labour mobility.

B. Building social protection systems and protecting people

1. Cash transfer schemes

In 2007 the Government of Indonesia launched the Hopeful Family Programme, a cash transfer programme. Households covered by the programme receive cash transfers on a sliding scale dependent on household characteristics. Transfers are subject to the fulfilment of health and education related requirements, for example, pregnant and lactating mothers are required to undergo health checks and have medically assisted births⁴³ and infants and children up to the age of six are also required to be immunized and have regular medical checks.⁴⁴ There are also rules concerning school enrolment and attendance, with children up to the age of 15 required to have an attendance rate of at least 85%.⁴⁵ The average cash benefit per poor household is Rp. 1,390,000 (US\$ 154) per year. Conditional cash transfers also play a key part in the development of a social protection floor as they provide a minimum income security to families with children as well as

⁴³ During the pregnancy, pregnant mothers should have their health checked 4 times at the health facilities and get the Fe tablet. When giving birth mothers should be assisted by health personnel. Lactating mother should have their health checked at least twice within first 28 days after giving birth.

⁴⁴ Children aged 0 – 11 months have to get complete immunization and check the body weight regularly (monthly); Children aged 6 to 11 months have to get Vitamin A at least twice a year; Children aged 12 – 59 months need to get additional immunization shots and measure their body weight in every 3 months; Children aged 5 – 6 years have to check their body weight every 3 months and or participate in early childhood education if there are such facilities near where the household reside.

⁴⁵ If the very poor households have children aged 6 to 15 years old, they are required to enroll their children to elementary and secondary school and the children should attend 85% of the class in a month throughout the ongoing school year. If the households have children aged 15 to 18 year old who have not completed the 9 year s basic education, a household can receive the cash if they enroll their children in the nearby schools or send them to equivalency education program. Schools in the surrounding areas could provide remedial program for these children.

facilitating access to education and basic health care services. Planned before the onset of the crisis, this programme came in at the right time to support poor and vulnerable households during the crisis. Although the number of households effectively covered by the programme increased steadily from 392,813, households in 2007 to 498,095 in 2009, this progress is far below initial plan which was to cover 0.5 million households in 2007, an additional 1.25 million (total coverage of 1.75 million households) in 2008, 2.25 million (4.0 million in total) in 2009 and 2.5 million (6.5 million in total) in 2010.

Table 6. The Hopeful Family Programme Benefit scheme

	Annual benefit per household
Fixed benefit	Rp. 200,000 (US\$ 22)
Benefit for Poor Household who has:	
• Children under 6 years old, pregnant/lactating mother	Rp. 800,000 (US\$ 89)
• Children in elementary school age	Rp. 400,000 (US\$ 44)
• Children in junior secondary school age	Rp. 800,000 (US\$ 89)
Average benefit per household	Rp. 1,390,000 (US\$ 154)
Minimum benefit per household	Rp. 600,000 (US\$ 67)
Maximum benefit per household	Rp. 2,200,000 (US\$ 244)

2. *Building an adequate social protection for all, drawing on a basic social protection floor*

The Government of Indonesia responded quickly to the crisis by enhancing existing social protection programmes⁴⁶, building on programming priorities set in 2006 which established a series of social protection measures linked to poverty reduction, employment and community participation.⁴⁷ When the crisis hit, the Government was able to mitigate the impact of the global financial crisis by leveraging these existing social protection mechanisms and increasing their budget allocations. The measures include:

- subsidized rice programme for targeted households;
- scholarships to enable students from poor families to stay in school;
- grants to help maintain the operation and quality of teaching in targeted schools;
- unconditional cash transfers;
- conditional cash transfers;
- free health care scheme through the Jamkesmas programme; and
- National Programme for Community Empowerment.

Additional or complementary measures have also been developed by local authorities in some provinces.

Box 2. Coordination of social protection and poverty reduction initiatives

To increase policy coordination and coherence at national and local levels, a National Team for Poverty Reduction Coordination was established in 2008. The team includes 22 ministries and the heads of all central institutions with programmes related to poverty reduction. Programmes addressing poverty reduction are clustered into the following three categories:

Cluster 1 - Social Assistance and Social Protection

In line with the Social Protection Floor concept, programmes under this cluster provide assistance to poor and near poor households in the form of cash transfers and subsidies. They aim to enable the poor to fulfil their basic needs of food, shelter, water, sanitation, health, and education. Social assistance was provided to some 19.1 million households in 2007, 18.5 million in 2008 and 17.1 million in 2009.

⁴⁶ Overseas Development Institute, *The Global Financial Crisis and Developing Countries: Synthesis of the findings of 10 countries case studies*, Working Paper No. 306.

⁴⁷ These initiatives can be considered as the first steps towards the establishment of a social protection floor for all (see Box 3).

Cluster 2 - Community empowerment

Policies under this cluster provide Community Block Grants to empower poor communities and enhance local government capacity to provide public services to poor communities. Specific concern is given to assuring women's participation by promoting women's involvement in planning meetings and providing incentives to support proposals submitted by women.⁴⁸

- Cluster 3 – Empowerment of micro and small businesses
- Initiatives under this cluster consist of providing loans to individuals and small groups operating or willing to develop micro and small businesses. The social protection component of this programme relies on public credit guarantee: the Government assures the repayment of loans. This cluster was designed to function as an 'exit strategy' so that the poor will no longer require government assistance.

In line with the two dimensions of social security extension (see Box 3), the Government is committed to extending social security coverage to include informal economy workers and the poor through both contributory schemes and non-contributory schemes. The process of fully implementing the 2004 social security system (SJSN) law has become a key priority of the government and workers' and employers' organizations as the number of people working in the informal economy increased. Jamsostek, the private sector social security scheme,⁴⁹ however, excluded informal workers except those covered under pilot projects. Since the SJSN calls for universal social security coverage in both the formal and informal sectors in Indonesia, Jamsostek is no longer exclusively reserved for private sector employees in the formal economy. Jamsostek is therefore set to expand its membership among "high-potential" workers in the informal sector, marking a clear departure from its traditional focus. Over the past four years, Jamsostek has been piloting a scheme for informal economy workers, which covered around 400,000 workers in 2010. It is now conducting an evaluation of this first attempt and intends to draw lessons from the pilot project in order to design and scale up a sustainable strategy to extend coverage.

Box 3. Extension of social protection through two complementary strategies

1. Horizontal dimension of extension:

The Social Protection Floor calls for provision of a basic set of rights and transfers that enables all members of a society to access goods and services of social protection. The main elements include: 1) availability of essential services such as water and sanitation, adequate nutrition, health and education, housing, and other services including life and asset saving information; and 2) accessibility of these services through social transfers in cash or in kind given to the poor and vulnerable.

2. Vertical dimension of extension:

The development of adapted contributory schemes to provide higher levels of income security and access to higher quality health care that protect the standard of living of people even when faced with fundamental life contingencies such as unemployment, ill health, invalidity, loss of breadwinner and old age.

Source: ILO, 2009. *Extending social security to all. A review of challenges, present practice and strategic options. Tripartite meeting of experts on strategies for the extension of social security coverage. Draft for discussion. Part A, paragraph 2.2 The "social security staircase" policy paradigm.*

⁴⁸ Voss, J: *PNPM Rural Baseline Report*, (EASIS, World Bank, Indonesia, 2008).

⁴⁹ Jamsostek faces coverage issues: only half of the formal workers entitled to coverage are effectively covered due to weak enforcement; some key health services such as HIV-AIDS treatment are excluded from the coverage; the lump sum provided upon retirement does not provide sufficient income security for the elderly; and the insured lose entitlement to health insurance benefits after retirement.

3. Extending duration and coverage of unemployment benefits

There is no unemployment insurance scheme in Indonesia.

4. Ensuring the long-term unemployed stay connected to labour market

In order to ensure that the long-term unemployed stay connected to the labour market, the Government provided budget allocations from the fiscal stimulus package to improve vocational training centres. This policy aimed to help improve the employability of job seekers, including the long-term unemployed, and to help job seekers (re-)enter the labour market. The Government has also supported vocational training centres by adopting competency-based training methods at the provincial and district levels. Other initiatives include training for owners of MSMEs and providing job seekers with better access to labour market information.

5. Providing minimum benefit guarantees in countries with inadequate funding

The Government of Indonesia has a number of social protection programmes and is working towards minimum income security and access to basic social services such as health and education. The Government expanded coverage of some poverty reduction programmes to reach more poor people to mitigate the impact of the crisis. These include conditional cash transfers, access to health care through Jamkesmas and the National Programme for Community Empowerment.

6. Measures to improve pension fund design to protect workers' savings

Unlike the public sector pension scheme (Taspen), the old-age programme of Jamsostek which covers some private sector workers is essentially a provident fund, which refunds contributions and interest as a lump-sum. If the final balance exceeds Rp. 3 million (US\$ 333) there is an option to receive the amount over a period of up to five years during which the outstanding balance will earn interest. However, almost all members withdraw the balance as a lump-sum. The current provident fund scheme does not provide adequate economic protection for life after retirement⁵⁰.

As part of the implementation process of the Social security System Law, 2004 the National Parliament amended the Law on workers' social security to improve pension fund design and protect the savings of workers. Improvements to the organizational structure of social security providers and benefit schemes are among the other agenda items to be discussed in the Parliament.

7. Providing adequate coverage for temporary and non-regular workers

To date, there is no social security coverage for temporary and non-regular workers. As mentioned above a pilot project was initiated by the MOMT and Jamsostek to extend social security to workers in the informal economy in selected sectors and districts. An evaluation of this first attempt is being conducted.

8. Helping vulnerable groups most hard hit by a combination of income support, skills development and enforcement of rights to equality and non-discrimination

See Part B Section A-4

⁵⁰ ILO: *Social security in Indonesia: Advancing the development agenda*. (Jakarta, 2008).

9. Measures to avoid deflationary wage spirals through social dialogue, collective bargaining, statutory or negotiated minimum wages

In October 2008 the Ministers of Manpower and Transmigration, Trade, Industry and Home Affairs issued a Joint Ministerial Decree capping increases in regional minimum wages at the national economic growth rate. The cap was designed to help enterprises cope with the global economic slowdown and to prevent layoffs, as it was expected that the annual deliberations on wage increases would result in regional minimum wages being raised beyond the capabilities of manufacturing firms. However, after engaging in policy dialogue and a series of protests by unions, the cap was modified to take into account inflation rates in respective regions.

10. Measures to regularly review and update minimum wages

Since decentralization in 2001, minimum wages have been set by regional governments. The minimum wage reflects local living wages, the value of which are established by consensus between Workers' and Employers' Organizations. The mechanism itself is sound; however, high inflation necessitates a constant increase of the minimum wage irrespective of business conditions and the financial situation of individual companies. In 2009 the simple average minimum wage increase of all regions was 11.2 per cent. Policymakers thus face a dilemma between compensating low-wage earners for inflation by increasing minimum wages and supporting the survival of crisis-hit companies. It is worth noting that during the crisis non-compliance with minimum wage regulations increased - the share of employees receiving less than minimum wage went up from 38.2 per cent in 2008 to 43.7 per cent in 2009. The Minimum Wage Fixing Convention, 1970 (No. 131) provides important guidance in this regard.

11. Measures to ensure that negotiated wage rates in procurement contracts are respected

To date, no specific measures have been taken to this effect in response to the crisis.

12. Measures to narrow gender pay gaps

Indonesia is addressing gender pay gaps by promoting gender equality at work. For example, the MOMT has established an interagency working group to review the status of the Equal Employment Opportunity Guidelines, 2005, the Code of Practices on Sexual Harassment Prevention and Management at the Work Place was created; and a national campaign on Equality at Work will be launched in 2011 to raise awareness and further narrow gender gaps including wages. In addition, pilot projects on gender-responsive budgeting and planning are being implemented at the Ministries of National Education, Home Affairs, and Public Health and BAPPENAS. Participatory gender auditing has been introduced to identify challenges in narrowing gender gaps and the Ministries of Women's Empowerment and National Education are conducting audits. Finally, International labour standards on gender equality - the Discrimination (Employment and Occupation) Convention, 1958 (No. 111) and the Equal Remuneration Convention, 1951 (No. 100) - will be integrated into the training curriculum for Supreme Court Labour Judges. Yet despite all these efforts challenges remain, notably, collection and analysis of reliable sex-disaggregated labour and workplace data is still lacking.

13. Measures for domestic and international migrant workers migrant workers, protection and support in receiving countries, or measures ensuring the protection of migrant workers in the case of return

According to the National Agency for the Placement and Protection of Indonesian Overseas Workers,⁵¹ until 2008 there were about 4,300,000 documented Indonesian migrant workers, primarily in Malaysia, the Middle East, Singapore and Hong Kong. In 2008 alone, these workers sent US\$ 8.24 billion in remittances back to Indonesia. The majority of Indonesian migrant workers are women and the largest occupation category is domestic work. Most Indonesian migrant workers are employed in the informal economy. According to BNP2TKI, out of a total of 450,097 workers placed overseas in 2008, 345,922 worked in the informal economy.

The global financial crisis affected the main destination countries of Indonesian migrant workers, with the worst hit sectors being electronics, manufacturing, and to some extent plantations in East and Southeast Asia. The construction sector in the Middle East as well in as East and Southeast Asia reduced available jobs for migrant workers. As a result, some migrant workers returned early as their contracts were cut, while others stayed in the destination country as undocumented migrant workers in search of job opportunities. Male documented and undocumented migrants working in these crisis hit sectors were worst affected.⁵² Of an estimated 5.8 million documented and undocumented migrant workers abroad in December 2008, the MOMT indicated that some 250,000 had been laid off and had returned home before their contracts had expired.⁵³ Some 65 per cent of migrant workers were domestic workers who have become almost indispensable in destination countries in East and Southeast Asia. Increasing female labour force participation necessitates the services of domestic workers and furthermore, domestic workers complement or substitute public investment in the care economy in destination countries. The trend towards feminization of documented labour migration in Indonesia was thus intensified during the crisis.⁵⁴

In 2009, the newly elected Indonesian Government acknowledged that there was room for improvement in the system of placement and protection of Indonesian overseas workers. Some of the challenges that were identified and mentioned in the RPJM 2010-2014 include: 1) inadequate provision for the protection for migrant workers in the Placement and Protection of Indonesian Migrant Workers Law, 2004 (No. 39); 2) Difficulties regulating private agencies; 3) the lack of awareness and respect for labour rights of migrant workers, especially those of female migrant workers, 4) the need to expand and strengthen access of migrant workers to banking services, 5) the need to strengthen current insurance schemes for migrant workers; and 6) the need to improve the remittance system for the benefit of migrant workers.

In order to address these issues and to improve protection for Indonesian migrant workers, the MOMT planned the following actions for the next five years:

⁵¹ BNP2TKI matches workers to a number of overseas job opportunities. Such opportunities include jobs as nurses in Japan, construction workers in Hong Kong and Macau, fruit pickers in Australia and New Zealand, and mechanics in Europe.

⁵² The Impact of the global economic crisis on Indonesian migrant workers: an in-depth study, Project Combating Forced Labour and Trafficking of Indonesian Migrant Workers, ILO Jakarta, unpublished publication, 2009

⁵³ The Jakarta Post: "250,000 migrant workers sent home", 18 December 2009.

⁵⁴ ILO: *The Impact of the Global Economic Crisis on Indonesian Migrant Workers an In-depth study*, Project Combating Forced Labour and Trafficking of Indonesian Migrant Workers, (Jakarta, 2009), unpublished document.

- Ratify the UN Convention on Migrant Workers;
- Amend Law No. 39, 2004 on the placement and protection of Indonesian migrant workers and issue implementing regulations;
- Increase the number of prospective migrant workers able to benefit from pre-departure services offered by local offices of Labour and Transmigration (Disnaker);
- Increase the number of prospective migrant workers who attend a pre-departure briefing;
- Issue Migrant Workers' Identity Cards;
- Establish computerized database system of Indonesian Overseas Workers;
- Deploy more Labour Attachés.

The RPJM 2010-2014 also lays out plans for the Ministry of Foreign Affairs to increase the number of Citizen Service Centres, which provide services to migrant workers, to improve the quality of the database of overseas Indonesian citizens, and to provide legal assistance for Indonesian citizens abroad including migrant workers. The Coordinating Ministry of Economic Affairs plans to coordinate the development of financial services such as loans, insurance and remittance schemes for migrant workers.

Furthermore, the Parliament is planning to hold parliamentary debates in 2010 on two issues relating to labour migration. The first regards amendment of Law No. 39, 2004 and the second regards the development of a Law on the protection of domestic workers, with implications for migrant domestic workers.

In addition, in December 2008, the MOMT indicated that it would intensify its voluntary transmigration programmes to relocate workers who lost their jobs as a result of the crisis to areas less impacted by the crisis.

C. Strengthening respect for International Labour Standards

1. *Increase vigilance to achieve the elimination and prevention of an increase in forms of forced labour, child labour, trafficking, and discrimination at work*

In 2009, BAPPENAS launched its National Access to Justice Strategy to strengthen the enforcement of people's rights, particularly the rights of the poorest and most vulnerable segments of the population. Included in this strategy is a particular focus on developing mechanisms to strengthen the enforcement of child labour laws and protection of Indonesian migrant workers. The Strategy also seeks to enhance protection of the right to freedom of association and the fundamental rights of the poor through law and policy reforms and by providing better access to, and improving, formal and non-formal justice mechanisms⁵⁵. Though the strategy was not specifically designed to respond to the crisis, it aims to address ongoing challenges to the enforcement of labour standards. At the point of writing, the Government has yet to develop specific implementation plans for the Strategy relating to activities and targets for migrant workers; and the strengthening of justice institutions for the realization of freedom of association and fundamental rights. According to anecdotal accounts from trade union leaders, legal aid providers and judges in Industrial Relations Courts (IRCs), these labour

⁵⁵ BAPPENAS: *National Strategy for Access to Justice*, (Jakarta, 2009).

standards have not been reliably implemented by employers or enforced consistently by dispute settlement institutions including labour courts.⁵⁶

It was noted by the Government, workers' and employers' organizations that the impact of the crisis on living standards could put pressure on poor families to withdraw their children from school. There is concern that there was an increase in practices contravene the two key ILO Conventions on child labour - the Minimum Age Convention, 1973 (No. 138) and the Worst Forms of Child Labour Convention, 1999 (No. 182). In 2010, BPS published a joint study with the ILO entitled the Indonesia Child Labour Survey⁵⁷. This survey is the first of its kind in Indonesia and represents an important first step towards understanding child labour in Indonesia. According to the survey, out of a total 58 million children aged between five and 17 in Indonesia, some 4.05 million are working children and 1.76 million are engaged in child labour⁵⁸. By establishing a clearer picture of child labour in Indonesia, the Government can better address the challenge of eliminating it.

While a study on the impact of HIV/AIDS on the socio-economic conditions of households in Indonesia was carried out in 2009, more research is needed to establish a dynamic picture of the effects of the crisis on people living with HIV/AIDS. Those living with or affected by HIV and AIDS often belong to the most vulnerable segments of society and in times of economic crisis it is the most vulnerable that tend to be hit first and hardest. People living with HIV/AIDS often endure hardship in the form of "various chronic diseases, loss of jobs and income, increased expenses for health, decreased savings..., psychological pressures and diseases, discrimination and social limitations,"⁵⁹ Increased precariousness and loss of livelihoods may lead to increased risk of exposure to HIV infection and interrupted treatment, with possibly fatal consequences.

Marginalised and vulnerable groups of workers such as women, people with disabilities and indigenous peoples were not specifically targeted in by Indonesia's crisis response package. Nonetheless, the Government is strengthening its commitment to gender equality through a number of initiatives including Integrated Services Centres for the Empowerment of Women and Children, Integrated Crisis Centres, the development of a Code of Practice on Sexual Harassment at the Workplace, the establishment of an inter-agency working group on Equal Employment Opportunities and continued efforts to meet its targeted quota of 30 per cent female representation in the civil service.

The ILO has conducted training workshops on Participatory Gender Audits with representatives of the Government, workers' and employers' organizations in Indonesia. This will enhance their ability to mainstream gender in their respective organizations and address the challenge of gender-based discrimination in the workplace.⁶⁰ The MOMT has also indicated its intention to create an Equal Employment Opportunities Commission and to issue and promote guidelines on sexual harassment in the workplace.

⁵⁶ Focus group discussions facilitated by the ILO staff PHI judges and stakeholders.

⁵⁷ ILO: *Working Children in Indonesia* Indonesia Child Labour Survey, (Jakarta, 2010) http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms_123585.pdf [14 June 2010].

⁵⁸ The term child labour refers to: 1) all working children aged 5-12 years, regardless of their working hours, 2) working children aged 13-14 years who work more than 15 hours per week, and 3) working children aged 15-17 years who work more than 40 hours per week.

⁵⁹ BPS, UNDP, ILO, UNV and JOTHI: *A Study on the Socioeconomic Impacts of HIV/AIDS on Households*, (2009).

⁶⁰ ILO: "Building Capacity, Strengthening Equality", *ILO Jakarta Newsletter*, (Jakarta, Sept. 2008).

The Government is strengthening efforts to harmonize national, regional and district laws governing industrial relations to ensure fundamental rights of workers are strongly reflected in local policies and understood by local governments. The MOMT was particularly active in disseminating information to provincial and local governments on discrimination principles in 2010.

2. Measures to increase the respect for freedom of association, the right to organize, and the effective recognition of the right to collective bargaining

No specific national policy measures were implemented to strengthen respect for freedom of association and the right to organize and bargain collectively as a result of the crisis. The National Strategy on Access to Justice includes objectives designed to strengthen respect for freedom of association, but action plans to achieve these goals have not yet been developed.

In response to on-going challenges to the realization of these rights, the RPJM 2010-2014 and the MOMT's five-year Strategic Plan (RENSTRA 2010-2014) set out aims to strengthen the protection of workers' rights, promote decent work and improve industrial relations regulations. The plans include reforming existing legislation, including the Manpower Law, 2003 (No. 13); the Industrial Relations Dispute Settlement Law, 2004 (No.2); and the Trade Unions Law, 2000 (No. 21).⁶¹

3. Measures that recognise the relevance of international labour Conventions and Recommendations⁶²

The Government of Indonesia completed the ratification of all eight ILO core Conventions in 2000. Since then, it has ratified three additional Conventions, the Seafarers' Identity Documents Convention (Revised), 2003 (No. 185), the Labour Inspection Convention, 1947 (No. 81), and the Employment Service Convention, 1948 (No. 88). In this regard, a comprehensive review of Indonesia's ratification records is recommendable to ensure adequate coverage of all four pillars of the Decent Work Agenda. The ILO has actively engaged in dialogue with the Government on various Conventions.⁶³ While Indonesia's national laws largely reflect its international commitments, there remain some important gaps in the national framework and challenges in implementation that the Government needs to address (see Box 4).

⁶¹ Government Decision No.41A/DPR on the Stipulation Agreement RI/I/2009-2010, Prolegnas 2010-2014; Ministry of Manpower & Transmigration, RENSTRA.

⁶² These include ILO instruments concerning employment policy, wages, social security, the employment relationship, the termination of employment, labour administration and inspection, migrant workers, labour conditions on public contracts, occupational safety and health, working hours and social dialogue mechanisms.

⁶³ In particular, Conventions No. 169 on Indigenous and tribal peoples' rights, No. 143 on Migrant Workers and Conventions relating to Occupational Health and Safety, and Employment Creation (notably No. 122). Consideration, involving workers and employers' organizations, of ratification of Conventions on wage policy (No. 95, No. 131 and No. 173), on night work (No. 171, No. 89 and No. 89) and on Occupational Safety and Health (No. 155, No. 187) is especially pertinent.

Box 4. Compliance with ratified ILO Conventions

The Committee of Experts on the Application of Ratified Conventions (CEARC), recently commented on the following issues which need to be addressed to achieve compliance with international commitments:⁶⁴

The Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87): the lack of understanding of the role of police in workers' demonstrations and strikes; the use of sections 160 and 335 of the Criminal Code to imprison workers for "instigation" and "unpleasant acts" in strikes or demonstrations; the inadequate recognition of civil servants' right to organize; and restrictions to workers' exercising the right to strike.

The Abolition of Forced Labour Convention, 1957 (No. 105): punishments, including compulsory labour, for expressing political views opposed to the current political order (need to amend sections 107(a), 107(d) and 107(e) of Criminal Code in Relation to Crime against State Security Law, 1999 (No. 27); and recourse to compulsory labour as a punishment for having participated in strikes (need to amend sections 139 & 185 of the Manpower Law, 2003 (No.13).

The Right to Organise and Collective Bargaining Convention, 1949 (No. 98): inadequate prevention of trade union discrimination against unionized workers; and inadequate protection against acts of interference by employers (need to amend section 122 of Manpower Law, 2003 (No.13).

The Worst Forms of Child Labour Convention, 1999 (No. 182): a legal framework for the protection of domestic workers is lacking, leaving child domestic workers more vulnerable to the worst forms of child labour; and efforts to address child labour, particularly the trafficking and sexual exploitation of children need to be strengthened.

The Forced Labour Convention, 1930 (No. 29): Law No. 39, 2004 on the placement and protection of Indonesian workers abroad does not provide effective protection for migrant workers against the risks of exploitation due to its vague provisions; and inadequate labour protections for migrant workers in bilateral agreements and national policies.

The Minimum Age Convention, 1973 (No. 138): children in self-employed or non-standard employment relationships are excluded from protection; to address this, the scope of the Manpower Act needs to be expanded to cover self-employment and employment without a clear wage relationship.

The Equal Remuneration Convention, 1951 (No. 100): the lack of explicit guidance to employers on their obligation to provide equal remuneration for equal work needs to be addressed by adding an explicit legal expression on the principles of Convention No. 100 in Manpower Law, 2003 (No. 13).

The Discrimination (Employment and Occupation) Convention, 1958 (No. 111)): there is a lack of a clear definition of direct and indirect discrimination (need to amend Law No.13 of 2003); inadequate protection against race-based discrimination (particularly in Kalimantan and Papua); and inadequate protection from sex-based discrimination, especially with regards to maternity.

The Government has strengthened its efforts to raise awareness on Conventions No. 100 and No. 111, conducting information dissemination and training among provincial Government officials. It requested technical assistance and support from the ILO Jakarta Office in this regard, particularly for the development of sexual harassment guidelines and training of local government officials, employers and workers on their obligations and rights in relation to equal employment opportunities and workplace harassment. Efforts toward gender mainstreaming and gender budgeting have begun

⁶⁴ Note additional comments have been made by the CEARC in relation to Indonesia's application of ratified conventions. For the purposes of the Scan, only a few comments have been mentioned as an indication of some of the areas that need to be strengthened.

in four Government Ministries⁶⁵ to promote equal treatment of women. No new discussions regarding the ratification of the Workers with Family Responsibilities Convention, 1981 (No.156) or the Maternity Protection Convention, 2000 (No.183) have been entered.

Though not directly in response to the crisis, the Government has recognized the need to strengthen its labour inspectorate and to bring more workers into the formal economy where wages and working conditions tend to be higher.⁶⁶ The Government has indicated its commitment to improving workers' welfare and to protecting workers' rights in line with international labour standards. It aims to achieve this by guaranteeing freedom of association and improving systems for workers to negotiate wages and working conditions with employers. The Government has also prioritized improving the implementation of occupational health and safety regulations and application of labour standards by enterprises, particularly the right to freedom of association in the MOMT's RENSTRA 2010-2014.

The Supreme Court recognizes the importance of strengthening legal certainty and the application of national and international law through the IRC in Indonesia. As such, it has recently prioritised capacity building for PHI judge. A competency-based training curriculum for newly appointed ad hoc and career judges as well as advanced training programmes on international labour standards and domestic law are being devised in collaboration with the ILO to support judges' performance and create standard competences for PHI judges through Indonesia. The Supreme Court has requested support from the ILO in the form of longer-term capacity building for trainers and curriculum developers at the Judicial Training Institute.

Responding to an urgent need for employment creation, the Government of Indonesia expanded infrastructure investment programmes. *A Guide on Labour Policies and Practices for Employment-Intensive Infrastructure Programmes* (EIIP) explains the ILO's policies and practices for EIIP. This guide, however, is not officially incorporated in government infrastructure programmes in Indonesia. In ILO EIIP projects in Indonesia, key working conditions and labour standards are reflected in the contract documentation of the contractors who implement the work.

4. Measures to promote the application of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, including to enterprises in the supply chain

No specific measures were adopted for multinational enterprises in response to the crisis.

D. Social dialogue: identifying priorities, stimulating action, bargaining collectively

1. National agreement through tripartite social dialogue

The involvement of employers' and workers' organizations in the design and implementation of national crisis-response measures was limited during the first stages of the crisis. However, once its impact on Indonesia's employment situation became clearer, trade unions, Apindo and the Government demonstrated strong motivation to engage in bipartite and tripartite social dialogue to prevent enterprise closures and job losses. Social dialogue at the national level in response to the crisis has taken the form of tripartite and bipartite dialogue (in both newly created and established

⁶⁵ Ministry of Women's Empowerment and Children's Protection, Ministry of Education, Ministry of Public Health and Ministry of Home Affairs

⁶⁶ Ibid.

forums and bodies) on crisis-related issues and responses, such as employment and wage related measures.⁶⁷ Regular tripartite and bipartite forums have been helpful in providing a framework and commitment to address the impact of the crisis. In addition, Apindo and the trade unions are collaborating to address the effects of the ASEAN-China Free Trade Agreement (AC-FTA) on workers and employers in Indonesia.⁶⁸

Major legislation enabling the practice and development of a culture of social dialogue between the employers, workers and the Government was put in place between 2000 and 2005 and has become more entrenched. However, greater capacity building of government bodies and the social partners, particularly at the provincial, district and enterprise level is essential. The Government has attempted to strengthen the application of Convention No. 87 and Convention No. 98 and promote social dialogue at the enterprise level as an effective response to the crisis. In its October 2008 Joint Ministerial Decree on Maintaining momentum of national economic development in anticipating global economic development,⁶⁹ the Government promoted the creation of Bipartite Cooperation Institutes (BCI) to facilitate bipartite social dialogue and the early resolution and settlement of disputes at the enterprise level. However, the functioning of BCIs has varied widely throughout Indonesia. Overall, the Government, employers' and workers' organizations have not had sufficient time or capacity to fully implement the regulations on bipartite cooperation forums.⁷⁰ In many instances, the role of BCIs in enterprises is also still somewhat unclear because there is often poor understanding of the distinction between the role of BCIs and trade unions within companies. This has led to competition between both bodies in many enterprises. In such instances, trade unions have been reluctant to encourage the establishment of BCIs because they believe it would prejudice the establishment of trade unions at the enterprise level. Unless this is a clearer role for BCIs, which does not duplicate or replace the traditional role of trade unions, it will not encourage sound industrial relations or a favourable atmosphere for freedom of association and collective bargaining.⁷¹

In its RPJM 2010-2014, the Government identifies social dialogue as a key priority and aims to build a stronger industrial relations system, to promote entrepreneurship and decent employment opportunities. The Government has also identified collective bargaining on wages and other allowances and enhancing negotiations at enterprise level as areas requiring sustained efforts among the social partners in the immediate, short and long term. Significant improvements in development of mutual trust and capacity to engage in constructive dialogue around policy and employment issues has only taken place at the national level. Institutions and forums for tripartite and bipartite dialogue at the district and provincial levels exist but are underutilized and poorly understood. This is also the case for BCIs in large enterprises. Few of these forums have had practical benefit in improving industrial relations policy or practices. To remedy these weaknesses, training programmes on negotiation skills and the development of a system for 'good faith' bargaining are envisaged. Priority has also been given to bipartite settlement of disputes through direct negotiation between workers or trade unions and enterprise management and to mediation and conciliation processes. For this

⁶⁷ Ludek Rychly: *Social dialogue in times of crisis: finding better solutions*, ILO Working Paper No. 1, (May 2009).

⁶⁸ Adamrah, M: Employers, unions unite in fear of imports, *The Jakarta Post*, (19 February 2010) <http://www.thejakartapost.com/news/2010/02/19/employers-unions-unite-fear-imports.html>.

⁶⁹ Ministerial Decree Number PER.16/MEN/X/2008, 49/2008/933.1/M-IND/10/2008 and 39/M-DAG/PER/10/2008

⁷⁰ ILO Office Jakarta: *Interview with Trade Union Leaders from SBSI*, (8 February 2010).

⁷¹ ASEAN, ILO: *Emerging Industrial Relations issues and trends in ASEAN Countries in the time of financial and economic crisis – dispute prevention: Indonesia Context*, ASEAN/ILO Japan Project, (2010).

purpose, it is envisaged that changes to the Industrial Relations Dispute Settlement Law, 2004 will be made to provide for greater equilibrium and equality between disputing parties in negotiation and mediation processes.⁷²

2. Collective bargaining agreements at all levels

In sectors and enterprises which practice collective bargaining, collective agreements largely pre-date the onset of the crisis. As of December 2009, the MOMT indicated that 10,667 enterprises had registered and reported CBAs and 42,461 enterprises had issued Company Regulations. The total number of registered enterprises (with more than 20 workers) in Indonesia in 2007 was 166,000.⁷³ This indicates the vast majority of firms in Indonesia fail to comply with the Manpower Law, 2003 which requires that every enterprise with more than ten workers and no collective agreement establish a set of company regulations. Although the number of CBAs has been gradually increasing over the past ten years,⁷⁴ many CBAs merely restate provisions contained in national labour laws.⁷⁵ This is indicative of the relative weakness of trade unions and workers in bipartite negotiations and the difficulties they face in successfully concluding collective agreements at the enterprise level.

The negotiation and mediation skills of workers and employers in collective bargaining and dispute resolution vary widely, and are of particular concern in informal enterprises and micro and small-enterprises. Similarly, in workplaces with high numbers of contract, outsourced or casual labourers, workers tend to have weaker social dialogue structures and ability to engage in dialogue. The Government has prioritized strengthening bipartite negotiation mechanisms, training workers and employers in negotiation skills, and training human resource managers in industrial relations issues.⁷⁶ Trade unions and the MOMT are particularly concerned about anti-union discrimination in Special Economic Zones.

3. Tripartite monitoring mechanism of policy implementation

The Government has introduced Presidential Decree concerning Representatives of Tripartite Cooperation Institutions, 2009 (No. 37). The Decree institutionalized the National Tripartite Forum, which had previously consisted of ad hoc members and has further regulated tripartite forums at provincial and provincial levels.⁷⁷ There is currently one institution at the national level, 29 at the provincial and 195 at the district level, and the Decree requires 15 representatives to be part of each of these. In addition, a joint ministerial decree issued by the MOMT and the Ministry of Home Affairs, Decree No. 17 of 2010 has institutionalized the Tripartite Cooperation Forum at the provincial and district level (LKS-TRIDA), effective from the 8th February 2010. This decree aims to facilitate the

⁷² BAPPENAS: *Draft National Medium Term Development Plan (RPJM) 2010-2014: Job Creation*, (2010).

⁷³ World Bank: *Indonesia Jobs Report: Towards better jobs and security for all*,(2010).

⁷⁴ See, Susannah Palmer: *Freedom of Association and Collective Bargaining: Indonesian Experience 2003- 2008*, ILO Working Paper, (Geneva, 2008).

⁷⁵ Patrick Quinn: *Freedom of Association and Collective Bargaining: A Study of Indonesian Experience 1998-2003*, ILO Working Paper, (Geneva, 2003).

⁷⁶ Ministry of Manpower and Transmigration Resntra 2010-2014.

⁷⁷ Statement by Sjaiful DP, Former Tripartite Cooperation Institution member (General Chairman of KEP KSPI). Article 107 of the Manpower Law, 2004 No. 13, calls for the establishment of Tripartite Cooperation Institutions at the district, provincial and national levels. These bodies serve as forums for communication, consultation and deliberation between the Government and social partners.

monitoring labour-related laws at the national, provincial and district level. It also gives the MOMT and Ministry of Home Affairs the authority to oversee the functioning of the tripartite body at the provincial and district levels.

The National Institution meets regularly and provided advice to the National Government on the development and amendments to Joint Ministerial Decree No. 17 and issues recommendations to tripartite bodies at the provincial level. However, the capacity and functioning of tripartite forums at the provincial and district levels has varied greatly both before and during the crisis.⁷⁸ With tripartite cooperation institutionalized at all layers of administration, capacity building of the social partners, especially at provincial and district level is ever more important and as such is a high priority of both Apindo and the Trade Union Confederations.

4. Strengthen capacities for labour administration and labour inspection

The Government has not implemented any measures in response to the crisis to strengthen labour inspection or labour administration, but has recognized the need to do so, particularly with regard to child labour and the application of labour laws for female workers in Special Economic Zones.⁷⁹ The Government has indicated commitment to improving its labour inspection institutions through (1) strengthening the technical capacity of inspection officials in analysis of the application of labour standards; (2) creating a certification programme on labour norms and a consistent approach to labour inspection; (3) strengthening information management; (4) strengthening the role of inspectors in investigating breaches of labour law; and (5) improving cooperation with communities and stakeholders in labour inspections. Currently, the coordination of labour inspection between the National Government and Provincial Manpower Offices is weak and insufficient financial and human resources have been allocated to labour inspection by Provincial and District Manpower Departments.

The Government has recognized the need to make dispute settlement processes more efficient and equitable by improving the procedure and capacity of dispute settlement. In recent years, there have been significant reforms and a restructuring of the dispute settlement system. The Industrial Relations Dispute Settlement Law, 2004 (No. 2) provides for various dispute settlement bodies and procedures, namely: bipartite settlement, mediation, conciliation, arbitration and IRC, as a last resort the Supreme Court. However IRCs face a number of performance challenges. IRCs are often difficult for workers to access (in terms of physical and financial access, time, and knowledge); decisions can be slow and unpredictable; and there remains significant confusion among users regarding the nature and types of cases subject to IRC jurisdiction. Ambiguity around the application of civil procedure and Law No. 2 of 2004 exists, resulting in inconsistent application of the law by IRC judges and a significant degree of legal uncertainty. The integration of labour dispute settlement into the jurisdiction of the Supreme Court and consequential application of sophisticated legal procedures (civil procedure) has also had a significant impact on the ability of workers and trade unions to defend their interests.

Currently, time restrictions on the settlement of disputes at each of the dispute settlement bodies are not consistently respected. The majority of labour disputes being submitted to the IRCs are subsequently being appealed to the Supreme Court, resulting in an increasing backlog of cases and significant delays in receiving the final verdict. As of July 2010, the Supreme Court had a backlog of over 400 labour dispute cases.⁸⁰ This is of particular concern for employers and workers involved in

⁷⁸ ASEAN/ILO: *Emerging Industrial Relations issues and trend in ASEAN Countries in the time of financial and economic crisis – dispute prevention: Indonesia Context*, ASEAN/ILO Japan Project, (2010).

⁷⁹ Ministry of Manpower & Transmigration RENSTRA 2010-2014.

⁸⁰ Pak Agung at the Supreme Court on Monday 28th June 2010.

termination of employment cases, which represent over 80% of the labour dispute cases handled by the IRC.⁸¹ Long delays in outcomes cause increased uncertainty over employment status, income and security for workers, render reinstatement almost impossible and lead to late payment of compensation. For employers, it becomes increasingly difficult to manage production plans, especially when these involve large number of workers. The Supreme Court has recognized these challenges as well as the need to strengthen judicial supervision, knowledge sharing and training, to improve case management and the management of data and to enhance capacity to enforce decisions of the IRC.

Dispute resolution mechanisms which do not involve a court process, such as negotiation and conciliation are underutilized by workers and employers. Of these “alternative dispute resolution” mechanisms, mediation is the preferred option for early dispute settlement. However, the non-legally binding nature of agreements reached and lack of obligations on parties to enter negotiations in ‘good faith’ have resulted in low success rates and an increasing reliance on the IRC.⁸² This again increases the strain on IRC resources and is indicative of the weak capacity of users to engage in bipartite dispute resolution and low levels of trust between parties to implement agreed solutions to disputes.

There have been a number of complaints from workers and trade unions concerning alleged improper intervention of the police in labour disputes, and further allegations that that the police favour employers against the interests of workers. Trade unions are also concerned about the manner in which police respond to complaints, particularly with regard to alleged violations of the right to freedom of association and trade union busting. Significant attention on building the capacity of the police force to professionally and efficiently respond to disputes and reports is needed. Specific procedures and mechanisms for police to deal with industrial disputes need to be developed and implemented throughout Indonesia.

5. Have the social partners been involved in shaping and implementation of crisis response measures?

In the process of developing the 2008 Joint Ministerial Decree on minimum wage capping, the MOMT sought and incorporated advice from the National Tripartite Cooperation Institution. Though the wage capping was designed to apply only for the duration of the crisis,⁸³ trade unions and their supporters in Bandung, Medan and Semarang joined forces to oppose the Joint Decree on, claiming it violated the 2003 Labour Law. Workers were concerned that the Government was using the crisis context as a platform to support business interests at the expense of workers. Particularly as the Government had said the crisis would not greatly affect Indonesia's economy.⁸⁴ Following a series of protests by unions, the clause was modified so that wage increases took inflation rates into account in the respective regions.

In 2008, Apindo and the three major Trade Union Confederations (KSBSI, KSPI, and KSPSI) established a bipartite forum aimed at assisting the settlement of labour disputes and to facilitate discussions on labour law reform. Among the labour laws to be given priority for discussions in the forum were the National Social Security System Law, 2004 (No. 40), the Trade Union Law, 2000 (No. 21) the Manpower Law, 2003, the Industrial Relations Dispute Settlement Law, 2004 as well as

⁸¹ *ibid.*

⁸² PHI Statistiks from Jakarta and Surabaya PHI

⁸³ The Jakarta Globe: “Labor activists demand review of minimum wage”, (25 November 2008).

⁸⁴ The Jakarta Post: “Workers against ministers’ minimum wage joint decree”, (17 November 2008).

regulations seen as overlapping or excessively restrictive. The forum works collaboratively, through discussion and mediation, and Government involvement is needed only to give official recognition to agreements reached. The forum was also designed to support the early resolution of disputes and prevent company lockouts. Although the forum was created in early February 2008, its existence became more relevant with the deepening of the crisis. While great attention has been given to strengthening social dialogue at the national level, provincial and district level forums remain weak, despite the fact that they are equally important given Indonesia's decentralized governance structure.

Part III: Shaping a fair and sustainable globalization

This part of the Country Scan is based on Section IV of the Global Jobs Pact. It recognized that the inseparable, interrelated and mutually supportive nature of the four strategic objectives in the Global Jobs Pact is increasingly looked to, not only as an effective crisis response and recovery strategy, but as the framework of a new social and economic development paradigm, characterized by employment-centred and income-led growth with equity.⁸⁵

A. Policy coordination, coherence and cooperation between government ministries

Since policy relating to employment creation and social protection is developed and implemented by various government ministries and agencies, improved policy coherence and coordination would enhance crisis response. If job-rich recovery and growth are to take place, employment must be at the heart of economic and social policies. The ILO's Global Employment Agenda whose principal aim is to make employment central in economic and social policy making in order to create more and better jobs, was adopted by the ILO's Governing Body in March 2003 with strong tripartite consensus and support.⁸⁶ This implies that core macroeconomic policies including the fiscal, monetary and exchange rate policies should be geared to contribute to the goal of full and productive employment and decent work for all, including women and young people. Regarding fiscal policy, policymakers in Indonesia have become increasingly aware of the employment effects of government spending. As described in the Section A-2 of Part B, the Government intends to work with the ILO to develop a tool to improve understanding of the impact of public spending on employment. Regarding monetary and exchange rate policy, however, there is no evidence that decent work and employment creation are integrated as policy goals, or that employment impact assessments to evaluate policy are carried out. There is concern that the established monetary and exchange rate policies may hinder employment creation. Bank Indonesia set rigid inflation targets⁸⁷, which proved ineffective in controlling price hikes during the recent commodity boom. At the same time, high interest rates were damaging employment creation, while real wages had been stagnating or even declining since the 1997 Asian financial crisis⁸⁸. Currency appreciation has also reduced the price

⁸⁵ ILO: *Report of the Committee for the Recurrent Discussion on Employment*, International Labour Conference, 99th Session, Geneva, June 2010.

⁸⁶ ILO: *Global Employment Agenda*, (Geneva, 2003).

⁸⁷ BI: *Inflation Targeting Framework* (Jakarta, 2010).
<http://www.bi.go.id/web/en/Moneter2/Inflation+Targeting/Inflation+Targeting+Framework/>

⁸⁸ See: Dhanani. D.; Islam. I.; Chowdhury.A: *The Indonesian Labour Market: Changes and challenges* (London and New York, Routledge, 2009.) and Papanek, G.F: *Constraints to growth and poverty*

competitiveness of Indonesian exporters and producers competing with imports, triggering a slowdown in the labour-intensive manufacturing sectors and exacerbating the problem of youth unemployment.

In addition to coherence between different government ministries and agencies, it is equally essential that collaboration be strengthened between the national, provincial and district levels of government. Stronger cooperation and communication is needed at all levels to ensure effective implementation, enforcement and monitoring of national law and labour standards. For example, local policies need to be harmonized with national laws governing employment and labour relations and knowledge transfer between the different layers of government needs to be enhanced.

Policy coherence also implies that workers and employers have the capacity to engage in policy debates at the national and sub-national level. Ensuring that workers' and employers' organizations have such capacity will require strategic and targeted training as well as an increased availability of data and information.

B. Policies that promote efficient and well-regulated trade, and markets that benefit all and avoid protectionism. Varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets

The Government has demonstrated commitment to the reduction of trade barriers through its membership in the ASEAN Free Trade Area, participation in the formation of ASEAN Free Trade Agreements between China, India, Japan, South Korea and the Australia-New Zealand Free Trade Area,⁸⁹ as well as in current trade negotiations in the WTO. In addition, ASEAN member states plan to establish the ASEAN Economic Community by 2015,⁹⁰ which will result in lower barriers to investment and trade in services within the region. While free trade agreements and the establishment of the ASEAN Economic Community may increase competition for Indonesian businesses, they also increase the size of potential markets and the scope for the expansion of businesses and employment both at home and in the region.

The pace of liberalization, however, has led some members of the Government, employers' and workers' organizations to express concern about the potential impact of the AC-FTA on the sustainability of Indonesian enterprises and jobs in light of the crisis⁹¹. In January 2010 the Government stated intentions to renegotiate the agreement, slowing tariff reductions in some sectors, while applying them more quickly in others⁹².

Despite the anticipated socio-economic benefits of liberalization, a greater integration of Indonesia into regional and global trade networks will inevitably lead to adjustment costs and

reduction in Indonesia, paper submitted to Boston Institute for Developing Economies and the ADB, (October 2009).

⁸⁹ Limsamarnphun, N: "World's largest trading zone creates a new era for industries, consumers," *The Nation*, 5 Jan. 2010. http://www.nationmultimedia.com/2010/01/05/business/business_30119699.php.

⁹⁰ ASEAN: *ASEAN Economic Community Blueprint*, (ASEAN Secretariat, Jakarta, 2008). <http://www.aseansec.org/5187-10.pdf>

⁹¹ Lim, I. and Kauppert, P: *Facing a Political Lock-In Situation with the AC-FTA: Which options for Indonesia?* (Friedrich Ebert Stiftung, Jakarta, 2010).

⁹² Rosendar, Y. and Ariffahmi, D: "Indonesia Notifies Asean of Plan to Renegotiate China FTA," *Jakarta Globe*, 4 Jan. 2010. <http://thejakartaglobe.com/home/indonesia-notifies-asean-of-plan-to-renegotiate-china-fta/350798>

hardship for some workers and firms. Implementing active labour market policies to facilitate transitions from one job to another as well as to support access to the labour market for those without a job will help mitigate these challenges. It is increasingly important that thorough analysis is carried out to assess, address and monitor the effects of trade on employment. Accurate information would be helpful in formulating effective and coherent trade, labour market and social policies addressing adjustment challenges that may confront workers and employers.

C. Policies, including industrial policies, that enhance economic diversification by building capacity for value added production and services to stimulate both domestic and external demand

Indonesia needs to invest in infrastructure, education and human capital to push the economy into a higher, more sustainable and inclusive growth path. Capacity building and entrepreneurship training will be critical in creating employment and enabling Indonesian producers to increase their competitiveness in the region. Employment growth significantly slowed down in the manufacturing and the construction sector after the 1997 Asian financial crisis (Table 7). Furthermore, by 2005 the majority of the workforce were working poor, with 71.1 per cent of workers earning less than US\$ 2 per day.⁹³

Table 7. Employment growth by sector (1990-95 and 2000-05)

	1990-95		2000-2005	
	Employment growth (No. jobs created)	Annual growth rate (Per cent)	Employment growth (No. jobs created)	Annual growth rate (Per cent)
Agriculture	-6,549,421	-3.46	629,547	0.31
Mining & quarrying	120,954	4.33	452,263	14.88
Manufacturing	2,433,208	5.80	311,229	0.53
Electricity, gas & water	80,978	9.87	124,013	22.48
Construction	1,700,138	12.86	1,068,222	5.48
Trade, restaurant & hotels	2,846,721	4.77	-579,858	-0.64
Transportation, storage & communications	1,145,204	8.41	1,098,986	4.42
Financing, insurance, real estate & business services	180,732	6.63	259,252	5.29
Community, social & personal services	2,922,146	5.73	757,003	1.53
Total	4,880,660	1.30	4,120,657	0.90

Source: BPS. ILO staff calculation

As Indonesia struggles to restructure its economy, it relies on the agricultural sector to absorb labour. Assuring an enabling business environment and developing human capital will be key policy goals to unleash Indonesia's growth potential. Indonesia is behind other countries in the region in terms of educational attainment (Table 8). Low levels of education in the workforce make it difficult for enterprises to adopt new technologies and modernize production processes, impacting on efficiency and productivity.

⁹³ ILO: *Key Indicators of the Labour Market 6th edition*, (Geneva, 2009).

Table 8. Share of workforce by education (% of total, 2007)

	Labour force with primary education	Secondary education	Tertiary education
Indonesia	55.7	20.6	6.5
Malaysia	19.3	56.3	20.3
Philippines	31.7	38.7	27.7
Singapore	27.7	48.6	23.7

Source: World Development Indicator, the World Bank

The Government is aware the need to improve the investment climate in Indonesia to attract foreign businesses, support trade and increase decent employment opportunities. It committed to reducing the costs of doing business in Indonesia in its RPJM 2010-2014 by, for example, improving legal certainty, reducing the costs of establishing a business, reforming taxes and improving access to information.

Central to improving the investment climate is the harmonization of district and provincial laws with the national framework and improving the industrial relations system. Legal certainty and a stable industrial relations environment are conducive to attracting foreign investment, and improving enterprise growth and working conditions. As such, building capacity of workers' and employers' organizations to effectively engage in collective bargaining and bipartite dispute resolution is vital. Key ingredients of successful and mutually beneficial collective bargaining include the availability of relevant data, and ability of both parties to analyze and use that data.

D. National supervisory and regulatory framework for the financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions of people

The global economy is widely forecast to modestly rebound in 2010 and with the recovery of financial markets expected to underpin the real economy. As of the end of August 2010 most financial authorities in advanced economies, however, continue monetary easing and are hesitant to exit the current policy stance prematurely and risk pushing the economy back to recession. Indonesian monetary policies create a contrast to this. Though lowered, the policy rate remained as high as 6.5 per cent between August 2009 and September 2010. In addition, as commodity prices pick up, cash flow into Indonesia is increasing as a result of exports activities. This has encouraged short-term investment and speculation leading to a sharp rise in the Indonesian stock index. As a result, the Indonesian Rupiah has been appreciating against major currencies throughout the first half of 2010. Importantly, the increasing value of the currency has reduced competitiveness of Indonesian exporters and producers who compete with imported goods and services.

The boom in the financial market combined with a protracted recovery of the real economy is increasing the vulnerability of the Indonesian economy. When advanced countries depart from their current extraordinary expansionary monetary policies, the money flow to Indonesia may be reversed unless the real economy of Indonesia shows strength. Though the national supervisory and regulatory framework for the financial sector was strengthened after the 1997 Asian financial crisis, policymakers need to stay alert to financial market and real economy indicators to ensure the gap between the financial and real sectors remain within a reasonable range.

E. Policies that contribute to building adequate social protection for all, drawing on a basic social protection floor including: access to health care, income security for the

elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor

Extension of social protection can be achieved through "horizontal" and "vertical" expansion (see Box 3). The horizontal dimension of that strategy envisages that countries which have not yet achieved universal or widespread coverage should first aim to put in place a basic set of social security guarantees for all. The vertical dimension envisages the development of coverage through higher levels of protection when the fiscal space expands due to further economic development. Universal social protection ensures that all people everywhere have access to basic income security, health care, education, food security, unemployment and family protection, water, sanitation, and housing, as well as life and asset saving information.

Box 5. Building social protection floor for all

Building a social protection floor requires that essential services are available and that all population, especially the poor and the vulnerable, have access to these services. Essential services include water and sanitation, adequate nutrition, health and education, housing, life and asset saving information, etc. This list is not written in stone and may differ from one country to another according to specific needs and priorities. Availability of the essential services can be guaranteed through the development of a comprehensive infrastructure network including schools and health centres with sufficient funding to enable a proper operation of services. Provision of social transfers in cash or in kind can increase people's ability to access these services. For instance, access to basic education may be facilitated through school transportation systems, scholarships, school feeding programmes and conditional cash transfers. Access to basic health may be enhanced through the establishment of a subsidized health insurance scheme. Access to adequate nutrition may be enhanced through distribution of subsidized food. Providing minimum income security to the poor helps them meet many of their basic needs. Income security may also be channelled through employment guarantee schemes for the working age population or through a guaranteed minimum income for those groups who cannot work such as the elderly and people with disabilities.

Since the social protection floor will generate a greater demand and expectations from the population, it is important that the supply of social services is sufficient to meet increasing demand. It is also essential to enhance the complementarities and synergies among various social protection mechanisms and schemes in place. A holistic approach to assessing and understanding the vulnerabilities of deprived households and their needs for basic income support, childcare, access to healthcare and education, skills development and employment opportunities can lead to better social protection. In this regard, a single ID card system and a system of "one-stop-shop" that conducts needs assessment and arranges and channels the necessary social protection to the targeted households may be considered.

The government of Indonesia has already made significant efforts towards the establishment of a social protection floor. Access to health care is today guaranteed to the poor and near poor through the Jamkesmas scheme that covers 76.4 million people. The Government is also committed to implement universal health insurance by 2014. The social protection floor in Indonesia also includes other components such as food security through the "rice for the poor" programme as well as access to health and education through a conditional cash transfer scheme which the Government intends to expand. Public works programmes can also be seen as components of the social protection floor. The programmes have created over a million additional jobs of an average duration of 40 to 50 days, mitigating the impact of the crisis on poor households.

In order to achieve the goal of building a social protection floor for all, the following challenges need to be addressed:

- Most social assistance measures are still scattered and incidental rather than emerging from a universal guarantee or rights based approach; there is therefore a need to develop a consistent and coherent social protection floor strategy based on an assessment of existing schemes, identification of good practices that could be scaled up, costing exercises and discussion on the fiscal space.

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- There is a need to improve the availability, accessibility and quality of health care services and education.
 - There is a need to link existing social protection programmes and initiatives with employment creation and skills development policies and other strategies to reduce the vulnerabilities of the poor.
 - A unified and holistic approach towards delivery of social services is recommendable for example through the creation of a one-stop-shop service centre channelling social security and providing referral to employment and training opportunities.
 - Further extension of employment intensive public works projects, for example for infrastructure development would be helpful as part of a strategy to create jobs and reduce poverty, both in the context of crisis and in the medium to long-term. Issues such as targeting beneficiaries, wage levels, selection and prioritization of schemes, community participation, labour intensity, cost-effectiveness and quality of the outputs need to be discussed.
 - Further efforts are required to progressively integrate workers in the informal economy into adapted contributory schemes that provide them with adequate coverage.
 - There is a recognized need to increase empowerment of the poor and informal economy workers through for example community based schemes.

Concerning the vertical extension of social protection, the government of Indonesia is committed to enhancing Jamsostek by accelerating its change in legal status into a Trust Fund, which should improve net returns to members. All these transformation occur in the framework of the progressive implementation of the Law on National Social Security, 2004 (No. 40).

The ILO's Social Security (Minimum Standards) Convention, 1952 (No. 102) defines minimum requirements of social security and can serve as a benchmark to review Indonesia's current national legislation and practices. Comparing the minimum standards of social security stipulated in Convention No. 102 and Indonesia's social security and social protection policy and practice shows a number of gaps remain.

The extension of social security to the informal economy needs to be further explored on the basis of lessons learned internationally and in Indonesia through programmes such as Jamsostek's, or a pilot micro-insurance scheme that the ILO has launched in Indonesia which combines savings with health and life insurance. The ILO is also considering the development of other pilot schemes in partnership with informal economy organizations to obtain reliable data for a cost estimation of extension of social protection coverage. Ideally this kind of costing exercise is conducted as part of broader social budgeting exercises such as social protection expenditure reviews. Costing exercises would be useful to assess the viability and financial sustainability of existing and planned schemes, and would entail an important discussion on the fiscal space for social protection.

F. Policies that ensure that young women and men have the appropriate education, skills and opportunities to participate in the economy.

The Government of Indonesia recognizes the need to enhance international competitiveness by strengthening the technical and vocational skills of its labour force. In this regard it is vital for Indonesia to enhance its innovative capacity, ability to absorb new technologies and to adapt its economy to market changes. The RPJM 2010-2014 focuses on improving the quality and the relevance of vocational education so that it will meet international standards.

Efforts over the past decade to increase educational enrolment at all levels has led to progress in educational attainment particularly in rural areas and among women, however Indonesia lags behind its regional neighbours in levels of secondary and tertiary education and training. Further,

evidence indicates the educational system is not aligned with labour market demands, leaving workers without the skills they need for the workplace.⁹⁴ Skills mismatch and shortages are still not adequately addressed and need urgent attention. There are a number of ways to address these challenges in the performance of educational and vocational training systems:

- **Expand Resources for universal higher education and training:** demand for educated workers will continue to grow and furthermore, workers with higher educational attainment enjoy higher wage premiums.⁹⁵
- **Develop a comprehensive and integrated education and skills strategy:** this should contribute to sectoral priorities and address growth constraints by filling skills shortages. The strategy needs to incorporate a long-term vision for youth and strengthen coordinating mechanisms, such as the IYEN Secretariat in BAPPENAS.
- **Improve labour market information, skills data, analysis and planning:** Policy makers and workers' and employers' organizations need more and better information and analysis to make sound policy choices. Strengthening capacity of the social partners at all levels in data collection, skills demand projection and analysis is thus needed. Further, establishing a monitoring mechanism to systematically assess skills shortages and mismatch would be helpful for effective skills policy planning.
- **Accelerate revitalisation of BLKs and vocational schools at provincial and district level:** As vocational training is decentralized in Indonesia, BLKs are under the management of local governments, except for 11 centres that the MOMT manages directly. Decentralization has led to a number of challenges. Firstly, while decentralization allows local governments to accommodate local situations and reflect local skills demand in the training courses offered, awareness among local administrations about the importance of vocational training is not always high. Secondly, many BLKs suffer from insufficient funding and lacking technical facilities and qualified instructors. As a result, raising awareness and building capacity of local government remains a challenge in improving vocational training in Indonesia. A road map to revitalizing and financing the province and district run BLKs would be helpful and could draw from insights from pilot projects run by the central government as well as the ILO EAST project for useful insights.
- **Set up multi stakeholder training advisory boards and tripartite skills councils:** to improve links between vocational trainers, industry and the labour market and define strategic areas of education and training to meet demand for skills. Advisory boards should guide and regulate training centres in a number of areas, namely skills standard setting, the outcome-based curricula, instructors' qualifications, and assessment of trainees.
- **Strengthen quality assurance, accreditation and the assessment system:** Pursue ongoing efforts to develop competency and qualification frameworks for the entire vocational training system including the non-formal training system. There are ongoing efforts to set up Standard-setting and Certification Centres. Speeding up the process and involving the training advisory board would be beneficial. Quality assurance, accreditation and assessment of instructors in formal and non-formal training centres at the local levels is particularly important.
- **Better prepare young people for employment and entrepreneurship:** By incorporating work experience modules or visits to enterprises into curricula, to prepare graduates for the workplace. Training needs of young people include technical and non-technical or soft skills such as thinking skills, problem solving, foreign languages, team work, and leadership. In

⁹⁴ World Bank: *Indonesia Skill Report: Trends in skills demand, gaps and supply in Indonesia*, (2010).

⁹⁵ ILO: *A pilot project in social protection reform in the Informal economy in Indonesia*, Project Concept Note, (Jakarta, ILO Regional Office, 2009a).

addition, high quality training of teachers and counsellors involved in a school-to-work transition programmes is needed and students’.

- **Combine vocational and entrepreneurship training** in rural areas: this would promote creation of businesses and increase employment opportunities. The ILO Start Your Business (SYB) methodology as piloted in a number of provinces in Indonesia could be scaled up. Local governments could also provide SYB graduates with business start up assistance such as counselling, referring them to potential business partners and clients, loans and possibly subsidies.
- **Expand employment services and career counselling** to support trainees with job placement during and after training courses.
- **Improve the quality of trainers and instructors:** Trainers and instructors, particularly in non-formal training centres, are encouraged to build close relationships with industry and enterprises to increase their industrial exposure and effectiveness. Priority should also be given to further training of trainers effective teaching methods and competency based training.
- **Involve industry and enterprises in training schemes:** To increase the employability of trainees and the relevance of their skills, education authorities should involve enterprises in curriculum design, delivery of training and through internship or apprenticeship programmes. Where possible, training centres may consider using enterprise facilities to enhance the relevance of training. Local government has a strong role to play in facilitating this process and could provide financial support to ensure that training centres and industries connect well, as well as reaching out to smaller firms.
- **Encourage workplace learning:** On the job training and structured training constitute important complementary sources for practical and technical skills development.

G. Policies that address informal employment, in urban and rural areas, and promote the transition to formal employment in order to reduce inequalities and promote more inclusive economies

On the surface, it would appear that the employment fallout from the global financial crisis in Indonesia was minimal, as the unemployment rate dropped from 8.4 per cent in 2008 to 8.1 per cent in February 2009. However, the crisis resulted in a decline in the quality of employment, there was a steep reduction in the rate of growth of wage employment, especially in tradeable sectors, formal sector job losses were significant, and working hours are reported to have been reduced. At the same time, there was a sharp increase in informal employment with the number of workers in informal sector employment jumping by some 2 million between August 2008 and February 2009.

Indonesia’s policy response to the growth in the informal economy has three broad objectives: firstly, it entails measures to protect existing jobs in the formal sector to prevent further informalization; secondly, improving working conditions in the informal sector to address decent work deficits; and thirdly, promoting the transition of business and workers into the formal economy.

Preventing informalization: Through its RPJM 2010-2014, the Government has placed strong emphasis on building a stronger industrial relations system and promoting social dialogue. This approach has been used to negotiate solutions in the face of the crisis and find solutions to prevent large-scale displacement of wage workers. To make the industrial relations system more effective, there is a need to assure good understanding of labour law among stakeholders and to strengthen enforcement of its provisions. Building consensus within a system of “good faith” bargaining, for instance through Bipartite Forums at the local level, can be highly effective in preventing closures of companies, avoiding unnecessary job losses as well as in settling disputes,.

Furthermore, though not designed specifically to respond to the crisis, formal and alternative justice mechanisms established under the National Access to Justice Strategy, can help address the likely industrial and economic stress that the crisis brings to the workplace, both in the formal and the

informal economies. Training programmes on labour law and its protective provisions, capacity building on negotiation and mediation, creation of conciliation processes at the enterprise, local or sectoral level can go a long way towards arriving at consensus critical for minimizing informalization and massive displacements.

Enhancing employment and decent work: The stimulus package allocated funds to infrastructure development, creating short-term work opportunities for the unemployed and vulnerable. While such fiscal interventions aim to produce short-term employment immediately, longer-term outcomes can be improved by conducting more inclusive planning and procurement policies. For example, engaging local small contractors and SMEs in public procurement, and prioritizing the integration of low-income communities to product and labour markets in infrastructure development projects can generate long-term benefits. Participatory approaches in the design of fiscal stimulus packages can ensure stakeholders' interests are addressed, as locally-appropriate solutions can be drafted based on local investment, business and training opportunities.

The global economic crisis highlighted the risk of excessive reliance on export-led growth and foreign direct investment as a development strategy and underscored the importance of sustaining employment growth in economic sectors that cater to domestic markets. The growth of employment in non-tradeable sectors in Indonesia is consistent with this finding. Policies that facilitate trading in the domestic market would involve provision of trading centres and improved transport systems. Further investments in agriculture and the rural economy aimed at creating decent jobs in rural areas is critical to support food security and sustainable livelihoods as well as stemming outmigration flows into under-productive urban jobs. Targeted programmes should link poor areas into supplier or subcontracting arrangements on the strength of local skills sets and resources, leading to more sustained market and contract relationships.

Policies that promote access to financial services need to be strengthened. A number of initiatives are being developed with the assistance of the ILO: Bank Indonesia is setting up an observatory to monitor the impact of microfinance institutions on employment creation and poverty reduction; the Ministry of Cooperatives and Small and Medium Enterprises is upgrading local guarantee mechanisms with a view to strengthening cooperatives and SMEs; efforts to raise the financial literacy of prospective Indonesian migrant workers (mostly female domestic workers) have also started, to enable them to make informed decisions on the optimal use of their earnings and remittances, including the option of setting up enterprises.

Promoting transition to formality: Promoting the transition to formal employment is an ongoing policy target of the Government. This policy goal can be achieved by creating favourable macroeconomic conditions and promoting a business environment that allows firms to acquire legal status, access markets, and assert commercial rights. Central to any effort to promote formality is the introduction of written employment contracts, where employment relationships are formalized and excluded workers are brought under the umbrella of social, labour and commercial protection. This process will require innovative and responsive policies to extend formal procedures and schemes. In the case of the employment relationship, a written employment contract ensures that employer and employee understand their rights and obligations. In terms of social security coverage, formality also implies inclusion of workers in systems that protect them against risks.

In all of the above recommendations, it has become apparent that for crisis response to be immediately responsive to the issues of informality, localization of decision making and service delivery needs to be encouraged. Key to achieving an inclusive recovery process would be (a) strengthening the role of workers' and employers' organizations in developing and implementing negotiated solutions at the enterprise, regional and national levels, (b) strengthening the role of local stakeholders and sub-national institutions in delivering post-crisis recovery strategies, (c) creating opportunities for dialogue and participatory planning systems, and (d) boosting domestic markets and demand while assessing the implications for skills development and sectoral promotion.

H. Policies that facilitate shifting to a low-carbon, environmentally friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals and realize decent work in the process

In the wake of its international commitment to reduce of greenhouse gas emissions under the Climate Change agreement, Indonesia is moving beyond the conventional view that economic growth objectives are incompatible with environmental objectives. In line with the recommendations of Ministry of Finance's 2009 Green Paper on the economic and fiscal policy strategies for climate change mitigation in Indonesia, the Government is implementing selected concrete fiscal and economic policies for climate change mitigation. These policies focus on renewable energy sources, in particular geothermal energy, land-use change, and the forestry sector and are supportive of the Indonesia Climate Change Sectoral Roadmap (ICCSR 2010 -2030).

In this context, detailed information on the social and employment benefits, and costs, of such strategies need to be generated. Investments should take into account criteria relating to their impact on human development, gender equality, youth employment and green jobs creation. Also, the economic scope of the Green Strategy should be enlarged to cover other critical sectors such as eco-building (and retrofit), public transportation, green tourism and urbanization schemes, where opportunities exist for low carbon outcomes that can benefit the economy, employment and the society. In order to sustain these environment-driven policies, entrepreneurship and skills development programmes are necessary, targeting both the creation of new green jobs as well as assisting the transition of workers as key sectors redevelop.

Indonesia, as many other countries, faces diverse and difficult social, employment and economic challenges that must be managed in the move towards a low carbon economy. A large population, high demographic growth, and the need to make ongoing improvements in human development to maintain social cohesion will exert great pressures on efforts to control, much less, reduce greenhouse gas emissions. The capacity of the social partners needs to be developed on this matter to enable their participation in the design and implementation of Green policies and programmes through the institutionalized social dialogue mechanisms.

I. Policy measures, such as minimum wages, that can reduce poverty and inequity, increase demand and contribute to economic stability

Despite global trends towards widening wage inequality,⁹⁶ Indonesia had been experiencing a decline in income distribution inequality prior to the crisis. A recent study by the ADB on minimum wages in Indonesia attributed the decline to the introduction of minimum wage legislation which has improved the earnings of workers in the formal economy who were earning below the applicable provincial living wages. There has, however, been a statistically significant drop in employment opportunities in the formal economy across the wage distribution. Some research has cast doubt over the effectiveness of minimum wage legislation in poverty. For example an analysis of household survey data in Indonesia concluded that price increases resulting from the introduction of minimum wages would cause the majority of the population to be worse off.⁹⁷ However, minimum wages showed no spill over effect on the wages and employment in the informal economy. Despite the criticism, the provincial minimum wages are set in accordance with bipartite consensus, to reflect a local living wage. It is important to note that minimum wages are calculated to cover the necessary expenses of a person, not a family. Since the wages of most low-paid workers are linked minimum

⁹⁶ ILO: *Global wage report*, (Geneva, 2008).

⁹⁷ Bird and Manning Bird, K.; Manning C.: "Minimum wages and poverty in a developing country: Simulations from Indonesia's household survey", in *World Development* (2008), Vol. 36, No. 5, pp. 916-33.

wage regulations, these workers find it difficult to support themselves and their families. Minimum wage legislation is a policy tool to combat rising wage inequality; however, the overall impact of minimum wages on the welfare of workers requires cautious assessment.

One of the important issues regarding the minimum wage system is the lack of enforcement and a growing trend towards non-payment of minimum wage. According to national labour force survey results, 43.7 per cent of workers received less than the minimum in August 2009. This is closely linked to the fact that minimum wage is effectively applied only in the formal sector. Policy makers, employers' and workers' organizations should clarify the objective, and seek to ensure that, the minimum wage is intended to provide a genuine minimum for all workers. The links between minimum wage setting and collective bargaining should also be closely examined.

The Indonesian Constitution provides a strong framework for the equal treatment of all persons and specifically outlines principles of equality in employment conditions and opportunities.⁹⁸ In 2010 the MOMT signed a Memorandum of Understanding with the Ministry of Women's Empowerment and Children Protection to jointly promote gender equality and established an inter-agency working group to strengthen the implementation and oversight of Equal Employment Opportunity Guidelines (EEO). These Guidelines cover all forms of discrimination but particularly focus on gender-based discrimination and were intended to support the implementation of the Manpower Act and the ILO's Equal Remuneration Convention, 1951 (No. 100) and Discrimination (Employment and Occupation) Convention, 1958 (No. 111). A National Action Plan for 2011 covers: the establishment of a Tripartite Forum which will oversee the Committee on EEO Guidelines as well as the implementation of the Guidelines; the development of a Code of Practice for Sexual Harassment at the Workplace; an advocacy and education campaign to disseminate responsibilities and rights under the EEO Guidelines and a comprehensive media campaign.

J. Strategies to create fiscal space to put in place systematic, well-resourced, multidimensional programmes to create decent work opportunities and sustainable enterprises

Indonesia has been running fiscal deficits since the 1997 Asian financial crisis. The fiscal position, however, has gradually improved from a deficit of 2.5 per cent of GDP in 1999 to a deficit of 0.1 per cent in 2008. Improvements in the fiscal position have been driven by a reduction in subsidies, especially fuel and electricity, and an increase in government revenues.

Given the volatility in inflation following the 1997 Asian financial crisis, monetary policy was first directed at achieving a targeted inflation rate, and in 2005 it was shifted towards full-fledged inflation targeting. This put the economy in a good position to tackle the fuel and food price rises between 2005 and 2008. By 2009, the inflation rate had dropped below five per cent.

Over the last decade Indonesia's current account has been consistently in surplus since over the last decade. Factors contributing the surplus include good export performance of commodities due to high commodity prices and strong demand and as well as large remittances from migrant workers. At the same time, public sector debt has fallen to around 30 per cent of the GDP, which is considered to be a prudent threshold.

Indonesia's sound macroeconomic management, with a low fiscal deficit, a current account surplus, and manageable levels of debt and inflation helped the country to weather the 2008-2009 global recession. Growth is now expected to remain in a respectable range of five to six per cent. On the other hand, when looking at the labour market and the real economy, there is much that needs to

⁹⁸ See Articles 27(2), 28D(2), 28G(1), and 28I(2), which directly relate to equality in treatment in employment.

be accomplished. ILO projections show that the economy will need to grow 6.6 per cent per year if the Government's goal of reducing the overall unemployment rate to five per cent by 2015 is to be achieved. However, such a growth rate has not been attained on a sustainable basis since 1997.

Incorporating employment objectives in macroeconomic management would promote job-rich growth while maintaining macroeconomic stability. There is a case for moving away from a preoccupation with meeting nominal targets – such as low inflation rate and reducing the debt-to-GDP ratio below a certain threshold. Monetary and financial policies should certainly be geared towards maintaining reasonable price stability, and policy-makers need to find ways in which access to finance can be enhanced in order to boost private sector-led growth and job creation.

Fiscal policy should not simply be dictated by the need to reduce the public debt-to-GDP ratio to a predetermined level. It is by no means obvious that engaging in orthodox budgeting and rationalizing public expenditure priorities will consistently make sufficient resources available to meet infrastructure needs and create a social protection floor for all.

In the area of exchange rate policy, policy-makers have primarily focused on reducing the volatility of capital flows. An influx of capital causes appreciation of the real exchange rate. Such real exchange rate movements hinder international competitiveness in the export sector and thus damage employment creation, especially in labour intensive manufacturing. The Government may wish to review its exchange rate policy and capital account management. It could, for example, consider the case for promoting real exchange rate stability and explore whether a more regulated capital account can provide greater policy space to pursue growth and employment-promoting industry and trade policy.

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