Labour and Social Trends in Indonesia 2008

Progress and pathways to job-rich development

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Foreword

At the 14th ILO Asian Regional Meeting, representatives of Government and employers' and workers' organizations from Indonesia and other Asian countries committed themselves to an Asian Decent Work Decade (2006–2015), during which concerted and sustained efforts would be made to realize decent work in the Asia-Pacific region. The present Labour and Social Trends report is aimed at presenting socioeconomic and labour market trends in South-East Asia's largest economy with the aim of drawing attention to key policy challenges posed by these trends during the Decent Work Decade. In particular, the report seeks to inform the formulation and development of the next Medium Term Development Plan (2010–2014) and roadmap for achieving the Millennium Development Goals (MDGs). Recently, decent employment has been added as a new target under the MDG of alleviating extreme poverty, and the report seeks to raise awareness of the new target and its associated indicators.

The ILO Jakarta Office is frequently asked for practical information, data, analysis, and insights into the labour market situation in Indonesia from constituents, concerned donors, researchers, civil society organizations and other interested individual and parties. This report aims at partially filling that request. As such, special care has been taken to ensure that the report is approachable to as many readers as possible.

Another critical aim of the report is building the capacities of national partners to collect and analyse labour market information in order to identify key challenges and design appropriate policies. While the first Labour and Social Trends in Indonesia report has been prepared by the ILO, it is our hope that the national partners take ownership over the production of future reports.

The report was produced by Kee Beom Kim, Country Economist of the ILO Jakarta Office, under my strategic guidance. The report benefited substantially from technical support and valuable comments provided by ILO Jakarta colleagues; Gyorgy Sziraczki and Steve Kapsos of the Regional Economic and Social Analysis Unit of the ILO Regional Office for Asia and the Pacific; and Lawrence Jeff Johnson and Theo Sparreboom of the Employment Trends Team of ILO Headquarters in Geneva. Chapter 2 of the report draws in part from a background paper prepared by Suahasil Nazara of the Demographic Institute of the University of Indonesia.

We hope that the report will contribute to lively social dialogue and constructive policy debate and practice on how best to realize decent work in Indonesia.

Alan Boulton
Director
ILO Jakarta Office

List of Acronyms and Indonesian Terms (in italics)

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BAPPENAS	*Badan Perencanaan Pembangunan Nasional* (National Development Planning Agency)
BNSP	***Badan Nasional Sertifikasi Prefesi* (National Profession Certification Agency)**
BNP2KI	***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)
EAST	Education and Skills Training for Youth Employment
GDP	Gross Domestic Product
ILO	International Labour Organization
ITUC	International Trade Union Congress
ICLS	International Conference of Labour Statisticians
Jamsostek	*Jaminan Sosial Tenaga Kerja* (National Social Insurance Fund)
Kcal	Kilo calories
MDG	Millennium Development Goal
NRR	Net Reproductive Rate
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PISA	Programme for International Student Assessment
PPP	Purchasing Power Parity
RPJM	*Rencana Pembangunan Jangka Menengah* (Medium Term Development Plan)
UN	United Nations
UNEP	United Nations Environment Programme

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Overview

Robust economic performance

South-East Asia's largest economy has shown a healthy improvement since the beginning of the decade, posting gross domestic product (GDP) growth of 6.3 per cent in 2007. Investment in Indonesia also expanded significantly that year, outpacing growth in other GDP components. Manufacturing output as a share of GDP has remained steady but prominent expansion has taken place in the services sector. As a share of GDP, this sector grew from 38.5 per cent in 2000 to 43.7 per cent in 2007.

Unemployment and underemployment still major challenges

This robust economic growth, however, has not necessarily translated into better labour market outcomes. In 2007 the unemployment rate, using the standard international definition, which excludes discouraged workers or those who are not looking for work because they do not expect to find any, stood at 7.2 per cent, higher than in 2002. The number of discouraged workers has fallen, although this decrease was largely offset by an increase in the numbers seeking work. Moreover, involuntary underemployment has increased, while the employment-to-population ratio, which indicates how much of the population is contributing to the production of goods and services, has shown little change over the past six years and remains at around 60 per cent.

Full and productive employment and decent work for all a new MDG target

The employment-to-population ratio is one of the four new indicators used to measure progress towards the new Millennium Development Goal (MDG) target, under the goal of poverty alleviation, of making full and productive employment and decent work for all a central objective of international and national development strategies. The new target reflects the increasingly widespread conviction that decent employment is the only sustainable route out of poverty. The other new MDG indicators include vulnerable employment (the sum of own-account workers and contributing family members as a percentage of total employment), labour productivity and the share of working poor (US$1 a day) in total employment.

Vulnerable employment decreased modestly but majority of workers vulnerable

Vulnerable employment, which provides an indication of job quality and the extent of informalization of the labour market, decreased from 64.7 in 2003 to 62.1 per cent in 2007 as formal sector job growth outpaced that in the informal sector. The vulnerable remain mostly in agriculture although the urban informal economy is expanding rapidly.

Healthy productivity growth but limited wage gains of workers

Productivity growth in Indonesia expanded significantly in recent years, driven by the shift of employment from lower value-added activities to higher value-added ones, and in particular by productivity growth in the services sector. This growth has not however been accompanies by higher real wages.

50 million working poor

Poverty remains largely a problem of the employed; it is estimated that about half of those in employment are poor at the US$2 a day poverty line. The poor are predominantly in rural areas although the share of the urban working poor is expanding. With recent dramatic rises in fuel and food prices, the working poor are likely to see their standards of living and purchasing power deteriorate further.

Women and youth face disproportionate challenges in the labour market

Although labour outcomes for women have improved somewhat, significant gender inequalities still exist in all the relevant indicators, including wages, where the gender gap has remained at around 75 per cent since 2001. Young people are also disproportionately challenged in the labour market: youth represent 21 per cent of Indonesia's labour force but account for 57 per cent of the nation's jobless.

Rapid expansion of services sector and migrant workers

The services sector already provides the majority of jobs for women and will likely soon become the dominant sector for employment overall. In the manufacturing sector, trade patterns are influencing employment outcomes. At the same time, the number of overseas migrant workers is growing rapidly and is expected to continue to increase, reflecting in part the Government's drive to increase overseas migration in order to dampen pressures on the domestic labour market.

Aging population

Looking ahead into the future, Indonesia's population is expected to grow by about 1.1 per cent annually to 248 million over the Decent Work Decade, which is lower than the 1.3 per cent growth rate of previous periods. The falling fertility rate is currently allowing Indonesia to enjoy a declining dependency ratio, but this ratio will begin to rise again beyond 2017. At the same time, the population is aging, and this will have repercussions for the country's social security system

Labour force will have higher educational levels but the key issue is

Indonesia's labour force is expected to expand by about 14 per cent between 2006 and 2015, and will be more educated. The economy will need to shift to a higher growth path to ensure that this more educated and skilled population has access to decent, productive jobs. At the same time there is a need to ensure that *the quality of education and training*

workers are not merely more educates but *better* educated and trained. Results of international assessment surveys suggest that Indonesian students may not be acquiring the key competencies they need in adult life.

Rapid urbanization calls for green jobs

Indonesia's rapid rate of urbanization is expected to continue, contributing not only to the growth of the services sector but also to an expansion of the urban informal economy. Key challenges will be to generate jobs of decent quality in urban areas as well as investment in infrastructure. To avoid the threat of serious environmental degradation linked to this rapid urbanization, the country will need to transition towards a greener economy and more sustainable patterns of consumption and production. This in turn will generate opportunities for the creation of green jobs.

Comprehensive employment strategy needed

For policymakers, these trends indicate, firstly, the need for a comprehensive and coordinated employment strategy that places decent and productive employment at the centre of economic and social policies through increased coordination between different ministries. Such a strategy will require the identification of appropriate targets, such as a focus on job creation rather than the reduction of unemployment.

Social dialogue critical in policy formulation and implementation

At the same time, it will also be necessary to: build capacities in sectors of dynamic growth, such as services, through appropriate skills development strategies; encourage more employment-intensive investment; create a conducive environment for sustainable enterprises, particularly micro- and small enterprises; and establish labour market policies and institutions to provide assistance to workers to adjust to the structural transformation in the economy. Social dialogue will be critical in all these areas of policy concern, and must be supported by increased capacities of the Ministry of Labour and Transmigration and workers' and employers' organizations.

Furthermore, the projected developments during the Asian Decent work Decade (2006-2015) call for a range of appropriate policy responses, including:

- Strengthening the social security system, particularly for the elderly, and extending it to the informal sector;
- Ensuring a balance between productivity and employment growth in order to foster sustainable and equitable economic growth, in particular by improving the productivity of the informal economy;
- Increasing investment in the quality and quantity of education, and in particular ensuring that it meets the current needs of the labour market and anticipates future needs;
- Providing protection for the growing number of migrant workers; and
- Maximising the opportunities offered by green jobs through social dialogue and a tripartite approach.

1

Trends in the labour market

1.1 Economic trends

Steadily improving economic performance

Gross domestic product (GDP) in Indonesia, South-East Asia's largest economy, grew by a healthy average annual rate of 5.0 per cent between 2000 and 2007 (Table 1.1). This rate of growth was similar to other middle income countries such as the Philippines and Thailand, but lower than other Association of Southeast Asian Nations (ASEAN) member States such as Malaysia and Singapore. In 2007, Indonesia posted a 6.3 per cent growth, its highest level in more than a decade.

Table 1.1 Annual GDP growth, 2000–2007 (percentages)

	2000	2001	2002	2003	2004	2005	2006	2007	2008[p]	Average 2000-07
Indonesia	**4.9**	**3.6**	**4.5**	**4.8**	**5.0**	**5.7**	**5.5**	**6.3**	**6.0**	**5.0**
Memorandum										
ASEAN	6.7	1.9	4.9	5.4	6.5	5.7	6.0	6.5	5.5	5.5
Malaysia	8.9	0.5	5.4	5.8	6.8	5.3	5.8	6.3	5.4	5.6
Philippines	6.0	1.8	4.4	4.9	6.4	5.0	5.4	7.2	5.5	5.1
Thailand	4.8	2.2	5.3	7.1	6.3	4.5	5.1	4.8	5.0	5.0
Singapore	10.1	-2.4	4.2	3.5	9.0	7.3	8.2	7.7	4.9	6.0

[p] projection

Source: Asian Development Bank (ADB), Asia Economic Monitor 2007 and 2008.

Investment becoming a larger share of GDP

In 2007, investment expanded by 9.2 per cent, outpacing growth in other GDP expenditure components since 2000 (Table 1.2). As a consequence, investment, in real terms, accounted for 22.4 per cent of GDP in 2007, up from 19.9 per cent in 2000. Private consumption, the largest component of GDP, has seen its share decline to 57.6 per cent in 2007 from 61.6 per cent in 2000. Exports, driven in part by record prices of commodities such as copper, palm oil, coal, and natural gas, have also seen steady robust growth since 2004, but import growth has also been strong, such that net exports contributed only modestly to GDP growth in 2007.

Table 1.2 Growth rate of GDP expenditure components, 2001–2007 (percentages)

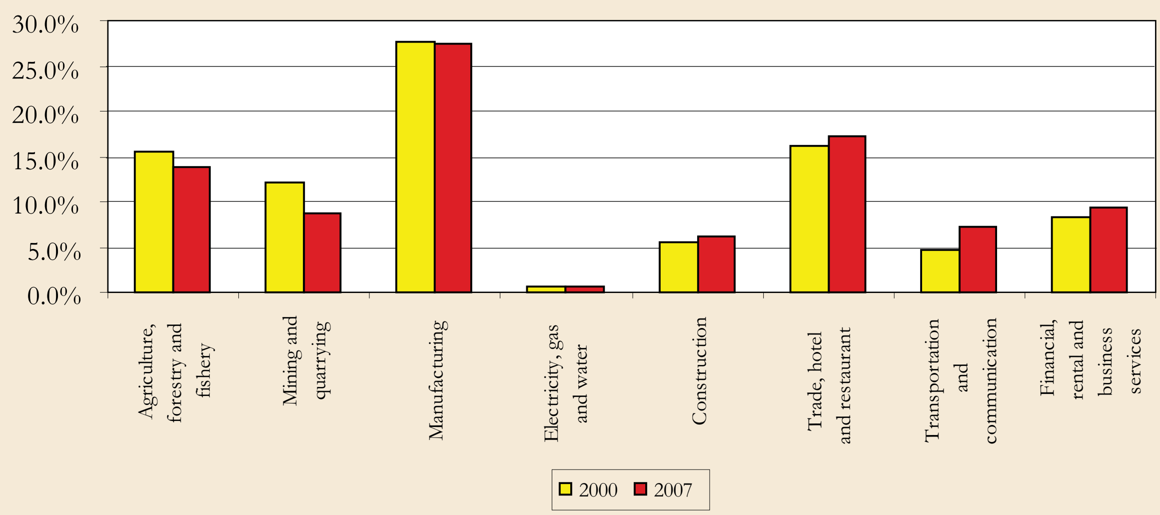
	2001	2002	2003	2004	2005	2006	2007
Private consumption	3.5	3.8	3.9	5.0	4.0	3.2	5.0
Government consumption	7.6	13.0	10.0	4.0	6.6	9.6	3.9
Investment	6.5	4.7	0.6	14.7	10.8	2.9	9.2
Exports	0.6	-1.2	5.9	13.5	16.4	9.2	8.0
Imports	4.2	-4.2	1.6	26.7	17.1	7.6	8.9

Source: *Badan Pusat Suatistik (BPS)*

Services sector expands, manufacturing holding up

Indonesia's manufacturing industry, despite fears of it "hollowing out" due to international competition, has held up. Manufacturing output, in real terms, increased by 39.5 per cent between 2000 and 2007, with manufacturing output as a share of GDP remaining steady at around 27.5 per cent in that period (Figure 1.1). This share of output is an increase from the mid-1990s, when manufacturing output accounted for around a quarter of national GDP. Between 2000 and 2007, the most prominent growth occurred in transportation and communications, whose share of GDP increased from 4.7 per cent to 7.3 per cent. Based on growth in this sector, as well as in trade, hotel and restaurants and financial, rental and business services, the share of services in GDP increased from 38.5 per cent in 2000 to 43.2 per cent in 2007.

Figure 1.1 Share of GDP by sector at 2000 constant prices, 2000–2007



Source: *Based on BPS data.*

Economic growth likely to slow

Going forward, a slowdown in the world economy, soaring crude oil prices, and the increase in subsidized fuel prices in Indonesia in May 2008 are likely to adversely affect economic growth. As such, Bank Indonesia has revised down projected economic growth rates for 2008 and indicated that the economy would grow slower than in 2007.[1] In particular, inflationary pressures and their impact on employment and the poor are serious concerns. In response to inflation, which recorded an annual rate of 11.3 per cent in June 2008, Bank Indonesia raised its benchmark interest rate three times from 8.0 per cent to 8.75 per cent in the first half of 2008, raising the spectre that firms will borrow less or invest in Government bonds rather than in productive capacity; a scenario that took place in 2005 as inflation soared to over 17 per cent, interest rates were in double digits and unemployment rose to 11 per cent.

Spiralling food prices feed inflation expectations and hurt the poor disproportionately

Food prices, which have risen dramatically in the past year, in particular pose the danger of feeding inflation expectations. This is because food in particular is purchased and consumed on a daily basis, and thus it is easier for persons to notice price changes. With the poor spending a proportionately larger share of income on food, spiralling food prices are also hurting the poor the most, threatening the substantial progress that has been made in reducing poverty.

Box 1.1
Mitigating the impact of increased fuel prices on the poor

In May 2008, the Indonesian Government raised subsidized fuel prices by an average of 28.7 per cent in light of the soaring price of crude oil in the global market and its impact on the national budget. While Indonesia is an oil producing country and a member of the Organization of Petroleum Exporting Countries (OPEC), it is currently a net importer of oil. Subsidized gasoline prices were raised by 33.3 per cent, diesel fuel by 27.9 per cent and kerosene by 25 per cent. The government is expecting to spend 127 trillion Indonesian Rupiah (IDR), equivalent to around US$13.8 billion, on energy subsidies in 2008, or about 11 per cent of total state expenditures.

To help mitigate the impact of higher fuel prices on the poor, the Government of Indonesia concurrently began the implementation of a direct cash transfer programme, aimed at providing IDR 100,000 (around US$11) per month and 15 kilograms of rice to 19.1 million poor households until the end of 2008.

1 Bank Indonesia (2008). Available at http://www.bi.go.id/web/en/Siaran+Pers/sp_101908.htm.

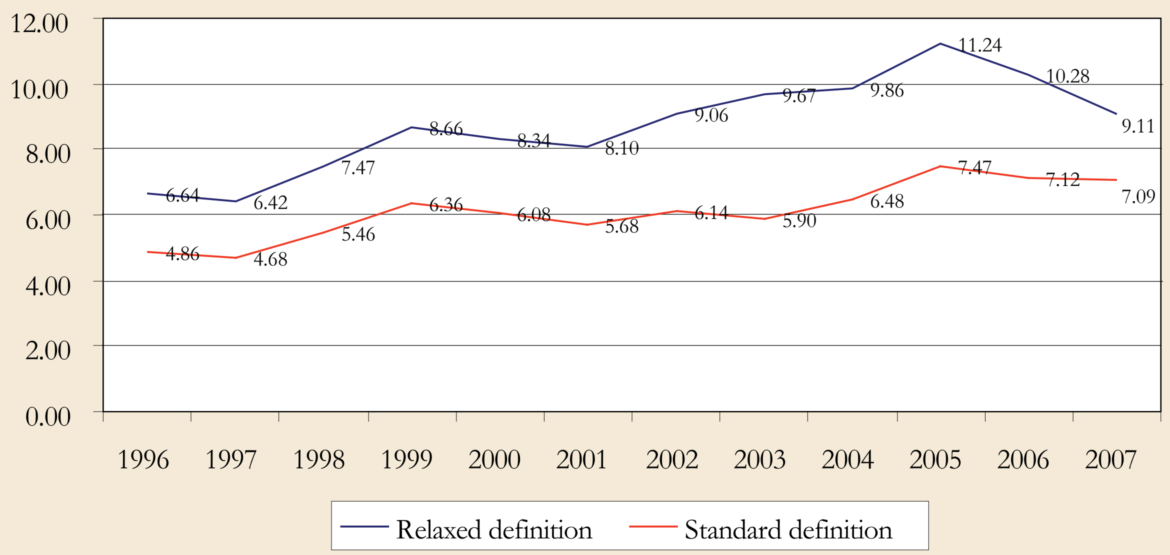
1.2 Labour market trends

Unemployment primarily a challenge for youth and the more educated

Between 2001 and 2005, the number of unemployed in Indonesia increased dramatically from around 8 million to 11.9 million, pushing the unemployment rate from 8.1 per cent to 11.2 per cent. The trend began to reverse in 2006 and the unemployment rate stood at 9.1 per cent in 2007 (Figure 1.2). The national aggregate, however, masks significant variations by sex and age. Unemployment rates are noticeably higher for women than for men, although the gap narrowed significantly in 2007 from previous years (Figure 1.3). Youth unemployment rates were also five times higher than adult unemployment rates in 2007.[2] The unemployment challenge in Indonesia is thus primarily a youth unemployment challenge: youth account for 56.5 per cent of Indonesia's jobless whereas they represent 20.5 per cent of its labour force.

Furthermore, unemployment is increasingly becoming a problem of the more educated: in 2002, about 40 per cent of the unemployed had some sort of senior secondary or higher educational attainment, but this share had risen to 50.3 per cent by 2007. This trend reflects in part the ability of educated youth, most of whom come from wealthier families, to afford to remain unemployed and search and queue for "good" jobs. It also reflects the lack of demand for the more educated young women and men, either because of slow progress to high-growth paths demanding higher levels of education or because of the irrelevance and mismatch of education and skills attained.

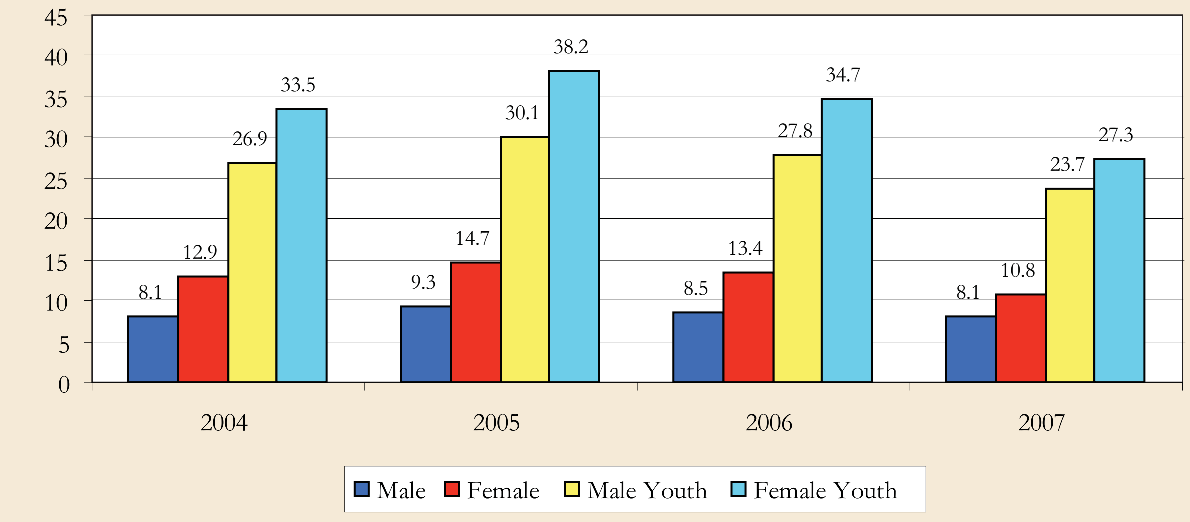
Figure 1.2 Unemployment, 1996–2007 (percentages)



Source: BPS; Badan Perencanaan Pembangunan Nasional BAPPENAS).

2 This report, following ILO and UN practice, defines youth as those aged 15 to 24 years.

Figure 1.3 Unemployment: Youth and by sex, 2004–2007 (percentages)



Source: *Based on BPS data.*

Unemployment an informative but inadequate indicator

When assessing the general performance of the labour market and the economy as a whole, the unemployment rate provides an informative indicator. Unemployment takes on added relevance in Indonesia as the Government, in its Medium Term Development Plan (RPJM), has committed to reducing the rate by 2009. As such, this indicator also provides a measure of development performance in Indonesia. Nonetheless, unemployment is an inadequate measure of labour market performance: in countries with large, informal economies, such as Indonesia, labour market adjustments usually occur through changes in wages and working conditions in the informal economy, rather than through changes in the level of unemployment. Applying different definitions of unemployment can also yield different insights on labour market performance, as is the case in Indonesia.

Number of discouraged workers has fallen sharply but mostly offset by an increase in active job seekers

Figure 1.2 provides unemployment rates in Indonesia, using both the international standard definition of unemployment, which excludes persons without work and who were not looking for work as they did not expect to find work (frequently called discouraged workers) and the "relaxed" definition of unemployment, which includes discouraged workers.[3] As illustrated in the figure, the relaxed version of unemployment has been decreasing since 2006 and has returned to the levels of 2002. Using the standard definition, the unemployment rate has decreased only marginally since 2005, and at 7.1 per cent in 2007 is still higher than the rate in 2002. The gap between the two rates indicates that recent improvement in the relaxed version of unemployment rate has come about primarily as a result of the reduction in the number of discouraged workers. Indeed, the number of discouraged workers declined by over half, from 3.6 million in 2005 to 1.3 million in 2007. On the other hand, the number of persons actively looking for work increased from 6.8 million to 8.3 million during the same period.

3 The standard definition of unemployment, as adopted by the International Conference of Labour Statisticians (ICLS) are individuals without work, seeking work in a recent past period, and currently available for work. Since 2001, official unemployment statistics in Indonesia have followed a relaxed definition of unemployment, which includes discouraged workers. According to the standard international definition, discouraged workers are not part of the unemployed population; they lie outside of the labour force.

A labour market indicator that is not affected by the number of discouraged workers is the employment-to-population ratio.[4] This indicator provides information on how much of the population of a country is contributing to the production of goods and services. This indicator is also one of the four indicators used to measure progress on the new Millennium Development Goal (MDG) target of making full and productive and decent work for all, including women and young people, a central objective of international and national development strategies (see Box 1.2).

Box 1.2
Full, productive employment and decent work: A new MDG target

As a result of the increasingly widespread conviction that decent employment is the only route out of poverty, full and productive employment and decent work for all has been introduced as a new target under Millennium Development Goal (MDG) 1, to halve the share of people living in extreme poverty by 2015.

A set of indicators to measure progress towards this target has also been developed and accepted by the international community. The four indicators are:

- Employment-to-population ratios for persons aged 15 years and over and youth (age 15 to 24 years) by sex;
- Vulnerable employment;
- Share of working poor (US$1 a day) in total employment;
- Labour productivity.

See ILO: Key Indicators of the Labour Market *(KILM), 5th Edition, Chapter 1a (Geneva, ILO) for more information and regional analysis of the four indicators.*

Women now more likely to be employed than in recent years but considerable untapped potential still exists

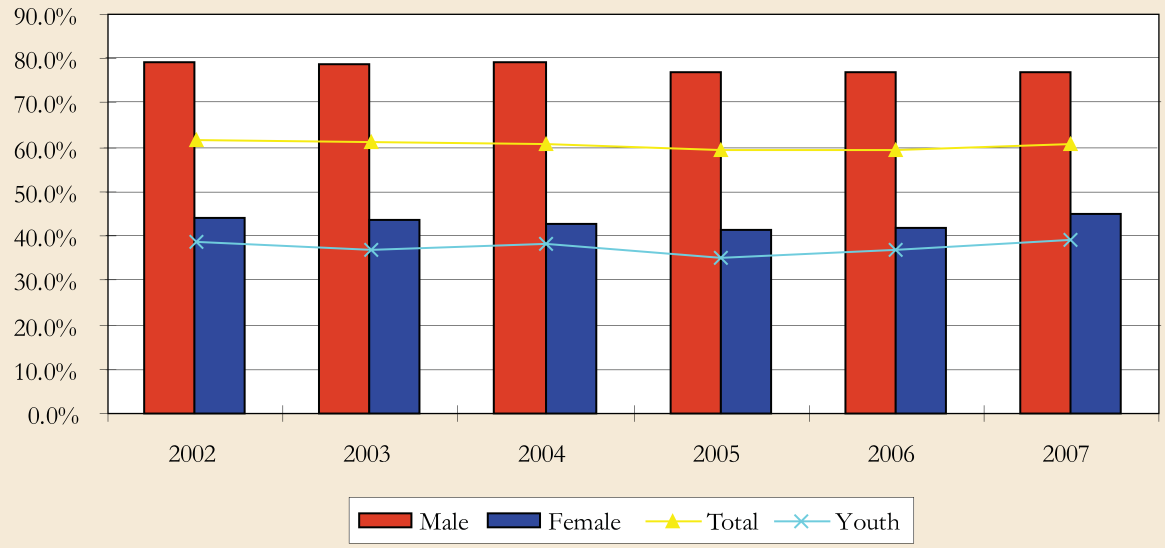
The employment-to-population ratio for the Indonesian economy, at around 60 per cent, has shown little change in the past six years (Figure 1.4). In countries with high unemployment, such as Indonesia, a more favourable trend would be an increase in the ratio, indicating that people are looking for work and finding it. The employment-to-population ratio for women in 2007, at 44.8 per cent in 2007, was the highest in six years, indicating that women are now more likely to be employed than in recent years, whereas the ratio for men has seen a general decline between 2002 and 2007.[5] There nonetheless remains in the employment-to-population ratio a significant gender gap, and hence a large untapped pool of women.

4 The employment-to-population ratio is the proportion of a country's working age population (15+) that is employed. The youth employment-to-population ratio is the proportion of the youth population (aged 15 to 24 years) that is employed. The employment-to-population ratio is not affected by the number of discouraged workers, but is subject to changes in the age distribution of the population.

5 These trends are broadly consistent with trends in the labour force participation rate (See Statistical Annex).

Trends in the youth employment-to-population ratio need to be interpreted with caution as a decrease in the ratio may be a positive development if it corresponds with higher enrolment in education. This has been the case for Indonesia: between 1995 and 2007, the employment-to-population in Indonesia decreased from 43.1 per cent to 39.1 per cent, during which period gross enrolment in secondary and tertiary education increased sharply. More recently, the youth employment-to-population ratio dipped in 2005 but has since increased, consistent with a decrease in the unemployment rate for this group of workers.

Figure 1.4 Employment-to-population ratios, 2002–2007 (percentages)



Source: *Based on BPS data.*

Box 1.3 The "3 in 1" programme to support employment creation

The Indonesian Ministry of Manpower and Transmigration, in collaboration with the Ministry of National Education and the Indonesian Chamber of Commerce and Industry has begun the implementation of a "3 in 1" programme involving the strengthening of training, certification and placement.

Through the programme, the Government is seeking to revitalize vocational training centres and provide subsidies to private training providers, amongst other measures. The programme is also seeking to improve the national certification system and the National Profession Certification Agency (BNSP) sets standards of excellence in 12 professions, undertakes competency tests and issues certificates. To support placement, both domestic and overseas, the programme is supporting vocational training centres and regional and local manpower offices to provide information to trainees and jobseekers on job openings and labour market information.

Services will soon likely become the dominant sector for employment

Agriculture, at 41.2 per cent in 2007, continues to be the sector providing the largest share of employment. Between 2002 and 2007 however, there was a noticeable shift in employment from agriculture to services ("leapfrogging" employment in industry, whose share has remained steady at around 19 per cent), and if current trends continue, services are likely to overtake agriculture as the dominant sector of total employment. This national trend is driven by a sectoral shift in particular for women, with the share of employment in services increasing significantly from 38.8 per cent in 2002 to 43.6 per cent in 2007. For women, services already provide the largest share of employment. Within the services sector, consistent with GDP trends, women's employment in the transportation and communications subsector has more than doubled between 2002 and 2007. The vast majority of women employed in services, however, are in the trade subsector (64 per cent).

Trade patterns impacting employment

Within industry, the number of persons employed in manufacturing fell from 2002 to 2004, but has risen since. The total reached 12.4 million persons in 2007, higher than in 2002, although the share of manufacturing in total employment in 2007, at 12.4 per cent, remained lower than that in 2002 (13.2 per cent). Within manufacturing, large and medium-sized establishments in subsectors such as textiles and apparel; rubber and plastic products; and radio, television and communications equipment added employment from 2003 to 2006, while subsectors such as wood products; chemicals and chemical products; and electrical machinery and equipment all shed jobs. Trade patterns are influencing these employment outcomes. For example, the value of rubber and plastics exports grew by 123 per cent during the same period, supporting employment growth in this sector, while the value of wood products exports grew by a mere 5 per cent in the same period, discouraging employment expansion.

Table 1.3 Distribution of employment by sex, 2002–2007 (percentages)

	2002	2003	2004	2005	2006	2007
Agriculture	44.3	46.4	43.3	44.0	42.0	41.2
Industry	18.8	17.7	18.0	18.8	18.6	18.8
Services	36.9	35.9	38.7	37.3	39.4	40.0
Men						
Agriculture	43.7	45.7	42.6	43.8	42.5	41.1
Industry	20.4	19.1	20.1	20.3	20.3	21.0
Services	35.8	35.1	37.3	36.0	37.1	37.8
Women						
Agriculture	45.4	47.5	44.6	44.3	41.1	41.4
Industry	15.8	15.2	14.2	15.9	15.3	15.0
Services	38.8	37.3	41.2	39.8	43.5	43.6

Source: *Based on BPS data.*

More overseas migrant workers than ever

In addition to those employed within Indonesia, there were 4.3 million registered Indonesian overseas migrant workers and an estimated 2 million unregistered workers in 2007, according to the National Agency for the Placement and Protection of Indonesian Overseas Workers (BNP2TKI).[6] This migrant stock comes on the heels of an active drive to increase overseas migration in an effort to dampen pressures on the domestic labour market. To illustrate, in 2004, more than 360,000 workers had been placed overseas with remittances that year totalling US$1.9 billion but in 2007, the number of workers placed overseas had nearly doubled to 696,000 with remittances totalling US$5.8 billion. In 2008, the Government is targeting the placement of one million overseas workers. The rapid growth in the number of migrant workers and remittance inflows raises important implications of managing migration in a positive and protective way and ensuring that remittances are used effectively for poverty alleviation and development.

Unemployment/ employment reveals little about job quality

The above employment indicators, while useful, do not provide an indication of job quality and hence decent work deficits.[7] The standard criterion for being employed, which Indonesia follows, is having worked for at least *one hour* during a particular reference period. This one hour criterion consequently encompasses both marginal and low-paid jobs of one or two hours a week, short-term work as well as full time jobs with high earnings and generous employment benefits. As such, being employed for at least one hour in a reference period is not necessarily indicative of gainful employment. Time-related underemployment relates to the number of employed persons whose hours of work in the reference period are insufficient in relation to a more desirable employment situation in which the person is willing and available to engage, and hence provides an indication of the underutilization of the productive capacity of the labour force and one aspect of the quality of work.[8]

Time-related involuntary underemployment (i.e. having worked less than 35 hours a week) in Indonesia has risen steadily in Indonesia from 11.9 per cent of the labour force in 2002 to 13.6 per cent in 2007 (Figure 1.5).[9] The recent decrease in the unemployment rate has been offset by an increase in the underemployment rate such that the share of those "fully employed" (total employment less underemployed) in 2007 is actually below the level of 2002 while unemployment levels between those two periods are approximately the same. This again illustrates the limitations of the unemployment rate in adequately capturing labour market dynamics.

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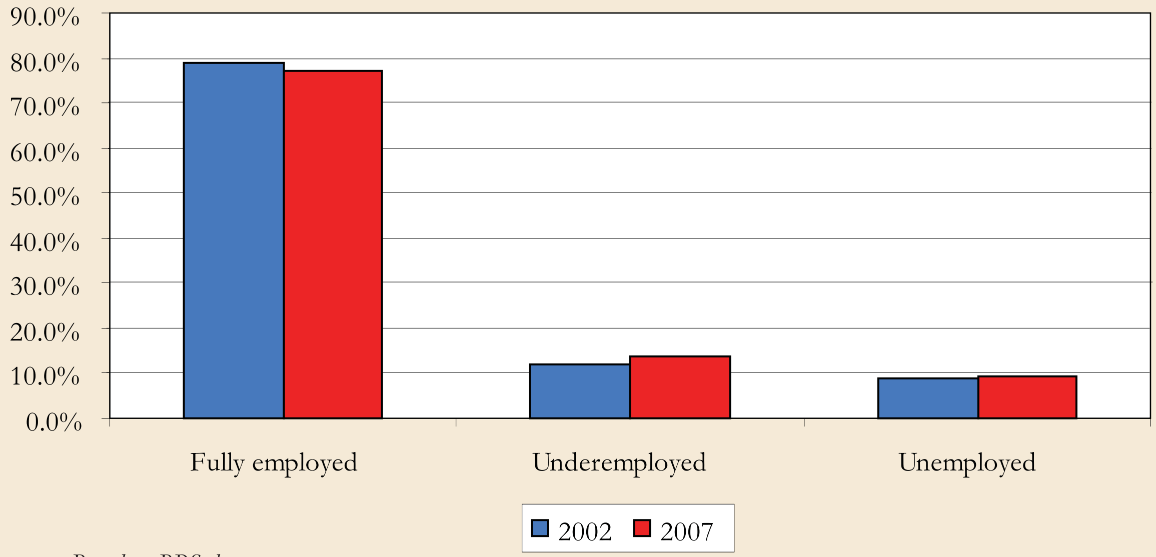
6 Jakarta Post: "Creative workers sought to fill overseas vacancies", 3 May 2008.

7 See ILO: *Key Indicators of the Labour Market* (5th Edition), Chapter 1c for a more comprehensive discussion on moving beyond the employment/unemployment dichotomy.

8 In addition to insufficient hours (time-related underemployment), underemployment can include underutilization in terms of insufficient income earned, use of one's skills and/or education and low productivity. Due to difficulties in quantifying some of these aspects, time-related underemployment is the most commonly used component of underemployment.

9 In addition to the *involuntarily* underemployed, 14.1 per cent of the labour force were *voluntarily* underemployed in 2007.

Figure 1.5 Distribution of labour force status, 2002 and 2007



Source: *Based on BPS data*

Vulnerability has decreased slightly as formal sector job growth outpaces growth in the informal sector

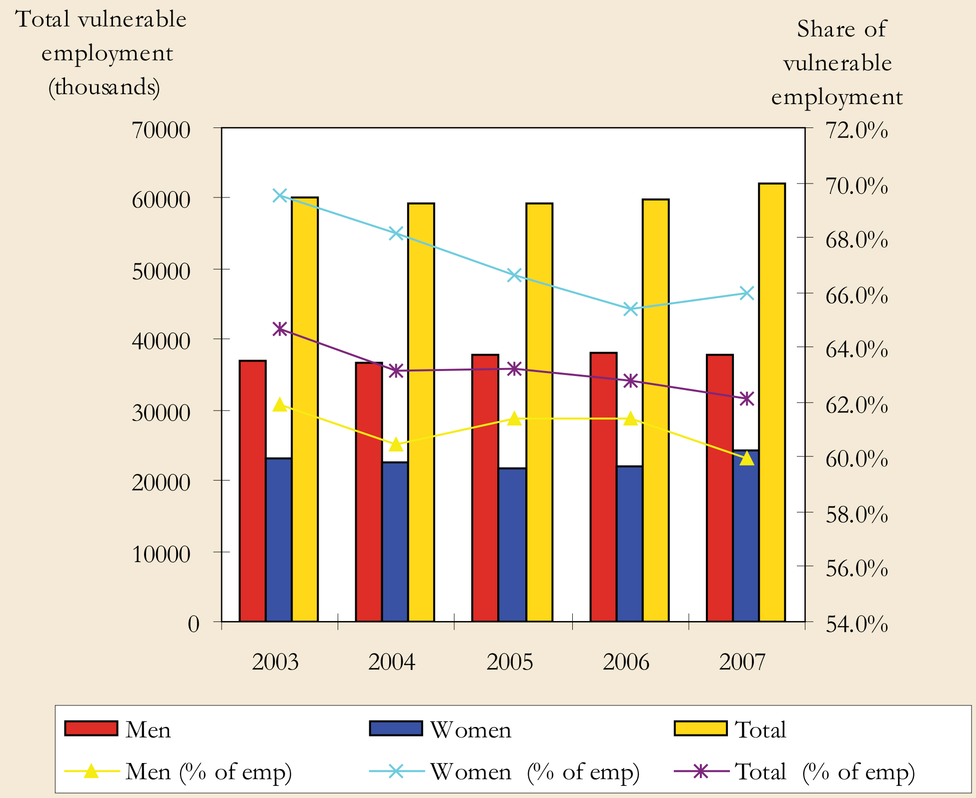
The share of vulnerable employment, as an MDG indicator, refers to the sum of own-account workers and contributing family members as a percentage of total employment. The indicator provides an indication of job quality and of the informalization of the labour market. Vulnerable employment in this report, however, follows the *Badan Pusat Statistik* (BPS) calculation of informal activity, which is produced by a cross tabulation between employment status and main occupation, and which is expected to provide a more accurate picture of the extent of informalization in Indonesia.

Vulnerable employment decreased from 64.7 per cent in 2003 to 62.1 per cent in 2007 (Figure 1.6).[10] The decrease in vulnerability has been supported by a welcome expansion of jobs in the formal sector, which grew at an annual average rate of 3.8 per cent between 2003 and 2007, compared to informal economy job growth of 0.9 per cent. The share of women in vulnerable employment, while continuing to be higher than for men, decreased noticeably from 2003 to 2006, although there was an uptick in 2007. This has come on the heels of a 10 per cent increase in informal employment from the previous year, suggesting that the improved labour market outcomes for women, in terms of a decreased unemployment rate and increased employment-to-population ratio as described in earlier sections, may be nuanced as the work women are finding is likely to be characterized by decent work deficits in terms of low quality, unproductive and poorly remunerated jobs. Jobs in the informal economy are often not recognized by law, offer little or no social protection and are typically characterized by an absence of rights at work and a lack of representation and voice in the workplace.[11]

10 See Annex I for further information on the BPS calculation of informal activity.

11 ILO: *Decent work and the informal economy*, Report IV, International Labour Conference, 90th Session, Geneva, 2002, p. 4.

Figure 1.6 Vulnerable employment by sex, 2003–2007



Source: ILO Calculations based on BPS data

Urban informal economy expanding but the vulnerable are mostly in agriculture

Informality is becoming an increasingly urban phenomenon, on the heels of rural to urban migration, with urban informal employment growing by 5.3 per cent between 2003 and 2007, compared to 2.8 per cent in rural areas. Nonetheless, informality remains predominantly a rural phenomenon, an indication of a large subsistence agriculture sector in Indonesia, with rural areas accounting for nearly three-fourths of vulnerable employment. This indicates that efforts need to be specifically targeted on agriculture and the rural economy, where most of the vulnerable reside. The sharp increase in food prices in Indonesia and around the world in the past year underscores the need for sustainable agriculture that provides decent livelihoods for workers and their families.

Promoting employment and decent work in rural areas requires a comprehensive and territorial approach

Given the complex and variable nature of rural labour markets, such efforts will require an integrated approach involving the promotion of productivity and employment, social protection, rights at work and social dialogue.[12] With the push towards decentralization in Indonesia, efforts will also require a *territorial* approach in promoting rural development. This approach considers the advance of all economic activities in the rural territories, not just agriculture; promotes the participation of local populations and the strengthening of local institutions; utilizes a coordinated and strategic approach based on territorial potential and assets; and takes advantage of territorial identity as a development asset.[13]

12 See ILO: *Promotion of rural employment*, Report IV, International Labour Conference, 97th Session, Geneva, 2008, for more information on an integrated approach to promoting employment and decent work in rural areas.

13 ibid.

Poverty largely a problem of the employed

Rural areas are also where the majority of the poor in Indonesia, at 63.5 per cent, are found. Poverty, which had risen significantly with the Asian financial crisis, has fallen below the pre-crisis period, although the number of poor people, at 37.2 million in 2007, remains higher than the number of poor in 1996 (34.5 million).[14] Poverty in Indonesia, as in many developing countries, is largely a problem associated with persons who are employed, with estimates indicating that less than 15 per cent of the poor had a head of a household who was not working. This indicates that poverty is not so much the lack of economic activity, but rather the unproductive nature of that activity and the resulting inadequate earnings to lift poor workers and their families out of poverty. If the working poor, defined as the proportion of employed persons living in a household whose members are estimated to be below the poverty line, had the opportunity to be more productive and earn more, poverty would decline, hence the inclusion of decent work as an indicator under the MDG on reducing poverty.

About half of the employed estimated to be poor

Between 2002 and 2006, there is estimated to have been an increase in the number of working poor (at US$1 a day), while the share of working poor in total employment has remained steady at 8.2 per cent. At the US$2 per day poverty line, 54.6 per cent of Indonesian workers, or 52.1 million workers, did not earn enough to lift themselves and their families out of poverty.

Table 1.4 Working poverty, 2002 and 2006

	US$1 a day working poor		US$2 a day working poor	
	Millions	Share in total employment (%)	Millions	Share in total employment (%)
2002	7.6	8.2	52.8	57.6
2006	7.9	8.2	52.1	54.6

Source: *ILO calculations*

14 Poverty statistics based on the national income poverty line, which is more or less equivalent to Purchasing Power Parity (PPP) US$1.55-a-day. The poverty line is based on the per capita IDR value of an individual's need to fulfil minimum requirements for food (2100 kcal/day).

Box 1.4
Data limitations of macro-derived working poverty estimates

Given the lack of direct measurements of poverty among the employed population in Indonesia, estimates for working poverty in this report are derived from macro-derived estimates that multiply poverty rates by the labour force based on some simplifying assumptions.

More reliable and robust estimates of working poverty could be obtained from micro-level data from household surveys, where a direct relationship can be made between poverty status and employment status. Such data gaps underscore the need to invest in statistical capacity to provide more up-to-date and reliable labour market information, so that policies can be appropriately targeted and efficiently implemented.

See Kapsos, S., Micro-and Macro-based approaches for estimating working poverty, *Paper prepared for United Nations Economic and Social Council, Economic and Social Commission for Asia and the Pacific, Committee on Poverty Reduction, Document No. E/ESCAP/CPR(4)/5, 19 Sep. 2007 for more information on working poverty measurements.*

Box 1.5
Child labour in Indonesia

Poverty is both a driver and consequence of child labour. The 2007 National Labour Force Survey indicated that there were over 1 million working children aged 10-14 in Indonesia (60 per cent boys and 40 per cent girls). The majority of these children were in agriculture (62 per cent), followed by trade (17 per cent) and manufacturing (13 per cent). Child labour leads to reduced primary school enrolment and negatively affects literacy rates among youth, further exacerbating the problem of youth employment

The Indonesian Government has undertaken various steps to tackle child labour, including expanding access to education, with initiatives aimed at reducing the costs of education of poor families, expanding education in rural areas and providing cash subsidies to poor households on condition that school-age children attend school. Nonetheless, the current inflationary environment, which is increasingly placing financing education out of reach, particularly for the poor, and the current sizable number of working children indicate that the Government will need to increase its commitment to tackling the issue, particularly in the effective implementation of the National Action Plan for the Elimination of the Worst Forms of Child Labour. The ILO, through its Time Bound Programme on the Elimination of the Worst Forms of Child Labour and the Education and Skills Training for Youth Employment (EAST) programmes, is supporting the Government in this regard.

Note: The legal minimum working age in Indonesia is 15.

Labour productivity growth essential for poverty reduction

With the majority of the employed in Indonesia working long, hard hours but in low-productivity jobs, productivity growth provides the principal route out of poverty. Labour productivity is also essential for the wider workforce as part of the gains from increased productivity can be distributed to workers through higher wages, better working conditions, shorter working hours and/or more investment in human resources. As such, labour productivity can be used to assess the likelihood of the country's economic environment to create and sustain decent employment opportunities.

Total economy labour productivity, measured as output per person employed, expanded by a robust 30.2 per cent or at an average annual rate of 4.3 per cent between 2000 and 2007, supported in part by the transition from employment in lower value-added agriculture to employment in higher value-added industry and services (Table 1.5). While output per worker remains in services remains half that than in industry, productivity growth in the total economy in particular was driven by growth in services which grew average annual rate of 4.7 per cent compared to growth in agriculture and industry of around 2.6 per cent.

Table 1.5 Output per worker in 2000 and 2007

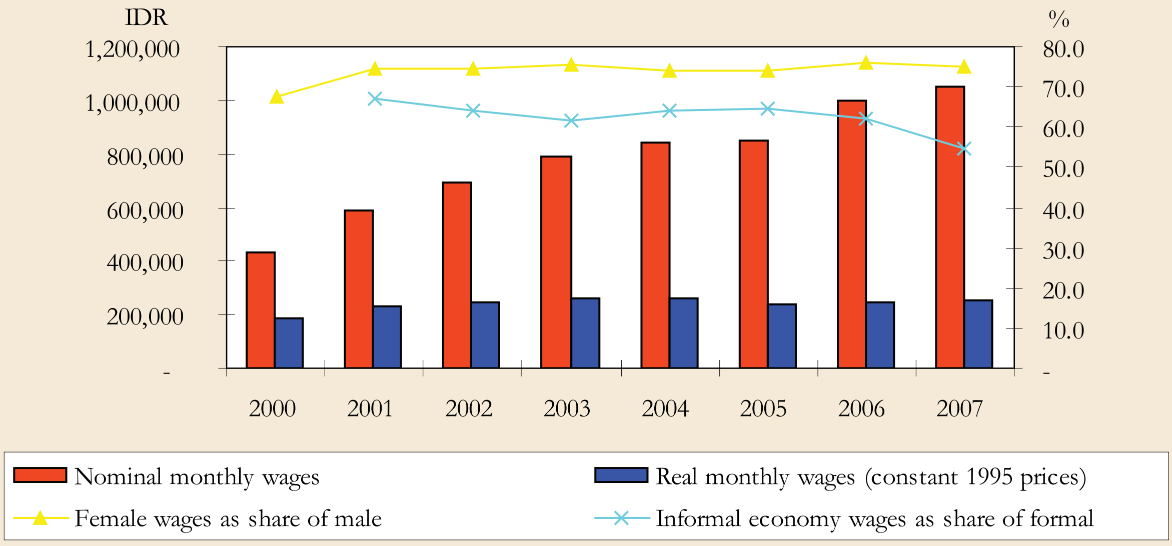
	Output per worker (millions IDR at constant 2000 prices)		Growth (%)	Growth (%) average annual	Employment growth (%) average annual
	2000	2007	2000-2007	2000-2007	2000-2007
Total economy	14.9	19.5	30.2	4.3	1.6
Agriculture	5.5	6.5	18.9	2.7	0.2
Industry	37.8	44.6	18.2	2.6	2.8
Services	15.9	21.1	33.0	4.7	2.8

Source: ILO calculations based on BPS data

Productivity growth has not translated into higher real wages

To what extent has productivity growth translated into higher wages? Nominal average wages in Indonesia more than doubled between 2000 and 2007 but while real average wages rose modestly between 2000 and 2003, they have since stagnated (Figure 1.7). This indicates that workers' living standards and purchasing power have not improved substantially despite the increasing efficiency of their labour.

Figure 1.7 Wages, 2000–2007



Source: *Based on BPS data*

Widening wage inequalities while gender gaps remain

Additionally, the available evidence suggests that there is a widening wage gap between the low-skilled and high-skilled workers. Using formal/informal economy data as a proxy for skill levels, average real wages in the informal sector were 68 per cent of those in the formal sector in 2001, but this ratio had decreased to 55 per cent by 2007. Industry-level wage data also point to widening wage inequalities: average monthly wages in agriculture accounted for 34 per cent of those in finance and business services in 1999 but this ratio has been declining steadily, reaching 27 per cent in 2007. The Gini coefficient, a common indicator of income inequality, also increased from 0.32 in 2000 to 0.35 in 2006.[15] Furthermore, the gender wage gap, which had narrowed from females earning 69 per cent of male monthly wages in 1995 to 75 per cent in 2001, has since remained at around 75 per cent.

1.3 Trends and policy implications

Taken as a whole, the trend analyses of an array of economic, social and labour market indicators indicate the following:

- Robust economic growth in recent years has not necessarily translated into better labour market outcomes. The number of unemployed, excluding discouraged workers, has remained at around seven per cent, the share of the fully employed has actually declined since 2002 as involuntary underemployment increased, and the employment-to-population ratio has also hardly changed in the last six years. Furthermore, despite rising productivity, real wages in recent years have stagnated, indicating that the standards of living for many workers have not improved substantially.

15 A Gini coefficient takes on values between 0 and 1, where 0 corresponds to perfect income equality and 1 corresponds to perfect income inequality.

- The working poor are bearing the brunt of these outcomes. Not only can they find only poorly remunerated, low-productive jobs, they are seeing their standards of living and purchasing power deteriorate substantially with spiralling food and fuel prices.

- On a positive note, the number of discouraged workers has fallen sharply, although this was mostly offset by an increase in the number of persons looking for work. Such trends indicate that previously discouraged workers have begun again looking for jobs with improving economic conditions. Furthermore, vulnerable employment has decreased between 2003 and formal sector job growth has outpaced that in the informal sector recently. Labour productivity has expanded robustly in recent years, driven by growth in services.

- Labour market outcomes for women in recent years have generally improved modestly, as indicated in a decrease in their unemployment rate, increase in the employment-to-population ratio, sizable reduction in informality and wage gaps that have narrowed between 1995 and 2007. Nonetheless, there continues to be significant gender gaps in all these indicators.

- Young women and men aged 15–24 years continue to struggle disproportionately in the labour market. While youth represent 21 per cent of the labour force, they account for 56 per cent of the unemployed.

- The number of overseas migrant workers has increased substantially and is likely to continue to expand on the heels of Government efforts and other push and pull factors.

- The share of services in total employment has been growing in recent years. Already, services provide the majority of employment for women and will likely soon do the same for men. Employment in industry has stagnated in recent years, but based partly on trade patterns, employment outcomes within the manufacturing sector vary widely.

- Half of the employed are the working poor and they are predominantly in rural areas. Nonetheless, urban poverty and informality are increasing rapidly. Income inequalities are increasing, as proxied by skills levels and Gini coefficients.

These trends draw attention to some relevant areas of concern for policymakers.

First, the multidimensional challenges indicate the need for a comprehensive and coordinated employment strategy, involving the placement of decent and productive employment at the centre of economic and social policies through increased coordination between different ministries.[16] In a decentralizing Indonesia, a national employment strategy would serve to provide guidelines to provincial and local levels where the implementation would take place. A comprehensive strategy will necessitate an identification of appropriate targets, broader than the unemployment rate. Appropriate targets, such as a focus on job creation rather than reduction of unemployment, will also need to be considered in the formulation and implementation of the next Medium Term Development Plan.

Second, with the majority of the labour force engaged in agriculture and a disproportionate share of these workers among the working poor and most vulnerable, there needs to be a renewed focus on this sector through an integrated approach involving promoting productivity and employment, social protection, rights at work and social dialogue, coupled with promoting rural non-agricultural activities and employment. The recent food price crisis underscores the neglect of this sector across the world.

At the same time, it will be necessary to build capacities in dynamically growing sectors of the economy such as services.[17] Productivity and employment growth in the growing services sector in particular will require an appropriate skills development strategy, including on customer interaction and attitudes, given the frequent interaction between staff and customers in this sector.[18] As such, the national employment strategy noted above must encapsulate these issues, with sector-specific employment promotion and skills strategies, both where the majority of labour is employed and in dynamically growing sectors of the economy, and strategies to link the two.

Third, investment will need to be more employment-intensive to assuage pressures on the labour market, particularly since economic growth is likely to slow with inflationary pressures and a slowdown in the world economy. Given the current drive to build and upgrade infrastructure in Indonesia and to ensure that the current pick-up in private investment leads to significant job creation, the Government can take the lead in mainstreaming employment-friendly approaches to investment. Experiences in relation to labour-intensive approaches to infrastructure investment have shown that they can be economically more cost effective while comparable to equipment-based approaches.[19] Where such investments take place aimed at linking rural areas to urban centres and in poor communities, they serve also to provide opportunities for working out of poverty.

16 The ILO's Global Employment Agenda can provide an informative framework for the development of an employment strategy. See ILO: *Implementing the Global Employment Agenda: Employment strategies in support of decent work,* "Vision" document, Geneva, 2006, for more information on the Global Employment Agenda.

17 See ILO: *World Employment Report 2004-05: Employment, productivity and poverty reduction,* Geneva, 2005.

18 See ILO: *Sustaining productivity and competitiveness on a foundation of decent work*, Paper prepared for the Asian Employment Forum: Growth, Employment and Decent Work, 2008.

19 See ILO: *Making infrastructure employment friendly*, Geneva, 2007, for a summary of such experiences.

Furthermore, given the importance that multinational enterprises attach to corporate social responsibility, there is scope to encourage among foreign investors more employment-intensive technologies and processes capable of being absorbed by the domestic economy and thus contributing to development, in addition to fostering decent workplace practices with a view to attracting foreign investment while raising productivity.

Fourth, sustainable enterprises are the principal source of growth, employment and decent work. Creating a conducive environment for sustainable enterprises is therefore critical in fostering job-rich development.[20] The recent expansion in private investment and formal sector job growth since 2003 that has outpaced that of the informal sector indicates that the priority is on further improving the broader conducive environment rather than a narrow focus on revising the Labour Law No. 13/2003 that some argue has been too rigorous for formal sector job expansion. Micro- and small enterprises are an important source of job creation, and the policy challenge is to ensure their sustainability through upgrading, access to training and finance and incentives to move to the formal economy, including through streamlining regulations, permits and licensing.

Fifth, trade patterns and other forms of globalization are leading not only to structural transformation but also to increased labour market turnover and adjustment costs. They have also had an impact on heightened job insecurity and the spread of forms of work – including subcontracted work – that typically do not offer many of the rights and benefits that apply to regular workers.[21] This points to a need for the Government to establish labour market policies and institutions for providing adjustment assistance to workers, particularly to low-skilled workers.

In all of the above policy concern areas, social dialogue is of critical importance. It is essential in achieving national consensus and ownership on policy formulation, sequencing and implementation. Such dialogue must in turn be supported by a Ministry of Manpower and Transmigration and workers' and employers' organizations with sufficient technical capacities to represent their stakeholders and participate effectively in policy formulation, implementation and monitoring. Sound labour market institutions and collective bargaining systems also ensure equitable returns to productivity and economic growth and in addressing growing inequalities.

20 See Annex II for elements of a enabling environment for sustainable enterprises and ILO: *Report of the Committee on Sustainable Enterprises*, Provisional Record No. 15, International Labour Conference, 96th Session, Geneva, 2007.

21 See ILO: *Labour and Social Trends in ASEAN 2007*, Bangkok, 2007, Chapter 6 for a more detailed examination of the impacts of economic integration on labour markets.

2

Looking Ahead to 2015

At the 14th ILO Asian Regional Meeting in 2006, representatives of governments and employers' and workers' organizations committed themselves to an Asian Decent Work Decade (2006–2015), during which concerted and sustained efforts would be made to realize decent work in the Asia-Pacific region. This chapter highlights some projected changes in demographic structure and labour force, in addition to providing examples of scenarios based on different employment elasticities. The chapter also aims to identify areas that merit the attention of policymakers, employers and workers during the Decent Work Decade.

2.1 Projected demographic trends

The demographic bonus must be capitalized upon

Indonesia is facing important demographic changes during the Asian Decent Work Decade. Between 2006 and 2015, Indonesia's total population is expected to grow by about 25 million (or around 1.1 per cent annually) to 248 million (Table 2.1). The rate of growth will be significantly lower than the 1.3 per cent population growth rate of earlier periods, and reflects in part a lower fertility rate owing to the successful family planning programme that was introduced in the early 1970s.[22]

22 The fertility rate, at 2.21 in 2006, is a significant decrease from a rate of around five in the 1970s. By 2015, it is estimated that the total fertility rate would be as low as 2.1 (see Table 2.1). On this dimension, Indonesia is expected to have a unity net reproductive rate (NRR), in which one mother would be replaced exactly by one daughter.

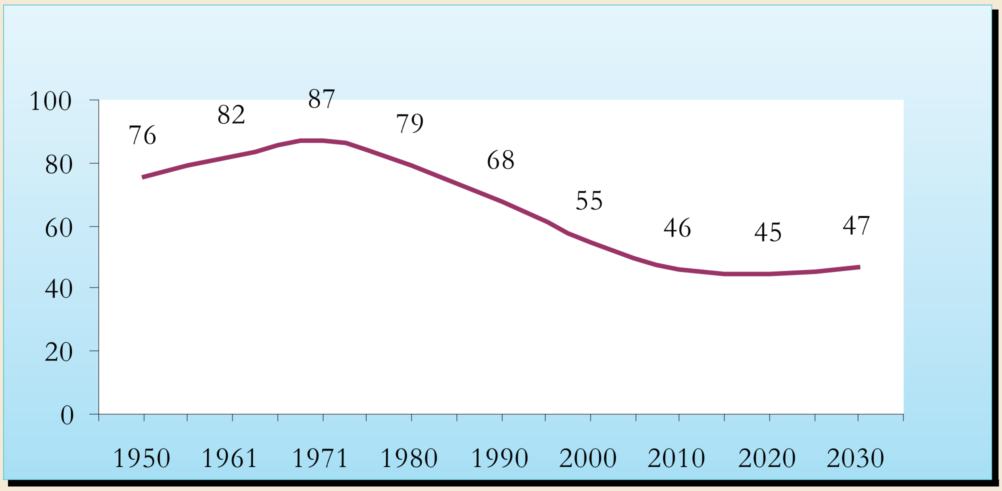
Table 2.1 Demographic projections, 2006–2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population										
Male (million)	111.21	112.63	114.05	115.46	116.88	118.29	119.70	121.10	122.49	123.84
Female (million)	110.84	112.28	113.73	115.17	116.60	118.04	119.48	120.91	122.33	123.73
Total (million)	222.05	224.90	227.78	230.63	233.48	236.33	239.17	242.01	244.81	247.57
Sex ratio	100.3	100.3	100.3	100.2	100.2	100.2	100.2	100.2	100.1	100.1
Annual growth rate (%)	1.30	1.29	1.28	1.25	1.23	1.22	1.20	1.19	1.16	1.13
Population age 60+ (million)	16,823.7	17,313.0	17,844.8	18,425.0	19,036.6	19,744.9	20,494.2	21,295.3	22,185.3	23,159.6
Total Fertility Rate	2.21	2.19	2.17	2.16	2.15	2.14	2.13	2.12	2.11	2.11
Net Reproduction Rate	1.02	1.01	1.01	1.01	1	1	1	1	0.99	0.99
Life expectancy at birth										
Male	67.5	67.9	68.3	68.6	68.9	69.2	69.6	69.8	70.1	70.3
Female	71.5	71.9	72.2	72.5	72.9	73.2	73.5	73.8	74.1	74.3
Total	69.4	69.8	70.2	70.5	70.8	71.2	71.5	71.8	72	72.3
Infant mortality rate										
Male	35.2	33.7	32.2	30.9	29.5	28.3	27.1	26	25	24
Female	26.2	25	23.8	22.7	21.6	20.6	19.7	18.8	18	17.2
Total	30.8	29.4	28.1	26.9	25.7	24.6	23.5	22.5	21.6	20.7

Source: Nazara, S.: Indonesian Labour Market: Toward the Asian Decent Work Decade, *Unpublished background paper commissioned by the ILO, 2007.*

The fertility decline has in part allowed Indonesia to enjoy a period of declining dependency ratio (See Figure 2.1). In the early 1970s, the dependency ratio was around 87, indicating that 100 persons of productive age (i.e. between the ages of 15 and 64) must support 87 non-productive persons (below 14 years of age and older than 65 years). This ratio had declined to 50 by 2005, and is projected to reach its lowest point of 45 by 2017. Beyond 2017, the dependency ratio is expected to be on a rising trend.

Figure 2.1
Dependency ratio, 1950–2030, 2000–2007



Source: *Nazara (2007), op. cit.*

The aggregate benefits arising from such a declining dependency ratio, as the economy has the potential to accumulate domestic savings at a higher rate, is commonly referred to as a "demographic bonus" or "demographic dividend". This ends when the dependency rate reaches the lowest point. As such, only about ten years remain for the economy to make the best use of this period. The dividend, it must be noted, is not automatic. It depends critically, among other things, on whether the economy can mobilize sufficient capital to productively employ new potential workers, which further highlights the importance of concerted actions during the Decent Work Decade in Indonesia.

Indonesia is aging

In addition to an expansion in the share of the prime age population, the share of the older age population will expand significantly. It is estimated that by 2012, the number of children below five years old will exactly match that of people aged 60 years and older, and by 2016, the number of persons aged 60 years and older will reach 23.2 million, approximately 38 per cent higher than in 2006. These trends will have serious repercussions for the national social security system, and especially Law No. 24/2004 on the National Social Security System which foresees reforming the existing social protection system towards universal coverage and creation of new schemes such as old-age pensions (Box 2.1).

Box 2.1 Old-age benefits in Indonesia

Whereas there is in place a retirement pension option for public sector employees in Indonesia, no such option exists for private sector employees, who receive only a lump sum retirement benefit. This lump sum scheme in general does not meet the requirement of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) as it does not provide periodic and predictable payments against the loss of income after retirement.

Given the aging population in Indonesia, consideration of the development of a pension scheme will need to be made. The National Social Security System Law No. 40/2004 already provides for pensions as a social security programme but specific design and implementation have yet to take place. Any reforms in particular will need to strengthen *Jamstostek*, the national social insurance fund, for it to be able to service a pension scheme, especially its capacity to make periodic payments throughout the life of pensioners instead of lump sum payments.

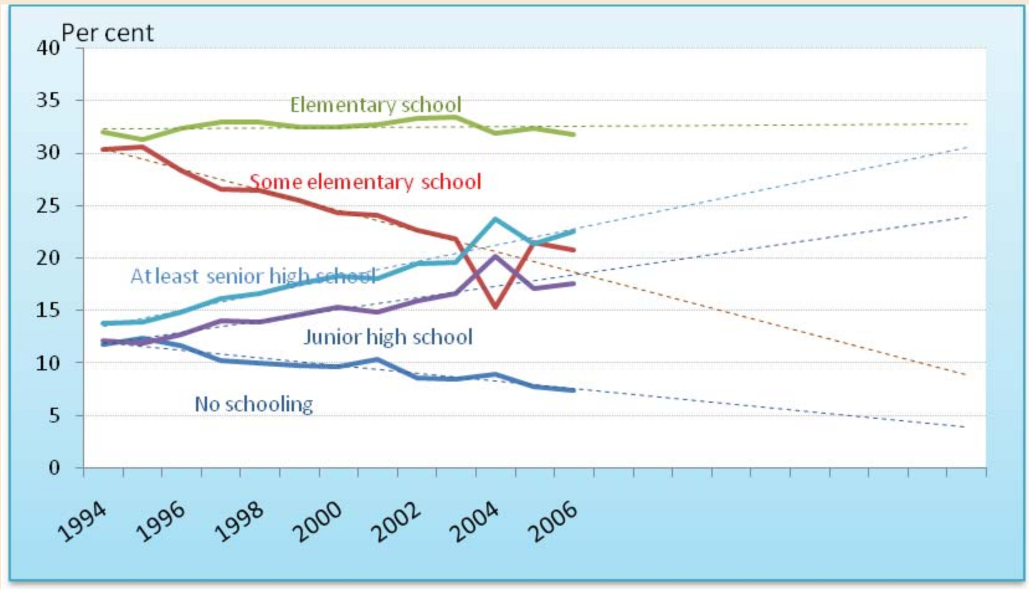
Source: *ILO:* Social Protection in Indonesia: Issues and Options for Development *(Jakarta, 2006).*

2.2 Projections and scenarios of labour market trends

Labour force will be more educated

Indonesia's labour force, which stood at around 109.9 million in 2006, is expected to expand to 124.4 million by 2015, or by about 14 per cent, putting continued pressure on the labour market. New entrants to the labour market between 2007 and 2015 are expected to be more educated than before. It is projected that the share of the population (aged ten years and older) with only some elementary school education will be reduced by half to around 10 per cent in 2015 (Figure 2.2). On the other hand, the share of those with at least senior high school is expected to rise to around 30 per cent by 2015. Given that the more educated account for a larger proportion of the unemployed in Indonesia, it will be critical that economic development keeps pace with the increase in educational attainment and that the economy is able to shift to a higher growth path that is able to absorb those with higher levels of education and skills in order to reduce unemployment and ensure that the more educated population has access to decent and productive jobs.

Figure 2.2 Population aged 10+ by educational attainment



Source: *Nazara (2007), op. cit.*

In addition to increasing educational attainment levels, there is a need to improve the quality of education and vocational and technical training. There is evidence to suggest that the quality of education, as measured by the knowledge students gain in tests of cognitive skills, is substantially more important for GDP growth than the quantity of education.[23] In this regard, there is substantial scope in Indonesia for improving the quality of education, as evidenced by the Programme for International Student Assessment (PISA) surveys of the Organisation for Economic Co-operation and Development (OECD). These surveys assess the extent to which 15-year-old students (those near the end of compulsory education) have acquired key competencies in the areas of reading, science and mathematics. The surveys are designed not merely to assess student mastery of the school curriculum, but the acquisition of knowledge and skills needed in adult life.

Table 2.2 provides mean scores of student performances in the PISA tests for Indonesia, the average for 28 mostly middle-income economies and the OECD average. As indicated by the results, Indonesians students perform significantly below both the average for the 28 middle-income economies and the OECD in all three subject areas. Furthermore, according to the PISA results, 65.7 per cent, 61.6 per cent, and 58.3 per cent of Indonesian students did not possess the proficiency levels in mathematics, science and reading respectively deemed to be the critical baseline needed to be able to participate effectively and productively in life situations. This compares with 21.3 per cent, 19.3 per cent, and 20.1 per cent respectively for the OECD average and indicates that substantial numbers of Indonesian students may not be acquiring knowledge and skills needed in adult life and for the labour market. On a more positive note, learning outcomes as measured by these indicators had improved noticeably from surveys conducted in 2000 and 2003.

23 Hanushek, E. and Wö²mann: *Education Quality and Economic Growth* (Washington, DC, World Bank, 2007).

Table 2.2 Mean PISA 2006 scores

	Science	Mathematics	Reading
Indonesia	393	391	393
28 middle-income economies average	443	437	425
OECD average	500	498	492

Source: OECD: PISA 2006, Volume 2: Data (Paris 2007).Note: The 28 developing economies include Argentina, Azerbaijan, Brazil, Bulgaria, Chile, Colombia, Croatia, Estonia, Hong Kong (China), Indonesia, Israel, Jordan, Kyrgyzstan, Latvia, Liechtenstein, Lithuania, Macao (China), Montenegro, Qatar, Romania, Russian Federation, Serbia, Slovenia, Taiwan, Province of China, Thailand, Tunisia and Uruguay

Indonesia's unemployment expected to decline to 7 per cent by 2009

Assuming that economic growth of around 6 per cent continues, Indonesia's unemployment is expected to decline to around 7.0 per cent by 2009, the year by which the Government has targeted reducing unemployment by half.[24] Table 2.3 provides different labour market scenarios from 2007 to 2015 based on different employment elasticities. Projections further into the future have large margins of error, and the scenarios are aimed at highlighting only how labour market outcomes could differ remarkably depending on different elasticities. For example, if the economy were able to continue to grow by 6 per cent per year, and labour force growth were to continue on its recent growth rate of 1.8 per cent per year, and with an employment elasticity of 0.5 (or in the case of Indonesia, around 500,000 additional workers per 1 percentage point of GDP growth), the unemployment rate could fall to 0.2 per cent by 2015.[25] On the other hand, if the same conditions held except that there were only around 300,000 additional workers per 1 per cent of output growth, the unemployment rate would remain at 9.1 per cent in 2015. As an employment elasticity of 0.5 implies that half of output growth can be attributed to gains in productivity and the other half to gains from increased employment growth, the scenarios also serve in particular to highlight the importance of balancing productivity growth and employment growth for optimal labour market outcomes.

24 This projection takes 2007 as the base year, and also assumes an annual average labour force growth of 1.8 % (based on 2000-2007 data) and an employment elasticity of around 0.5, the estimate for the period 2000-2006 (see Annex III for details on this employment elasticity). See also Kapsos, S. *The employment intensity of growth: trends and macroeconomic determinants*, ILO Employment Strategy paper 2005/12, Geneva, 2005, for a more in-depth discussion on employment elasticities.

25 An elasticity of 0.5 implies that every 1 percentage point of GDP growth is associated with employment growth of 0.5 percentage points. An employment elasticity of 0.5 translates into 500,000 workers of per 1 percentage point of GDP growth in Indonesia as total employment in Indonesia was around 100 million in 2007.

Table 2.3 Labour market scenarios based on different employment elasticities (millions)

	2007	2010	2015
Scenario 1: Employment elasticity of 0.5			
Labour force	109.9	116.0	126.8
Employment	99.9	109.3	126.6
Unemployment	10.0	6.7	0.2
Unemployment rate (%)	9.1	5.8	0.2
Scenario 2: Employment elasticity of 0.4			
Labour force	109.9	116.0	126.8
Employment	99.9	107.3	120.8
Unemployment	10.0	8.7	6.0
Unemployment rate (%)	9.1	7.5	4.7
Scenario 3: Employment elasticity of 0.3			
Labour force	109.9	116.0	126.8
Employment	99.9	105.4	115.3
Unemployment	10.0	10.6	11.5
Unemployment rate (%)	9.1	9.1	9.1

Note: Based on an economic growth rate of 6 per cent and labour force growth of 1.8 per cent.
Source: *Author's calculations, for 2007, BPS*

Rapid technological change, further integration into global markets and the resulting competitive pressures are expected to lead to a continuation of the shift away from agriculture to services. Within the next few years, most Indonesians are expected to be employed in the services sector as the share of services employment is projected to rise from 40 per cent in 2007 to around 44 per cent by 2015.[26]

Most Indonesians will be employed in the services sector

The ongoing upward trend in the number of overseas Indonesian migrants is expected to continue in the coming years. Facilitating and increasing the placement of migrant workers is a policy goal of the Government; labour mobility is an important element of the ASEAN Community, of which Indonesia is a member. Combined with "pull factors" such as population aging in other countries and income differentials between Indonesia and other countries, the number of registered migrant workers is expected to reach over 10 million within the Asian Decent Work Decade.[27]

Number of overseas migrants likely to grow significantly

26 ILO Jakarta projections.

27 It is estimated that there were 4.3 million registered Indonesian migrant workers in 2007. This projection is based on the past 4-year trend.

2.3 Social trends and future implications

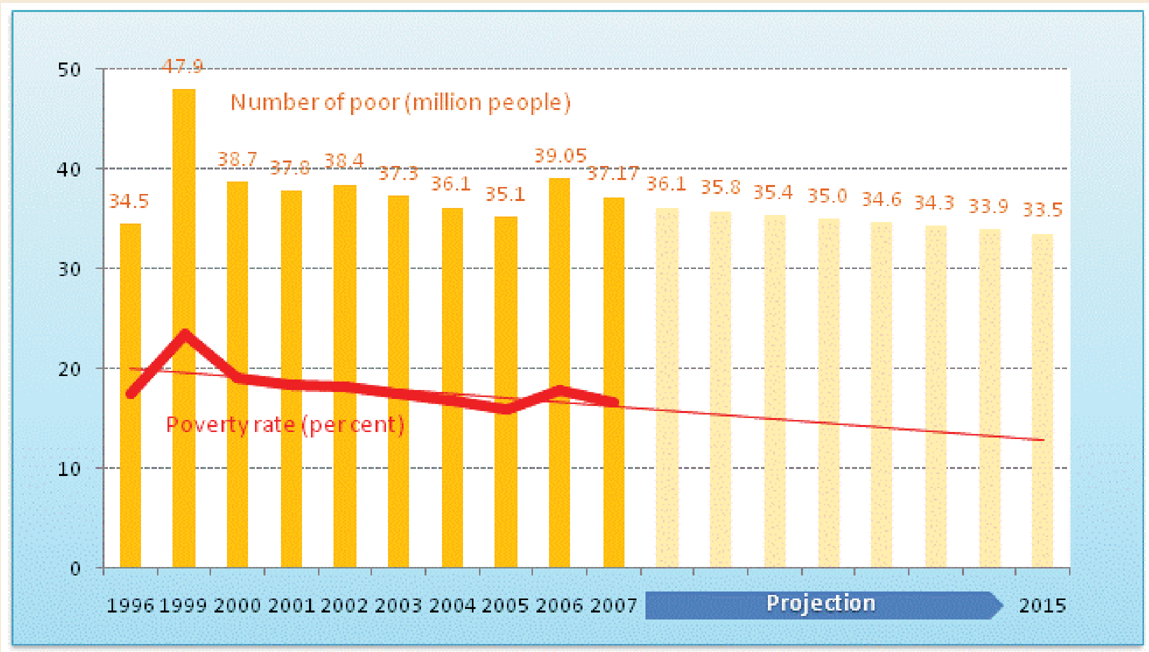
Rapid urbanization

Indonesia is currently undergoing rapid rural-urban migration, which is expected to continue. In 2000, around 42 per cent of the population lived in urban areas, but this ratio had grown to about half by 2007. By 2015, it is estimated that about 60 per cent of the population will be living in urban areas.[28] As activities such as petty trade and personal services are often the immediate source of income for newcomers to urban areas, rapid urban-rural migration will not only contribute to the expansion of the services sector, it is also likely to lead to an increase in the size of the urban informal economy. A looming challenge during the Asian Decent Work Decade will be to generate jobs of decent quality in urban areas.

Urbanization of poverty

With urbanization, Indonesia is also facing a trend towards the urbanization of poverty and the working poor. In the mid-1970s, less than 20 per cent of the poor were in urban areas. By 2007 however, about 36 per cent of the poor were in urban areas.[29] The number of poor people is expected to decline to around 33.5 million by 2015 (Figure 2.3) but the number of the urban working poor is expected to rise.

Figure 2.3 Poverty in Indonesia: Past and projected



Source: *Nazara (2007), op. cit.*

28 Estimate by the Demographic Institute, Indonesia.

29 Statistics based on the national poverty line.

Most urban areas in Indonesia will not be able to cope with this rising poverty, as the basic infrastructure is underdeveloped and in a bad state of maintenance. Basic services are often not functioning and often do not reach the poorest neighbourhoods. In addition to suffering low incomes, the urban poor are thus exposed to health hazards due to bad drainage, waste accumulation, and a lack of sanitary facilities amongst other hazards. Investments in infrastructure, both in rural areas – thereby connecting the rural poor urban markets – and in urban areas that are able to generate quality jobs, will be critical in addressing the challenges of the working poor and the informal economy.

Urbanization calls for the need for green jobs

As noted in the Melbourne Principles for Sustainable Cities, urban areas are "fundamental for economic opportunities and social interaction, as well as cultural and spiritual enrichment. However, cities are also increasingly damaging the natural environment, unsustainably exploiting natural resources, undermining the social fabric and jeopardising long-term prosperity."[30] Rapid urbanization in Indonesia thus poses the danger of serious environmental degradation, which in turn calls for a transition towards more sustainable patterns of consumption and production and a greener economy. Such a transition will entail both challenges and opportunities for job creation. Opportunities, which are expected to outnumber the challenges, in such sectors as renewable energy, recycling, natural resource management, and construction of energy efficient buildings and environmentally friendly infrastructure provide for the growth of green jobs (jobs that are economically and environmentally sustainable).

Box 2.2 The Green Jobs Initiative

Recognizing that climate change has major impacts on economies, and therefore on livelihoods and jobs, the United Nations Environment Programme (UNEP), the International Trade Union Confederation (ITUC), and the ILO launched a Green Jobs Initiative in 2007. The Initiative will serve:

- to promote awareness and dialogue;
- to identify and respond to knowledge gaps;
- to facilitate a "just transition" that reflects the environmental, economic and social pillars of sustainable development;
- to promote policies and measures to achieve green jobs and green workplaces;
- to catalyze employment and poverty alleviation within climate mitigation and adaptation programmes; and
- to strengthen collaboration between ILO/ITUC/UNEP, within the UN system and with the international business community.

Source: *ILO:* Decent work for sustainable development – The challenge of climate change*, GB.300/WP/SDG/1, Geneva, 2007 and UNEP, available at http://www.unep.org/labour_environment/features/greenjobs.*

30 Quoted from ILO: *Cities at work: Employment promotion to fight urban poverty* (Geneva, 2004).

Rural areas also require and benefit from green jobs

It is not only in urban areas that will require and benefit from sustainable development and green jobs. Indonesia is a country rich in renewable energy sources, with wind and hydro sources of energy found predominantly in rural areas. Added to potentials such as ecotourism and reinforcing coastal defences, there is significant scope for turning the transition to a green economy into off-farm employment opportunities and poverty reduction. Tackling the issues of climate change is all the more important for the rural population, given the repercussions for food harvesting and agricultural livelihoods.

2.4 Policy responses in the Asian Decent Work Decade

The projected labour and social developments during the Asian Decent Work Decade identified in this chapter call for appropriate policy responses in regard to the following:

- Demographic, social and labour trends point to the need to strengthen the social floor. Indonesia currently has in place some form of the basic social security components: guaranteed access to basic health care benefits, guaranteed income security for children with the aim of facilitating access to basic education and health, social assistance for the poor and unemployed, and basic pensions to provide income security for the elderly, invalids and survivors. The challenge lies in further strengthening these elements and in particular, in extending social security to the informal sector, where the majority of Indonesians work. The National Security System Law No. 40/2004 is a major step towards the reform of the national social security system in Indonesia and towards the achievement of universal coverage, but concerted and coordinated action, in addition to commitment, are further required in turning the current framework into design and implementation.

- Fostering sustainable and equitable economic growth will require a balance between productivity and employment growth. In particular, improving the productivity of the informal economy will be critical. Towards this end, upgrading micro- and small enterprises through skills development, including managerial, accounting and marketing skills, access to finance and technology, social dialogue and safety and health systems are critical in ensuring that these enterprises become sustainable enterprises. Importantly, gains from productivity growth will need to accrue to firms for both added investment and innovation, but also to workers in the form of higher real wages, improved working conditions and continuous on-the-job learning.

- There is much scope to improve learning outcomes in Indonesia. Increased investment in education, both in quality and quantity, is important for aggregate productivity growth and in ensuring Indonesia's competitiveness. Furthermore, given that young women and men suffer disproportionately in the labour market, steps will need to be taken to ensure an education and vocational training system that meets the needs of the labour market and anticipates future changing needs.

- The expected rapid increase in the number of migrant workers is also likely to increase the range of economic, social, gender and rights-related problems, such as brain drain, risk dependency, and abuse. Providing protection to the growing number of overseas migrant workers in particular is a critical challenge. The ILO's Multilateral Framework for Migration, which provides non-binding principles for a rights-based approach to labour migration, as well as the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, provide guidelines for the Government to work with other countries in ensuring that migration is mutually beneficial for all parties.[31]

- The transition towards a greener economy provides both opportunities and challenges for decent work, and for economic and social development. Maximizing the opportunities offered by green jobs and minimizing the costs of employment associated with sustainable consumption and production patterns will be a key policy challenge. Social dialogue and a tripartite approach lie at the heart of the solution in managing this and other important transitions and in finding decent work pathways towards job-rich development.

31 For further information on the ILO Multilateral Framework on Migration, see http://www.ilo.org/public/english/protection/migrant/download/tmmflm-en.pdf. For further information on the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, see http://www.aseansec.org/19264.htm.

Annex I. BPS disaggregation of employment in the formal and informal economy

Employment Status	Main Occupation									
	Professional, technical and related workers	Administrative and managerial workers	Clerical and related workers	Sales workers	Services workers	Agriculture, animal husbandry, forestry and fishing industry workers, and hunters	Production and related workers	Transport workers and equipment operators	Labourers	Others
Own account worker	F	F	F	INF	INF	INF	INF	INF	INF	INF
Employer assisted by temporary worker/unpaid worker	F	F	F	F	F	INF	F	F	F	INF
Employer assisted by permanent workers	F	F	F	F	F	F	F	F	F	F
Employee	F	F	F	F	F	F	F	F	F	F
Casual employee in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Casual employee not in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Unpaid worker	INF	INF	INF	INF	INF	INF	INF	INF	INF	INF

Annex II. Promoting sustainable enterprises

Committee on the Promotion of Sustainable Enterprises
International Labour Conference 2007
The Conclusions at a Glance

Conditions for a conducive environment forsustainable enterprises	Role of Government in the promotion of sustainable enterprises
1. Peace and political stability 2. Good governance 3. Social dialogue 4. Respect for universal human rights 5. Entrepreneurial culture 6. Sound and stable macroeconomic policy 7. Trade and sustainable economic integration 8. Enabling legal and regulatory environment 9. Rule of law and secure property rights 10. Fair competition 11. Access to financial services 12. Physical infrastructure 13. Information and communications technology 14. Education, training and life-long learning 15. Social justice and social inclusion 16. Adequate social protection 17. Responsible stewardship of the environment	1. Facilitating and participating in social dialogue 2. Labour law enforcement through efficient labour administration, including labour inspection 3. Encouragement of voluntary concept of CSR 4. Promotion of socially and environmentally responsible public procurement, lending and investment 5. Promoting sectors and value chains 6. Flexibility and protection to manage change 7. Targeted programmes 8. Research and innovation 9. Access to information and business and financial services 10. Policy coordination and coherence 11. International policies 12. Production and consumption patterns 13. Supporting skills development
Enterprise-level principles for sustainable enterprises	**Role of the social partners in the promotion of sustainable enterprises**
1. Social dialogue and good industrial relations 2. Human resource development 3. Conditions of work 4. Productivity, wages and shared benefits 5. Corporate social responsibility (CSR) 6. Corporate governance	1. Advocacy 2. Representation 3. Services 4. Implementation of policies and standards

Annex III. Employment elasticity in Indonesia[a]

Employment elasticity refers to the percentage change in employment resulting from a 1-percentage point increase in real output.

The employment elasticity figures used in this report are based on the following model:

$$lnE_{it} = ß_0 + ß_1 lnY_{it} + ß_2 lnRW_{it} + ß_3 lnE_{it-1} + e_{it} \qquad (1)$$

where

E : number of (sectoral) employment

E_{it-1} : lag employment

Y : Output (sectoral provincial Regional Gross Domestic Product – RGDP)

RW : Real product wage (sectoral nominal wage deflated by sectoral real GDP deflator)

Subscripts i and t refer to province and year.

Employment elasticity with respect to output is denoted by $ß_1$. Therefore, employment (E) will increase by $ß_1$ per cent if output (Y) increases by 1 per cent.

Based on BPS data for 2000–2006, estimates of employment elasticities for 8 subsectors and the total economy are provided in the table below:

Table AIII.1 Employment elasticities, 2000–2006 by subsectors

Agriculture	0.68
Mining, electricity, gas, and water	0.23
Manufacturing	0.12
Construction	0.63
Trade, hotel and restaurant	0.81
Transportation and communication	0.48
Finance	0.67
Services	0.17
All sectors	0.50

a Source: Islam, Y. and Chowdhury, A: *Enunciating a national employment strategy for Indonesia – what do we know and what should we do?*, Unpublished paper commissioned by the ILO.