Key points of the ILO's New Report:

Labour and Social Trends in Indonesia 2011: Promoting job-rich growth in provinces

Rational behind the theme:
Given the considerable diversity in socio-economic conditions among Indonesian provinces and decentralized policymaking, realizing inclusive and job-rich growth requires suitable policy interventions at the local levels. Labour market analysis therefore needs to focus on distinct challenges in employment creation at the local level.

Global employment trends:

- The world economy still struggles to recover from the economic crisis and world labour markets face serious jobs challenges and widespread decent work deficits.
- As a result of the crisis, unemployment has increased by 27 million and nearly 29 million workers are estimated to have discouraged from labour participation.
- Today, 1 in 3 workers are either unemployed or living in poverty in the world.

Indonesian economy:

- Indonesia has weathered the global financial crisis better than neighboring countries, thanks in part to robust household consumption and growing investment. Household consumption accounted for 56.6 per cent of the country's GDP in 2010. Investment grew annually by 5.9 per cent between 2008 and 2010.
- Indonesia's economic growth will accelerate in the coming years, attaining an average growth rate of 6.6 per cent per year between 2012 and 2016, according to the Organisation for Economic Co-operation and Development (OECD).
- Indonesian economic activities are concentrated in Java. No less than 61 per cent of value added was originated in Java in 2010. Sumatra and Java combined accounted for more than 82 per cent of the total Indonesian GDP. Eastern provinces lag far behind the economic centres.

Indonesian labour market:

- Job growth has been back on track. Employment grew annually by 3.2 per cent on average between 2006 and 2010, faster than the pace of labour force expansion at 2.3 per cent per year during the same period. Job growth in the service sector has been strong.
- Slightly less than 60 per cent of the total Indonesian labour force is concentrated in the Java Island and in Bali.
- Although unemployment has been on the decline, time-related underemployment (workers who works less than 35 hours per week and is looking for a job or is available for more work) is high (14.1 per cent in 2010).
- Despite a decade-long economic growth, Indonesian employment remains largely informal. The share of informal employment was 61.5 per cent in 2001 and 59.0 per cent in 2010. Incidences of informal employment vary significantly among regions ranging from 27.3 per cent in DKI Jakarta to 79.8per cent in Papua (provinces of Papua and Papua Barat combined).
- Youth unemployment (age 15-24) peaked in 2005 at 33.4 per cent and it declined to 21.4 per cent in 2010. However, young workers (age 15-24) are more than five times more likely to be

unemployed than older workers (age 25+). Labour participation rates of youth declined from 54.1 per cent in 2004 to 49.1 per cent in 2011. 10.2 per cent of youth are neither in employment nor in education.

- Women's labour participation has increased in recent years. However, female employment-to-population ratio (49.0 per cent in 2010) is significantly lower than the male ratio (80.3 per cent in 2010). In addition, women face higher unemployment rates than men.
- High food inflation and lagging wage increases have had a negative impact on poor workers. For instance, the year-on-year food price inflation rate for 2010 was 15.6 per cent, whereas the wage increase rate for production workers in manufacturing below supervisory level was as low as 4.0 per cent.
- 35.2 per cent of workers (employees and casual workers) received wages below applicable minimum wages in 2010.
- Indonesian employment has been shifting from agriculture to services, which has increased demand for skills in the labour market.
- The Government of Indonesia has pledged to improve education and has increased public spending on education accordingly in recent years. Today's Indonesia children are expected to have 13.2 years of education.
- With an increase in outsourcing, young workers are increasingly on short-term contracts. A short tenure is a disincentive for employers to invest in human capital of their employees. Skills development requires attention of policymakers.

Promoting job-rich growth in provinces:

- The urban unemployment rate has been higher than the rural unemployment rate (urban unemployment 9.4 per cent and rural unemployment 5.5 per cent in 2010). Policy interventions to create urban jobs may be insufficient as it may induce more rural-to-urban migration and hence higher urban unemployment. Policy efforts are required in both rural development and supporting the growth of urban formal jobs.
- According to the Government, the Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI) will create 9.6 million new jobs between 2012 and 2014.
- According to the Investment Coordinating Board (BKPM), investment realization increased by Rp. 42.8 trillion from 2010 to 2011. Investment outside Java increased significantly. BKPM estimated the employment effect of investment in 2011, both direct and indirect effect, to be around 2 million jobs.
- The number of formal enterprises and new formal business entries per 1,000 citizens in Indonesia is low, which might affect creation of formal employment. Business environment leaves room for improvements.
- It is important to mainstream employment creation in regional development planning. ILO's Employment Diagnostic Analysis (EDA) helps indentify critical constraints to inclusive job-rich growth. EDA was applied in NTT, East Java, Maluku and Gorontalo.
- Development of infrastructure such as roads and irrigation plays an important role in promoting pro-poor growth in rural areas. A local resource-based approach to infrastructure development enhances job creation as well as the multiplier effects of investments on the local economy.
- About 85 per cent of migrant workers' households are dependent on remittances for basic consumption needs and debt services.
- Remittances (USD 6.7 billion in 2010) brought by migrant workers can improve welfare of migrant workers' families and stimulate local economies, if used productively. Reducing risks and vulnerability to exploitation of migrant workers, and providing financial literacy education and adequate financial services for migrant workers and their families enable a more productive use of remittances.
- It is important to remove gender barriers in the society and in the labour market and make effective use of women's human capital in order to accelerate inclusive pro-poor economic

growth. Women's labour participation remains low in Indonesia and one out of three working women are unpaid. Discriminatory practices against women are observed at workplaces.

- Safeguarding labour rights and promoting constructive social dialogue are important in establishing fair working conditions and allowing workers and their family members a decent life. Recognition of labour rights has been enhanced, but it leaves room for improvement. Social dialogue can not only improve working conditions and productivity but also help transform social institutions as the economy and the society evolve.

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