

ROLE OF MINIMUM WAGE IN INFORMAL WAGE DETERMINATION IN INDONESIA

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Jakarta, March 2006

FOREWORD

Minimum wage has been one of the most important labour market policies introduced by the Indonesian government. It aims to protect workers through its application, which is based on minimum living needs.

In Indonesia, the majority of workers are involved in the informal sector. As the minimum wage policy is most likely applicable to formal firms, the study attempts in seeking the role of such wage policy in the determination of wage in the informal sector.

Ms. Diah Widarti has produced this background paper for the “Role of the Minimum Wage in Informal Wages Determination Project: Qualitative Analysis” under TRAVAIL, ILO-Geneva with the assistance of Ms. Nuniek Medyawati of the Directorate of Social Protection and Welfare, the Ministry of Manpower and Transmigration. The paper demonstrates that wage determination in the informal enterprises does not make any reference to minimum wage in the area.

The paper would hopefully be providing inputs to the relevant government ministry in formulating its policy measures and actions for the informal economy.

Jakarta, March 2006

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LIST OF ABBREVIATIONS AND TERMS IN BAHASA (ITALIC)

SAKERNAS:	Survei Angkatan kerja Nasional (National Labour Force Survey)
SUSI:	Survei Usaha Terintegrasi (Integrated Survey)
BPS:	Badan Pusat Statistik (Central Board of Statistics)
MOMT:	Ministry of Manpower and Transmigration (Depnakertrans)
KHL:	Kebutuhan Hidup Layak (Decent Living Needs)
KHM:	Kebutuhan Hidup Minimum (Minimum Living Needs)
SPSI:	Serikat Pekerja Seluruh Indonesia (All Indonesian Trade Unions)
KFM:	Kebutuhan Fisik Minimum (Minimum Physical Needs)
Kabupaten:	District
Kotamadya:	Municipality
Bupati:	Head of District
Walikota:	Mayor (Head of Municipality)
THR:	Tunjangan Hari Raya (Idul Fitri Allowance, End of Ramadhan Festive)
ILO:	International Labour Organization (Organisasi Perburuhan Internasional)
GDP:	Gross Domestic Product (Produk Domestik Bruto)

CHAPTER 1

INTRODUCTION

1.1. BACKGROUND

The past few decades have seen Indonesia evolving into a more diversified economy. During the period of 1990 to 1999, although declining the services sector played a vital role in the formation of the Indonesian Gross Domestic Product, meanwhile the contribution of industry was increasing. The Gross Domestic Product (GDP) originated from the manufacturing sector was in fact larger than that of the trade sector. This was due to inputs from large enterprises. For the trade sector, on the contrary, micro and small enterprises contributed more to the GDP than medium and large enterprises. It was indicated also that labour productivity as well as the GDP contribution of large enterprises in both the manufacturing and trade sector was highest while in micro and small enterprises was lowest, demonstrating that labour it self could not bring high productivity (Annex 1).

In Indonesia, micro/small enterprises play a very important role in providing employment (Annex 1).¹ According to the Indonesian Ministry of Industry and Trade, the number of all manufacturing and trade enterprises has been on the increase particularly since the 1997 economic crisis, largely due to the rise of micro/small scale enterprises. Such enterprises have received more and more attention since they have great potential in employment creation for both men and women. Micro/small enterprises grew at a relatively high pace during 1998-2001, at a rate of 11 percent per annum, which was manifested in its employment share (Annex 1).

Meanwhile, since the late 1980s, minimum wages have become important platform of the Indonesian government's labour market policy. In the last several years, particularly in 2000 and 2001, the government strongly pursued the minimum wage policy. SMERU (2001) confirms that minimum wages have become binding for the majority of workers and affect the entire wage distribution. The effects, however, might differ across different types of workers.

The SMERU's study finds that minimum wages have had a positive but statistically insignificant effect on average wages. On the other hand, minimum wages have had a negative and statistically significant effect on employment. The dis-employment effects particularly are greatest for women, youth, and less educated workers. On the other hand, the employment prospects of white-collar workers are enhanced by increases in minimum wages. Meanwhile Bird and Manning (2002) estimate the impact of real minimum wage increases on the allocation of employment between the formal and informal urban sectors.² Their study found that minimum wage interventions expand the informal sector and depress earnings of some groups of workers in this sector. Such main effect occurs through labour displacement and slower employment growth in the modern sector. The negative effects on employment particularly occurred after the 1997/98 economic crisis when real minimum wages were substantially increased in a

1 Indonesia recognizes three business types in terms of size: large enterprises, medium enterprises and small enterprises. In the Indonesian economic setting, the latter are further categorized into four smaller groups: small-enterprise medium, small enterprise small, small enterprise micro and small enterprise micro poor economic unit (see Noer Sutrisno, 2003).

2 The study utilized pooled provincial employment data from the national labour force survey (SAKERNAS) from 1990 through to 2000. While in estimating the effects of minimum wage increase on informal sector wages it used data from the monthly consumer price survey.

state of low economic growth in which the greatest effects were experienced by females and young workers whom the policy claims to assist most.

1.2. OBJECTIVE

- ♦ To examine whether there is a cluster of informal workers at the minimum wage in Indonesia and if it is the case, why is that so.
- ♦ To gather information on how employers of the informal sector fix wages they pay to their workers, as well as their knowledge of the minimum wage and application of the minimum wage.

1.3. CONCEPT AND DEFINITION

The International Labour Conference Resolution on decent work and the informal economy (2002) defines the informal economy as “activities that are legally or practically not covered or insufficiently covered by formal arrangements”. Others have characterized the informal sector by its low level of organisation, its small scale, labour relation and the level of capital. There are operational definitions of informality for statistical purposes.³ For example, the International Conference of Labour Statisticians in its 1993 Resolution defines the informal sector as household enterprises, below a certain size, which are unregistered, and/or do not comply with social security laws and other regulations. New guidelines from the International Conference of Labour Statisticians (2003) define informal employment as own account workers and employers employed in their own informal sector enterprises, family workers, members of informal producers’ cooperatives, and employees holding informal jobs (=employment relationship is in law or in practise not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits). The definition therefore encompasses informal workers in formal enterprises, informal workers at different degrees of informality (with a contract but no social security; or social security but no entitlement to paid-overtime work, et cetera.) There are therefore different levels of informality.

In Indonesia the Central Board of Statistics (locally known as Badan Pusat Statistik/BPS) began collecting data on “non-legal” (“unregulated”) enterprises in services in 1996. This type of enterprise is classified as informal entity.⁴ One may consider that economic activity without having legal status is a proxy of the informal sector, even though it is not always the case (Heriawan, 2004). Such activities may be in the form of (a) individually owned mining, (b) small scale and cottage industry, (c) individual construction activity, (d) trade, restaurant and accommodation, (e) individual transport activity, (f) saving, loan, and money changer run by individual or (g) other services. The majority of non-legal establishments in Indonesia are clustered in trade sector. Consequently, more than half of workers in the informal enterprises are employed in non-legal establishments engaging in trade sector (Annex 2).

3 There are sociological, economic and legal definitions of informality. For purpose of measurement, there are also definitions of informal sector (=informal firms) and informal employment (informal workers). Informal sector is defined according to the nature of the firm (firm-based) while the definition of informal employment depends on the work relationship (labour-based).

4 According to the 1996 Economic Census, all economic activities are divided into two broad groups: (a) establishment having legal status, such as state-owned company, local government-owned company, limited private company, co-operative, and foundation; (b) establishment not having legal status, such as micro establishment, home-industry, street-vendor, etc.

For practicality purposes, there are different ways in establishing operational definition for the informal sector in Indonesia. The BPS uses number of workers to categorize establishment scale in the manufacturing industry. Manufacturing establishments with number of workers less than five (5) are classified as household/cottage industry, and those with workers of 5-19 are included in small-scale industry. There is no agreement yet for the informal establishments on whether to confine only to industries with less than 5 or less than 20 workers. However, the most commonly accepted criteria for informal establishments are those establishments with less than 5 workers. For other sectors, the problems are more complicated. Trade sector, for instance, the assets and total sales can be very substantial even though the number of workers might be less than five (5) people. The Indonesian Ministry of Industry uses assets and outputs for all sectors to define small and medium scale establishment, but not for defining informal establishment (Heriawan, 2004).

The 1996 Economic Census conducted by the BPS divided establishments into two groups, namely (a) directory establishments and (b) non-directory establishments.⁵ The non directory establishments can be used as the basis for defining informal establishments. Enterprise's legal status in Indonesia may also be used as proxy for informality. There are three different legal statuses acknowledged in Indonesia, that is, (a) incorporated or unincorporated establishments (b) establishments having the permit that is issued by local authority (government) to operate their businesses, and (c) those establishments registered with the relevant ministries in charge for their sectoral development. According to the 1996 Economic Census, establishment with one of these legal statuses may be considered as directory establishment. However, it is undecided whether non directory establishment can be considered as informal establishments.

The approaches to informality in Indonesia can also be viewed from different angles too such as (a) capital/asset size, which is used by the Ministry of Industry and (b) labour utilization, which is used by the Indonesian Ministry of Manpower and Transmigration. Meanwhile, the Indonesian Central Board of Statistics frequently uses status in employment as a proxy to estimate the magnitude of the informal sector in the country. Although there is no definite measurement to estimate informal employment, intuitively one would have a notion whether an enterprise may be considered as formal or informal.

As there are multiple levels of informality and the use of the minimum wage might differ with these levels. Hence, an intuitive and personal definition of informality within the framework of this study is applied.

1.4. METHODOLOGY

1.4.1. METHOD

The analysis uses both a quantitative and a qualitative method. The quantitative method relies on secondary data such as the national labour force survey (SAKERNAS) and establishment survey such as "Integrated Establishment Survey" (SUSI). The objective of this quantitative analysis is to investigate the wages of informal workers in relation to the minimum wages imposed to the formal employment.

5 The directory establishments (DE) are those establishments that are compiled in a directory and routinely updated. The non-directory establishments (NDE) are those establishments only covered occasionally through surveys.

The qualitative method draws on information coming from informal employers and consultant. For this purpose, information gathering uses two types of questionnaires. The first questionnaire is directed to informal employers, while the second is destined to national consultant.

1.4.2. SELECTION OF ENTERPRISES

Selection of the informal enterprises is based on public reference as well as the consultant's opinion. The informal enterprise in this survey is roughly defined as an enterprise with one or more of the following characteristics:

- * Employing a few number of workers working as unpaid or paid workers
- * Activities can be done in fixed or temporary site, rented or on owner's premises
- * Labour relation between employers and workers is usually informal
- * Working hours can be flexible and other work arrangement are usually not in written form
- * No formal social protection
- * No legal entity
- * Enterprises may either have or have not a permit to do the business activity

1.4.3. SCOPE

The survey covers 12 informal enterprises in the Jakarta area. The selection of Jakarta is coincidentally in line with the fact that Jakarta, being the capital city of the country, may be considered as a metropolitan city. It offers a wide range of informal sector activities that would be very relevant to be the backdrop of this study.

1.4.4. SELECTION OF ACTIVITY

According to the 2001 SUSI⁶ the majority of non-legal enterprises were engaged in trade, services and manufacturing subsequently. For non-legal trade enterprises, as many as 75.7 percent was in retail trading, 22.5 percent in restaurants, and 0.17 percent in wholesale trade. The 2002 SUSI data demonstrated that 71.24 percent of non-legal service enterprises in Indonesia were in personal services (repairs, washing, hairdressers, funeral workers, and other personal services). Based on such information, a number of 12 informal enterprises were selected in trade and service activities as well as manufacturing activities (see Table 1).

6 SUSI stands for Survei Usaha Terintegrasi, an Integrated Establishment Survey, is a part of the economic survey on small and medium enterprises. In 1998 the economic survey was expanded to cover non legal small and household enterprises excluding the agricultural sector. The survey continued in 1999, 2000, 2001 and 2002. Thus the survey covered non-legal enterprises or referred to as non-directory enterprises as well as home-based business activity.

TABLE 1: TYPES OF ENTERPRISES

No.	Activity	Economic Sector
1.	Electronic repairs	Service
2.	Tailor	Service
3.	Newspaper agent	Trade
4.	Food Catering	Trade
5.	Garment maker	Manufacture
6.	Cakes producer	Manufacture
7.	Hardware store	Trade
8.	Vehicle body repairs	Service
9.	Furniture workshop	Manufacture
10.	Hairdresser	Service
11.	Food kiosk	Trade
12.	Printing works	Manufacture
Total		Manufacture (4); Trade (4); Service (4)

1.4.5. TOOL OF SURVEY

To achieve the objective of the study, information gathering was conducted through the use of questionnaire. There were two types of questionnaires involved. The first questionnaire was directed to informal employers, while the second one was intended to national consultant.

1.5. ORGANIZATION OF THE PAPER

The first chapter introduces the background of this paper covering the objective, concept and definitions as well as methodology. The second chapter deals with the Indonesian minimum wage in general covering public knowledge on the minimum wage issue and legislation, sectoral and provincial minimum wage as well as its setting mechanism and procedure. The third chapter is based on the results of the surveys on twelve (12) informal employers. The last chapter concludes the findings of the study.

CHAPTER 2

MINIMUM WAGE IN INDONESIA

The current chapter presents the minimum wage policy and its aspects in Indonesia. The chapter starts with public knowledge of minimum wage in Indonesia. Then it is followed by sectoral and provincial minimum wage that covers its legal basis, objective of wage fixing, criteria for minimum wage determination, and minimum living needs as well as its wage-setting mechanism and procedure.

2.1. INTRODUCTION

Minimum wage policy in Indonesia is an important platform for the government in its attempts to raise the living standards of workers. This policy dated back to the early era of the New Order government, even though it only began to be binding in the mid 1990s (Manning, 1998, SMERU, 2001). The foundation of this policy was established in the early 1970s when the economy in modern sector was relatively small and mostly protected with significant dualistic labour market. The government sets monthly minimum wages for full time workers. For workers who do not work full-time, the corresponding pro-rata daily rates apply. Minimum wages apply to all firms, no matter how small and they apply to workers who have worked less than one year. Separate minimum wages are set for the export processing zones.

SMERU (2001) revealed that minimum wages were binding for the bulk of workers in the formal sector. By 2000, most wages in the formal sector were clustered around the minimum wage. This picture reflects that compliance with the minimum wage has steadily increased over time. They argue that further increases in minimum wages will tend to put pressure on the average wage in the modern sector. Besides, a high minimum wage relative to the market wage rates reduces formal sector employment, while a minimum rate well below the market wage rate is not considered a problem. However, they deem that the minimum wage becomes a problem when it is 'binding' for most workers. Their argument is that any further increases in the minimum wage which exceed the growth in productivity raises the minimum wage above the market-clearing wage rate, and would likely to reduce employment of these workers. Such workers either become unemployed or entering the informal sector where they are forced to accept lower wages than before. Thus one may hypothesize that a rise in the minimum wage forces more workers into lower wage jobs in the informal sector and also depresses earnings in this sector.⁷ The results of the study showed that this has been the case in Indonesia.⁸

2.2. PUBLIC KNOWLEDGE OF MINIMUM WAGE

There is no doubt that workers and employers in the formal sector as well as the government are the most concerned parties regarding the dynamics of the minimum wage level. Therefore,

7 Bird and Manning (2002) suggested in their preliminary research that this has certainly been the case in Indonesia after the crisis period.

8 See for details of the discussion in SMERU (2001) and Manning (2003)

it is not surprising if the general knowledge about the minimum wage level in Indonesia is most probably confined to such limited groups of population.

CHANNEL OF KNOWLEDGE

As the determination of the minimum wage level lies in the hand of each region, releasing the information on minimum wage level is conducted by the respective governor. The governor approves and issues new minimum wage level after receiving the recommendation from the regional wage council through the mechanism of “tripartite plus” meeting. A press release would normally be held to announce the new minimum wage in its respective region. Such decision is reflected in the form of the Governor’s Decree. The dissemination of information on minimum wage is occasionally broadcasted through TV, radio and newspapers. Throughout the months of October to December, the period when the new minimum wage rate is being negotiated, normally would be the time that a number of trade unions and groups of workers take on the streets to express their demands usually calling for higher minimum wages. During these months such events are by and large on the increase.⁹ Such news on TV that frequently showed rallies or demonstrations against the new minimum wage level has most likely attracted public attention. Through such news the minimum wage issue would most probably be known to people including informal workers.

ROLE OF GOVERNMENT

The working unit in the Ministry of Manpower and Transmigration (MOMT) that is in charge of the implementation of minimum wage policy is the Directorate of Social Protection and Welfare. Some of the tasks of this directorate are to facilitate the setting of minimum wage, reviewing the components for formulating minimum wage, and to socialize minimum wage application in enterprises. After new minimum wage rates are determined normally this Directorate will conduct socialization aimed at labour unions, workers and employers in staged manner. Apart from that, this Directorate should also introduce any new government legislation and regulation related to wage and social protection policy. As the Act No. 13 of 2003 stipulates that minimum wage should be based on decent living needs (Kebutuhan Hidup Layak/KHL), this directorate should make such regulations be known to the stakeholders. For this purpose, a number of socialization to the regions has been carried out.¹⁰

There is no special campaign for public to disseminate information on minimum wage. However, as mentioned earlier socializations were conducted to disseminate the information to social partners. Public, particularly those who are not in the job market generally know about this issue either from radio, newspaper, television or other sources. This is understandable as ones are usually not interested in issues that do not affect them directly. Workers in the formal sector would obtain minimum wage information either from trade unions if they are members or from the management at their work place. If they are not members and not obtaining

9 For example, the Jakarta Post (Thursday, 24 November 2005) described that workers were not happy with the increase in the new minimum wage for 2006. Rallies of workers against the new provincial and kabupaten/kotamadya minimum wages are currently reported in several cities throughout the country (see KOMPAS, various dates of December 2005). Even until this month of March, demonstrations expressing the dissatisfaction of the new minimum wage level are still going in some areas, for example in East Java as in the case of PT Maspion, an electronic and household goods manufacturing enterprise, workers demanding higher rate than that recently decided.

10 This new legislation has caused some protests and critics particularly from the employers’ side. This is because the KHL consists of more components to be considered in the formulation of minimum wage than those of the existing formula. This means that by using this new formula an increase in the level of the existing minimum wage can not be avoided.

information from the management they would either get such information from the radio or from the newspaper, or from work mates.

After decision on the new minimum wage rate is made, dissemination would be done by the government, namely the Ministry of Manpower and Transmigration, and its social partners accordingly. At the provincial and district level, the office of manpower at the respective levels will deliver such message together with their social partners. Press conference and statements regarding the new minimum wage rate by the regional government and its social partners usually obtain wide coverage from mass media. Unsatisfactory responses toward such new rates are often expressed by both employers and labour unions with such reasons of wither the new wage level is set too high or too low.

THE ROLE OF SOCIAL PARTNERS

Social partners such as labour unions and employers' association play very active role in disseminating the information on minimum wages. This is because they have the obligation to inform their members about minimum wage changes. The provincial government in this case the office of manpower will disseminate to its social partners. The government, employers' association and trade unions generally have their coordinating lines to the regional levels, thus the flow of information may be ensured.

Trade unions are known to have a vital social and often political force in many developing countries. Even though the number of trade unions in Indonesia has been on the increase, yet, it represents the interests of a relatively small portion of the total work force.¹¹ This is due to the fact that the size of formal employment is relatively small, only one third of the total workforce.

After the employers' association receives the information on the new wage level, they will then disseminate this new decree and convey such information to its members. Employers' association exists in almost every province and to a certain extent also exists in districts. These branch levels have the responsibility to inform any new policy or measure including new minimum wage to their members in the respective areas.

2.3. SECTORAL AND PROVINCIAL MINIMUM WAGE

LEGAL BASIS

Although the Indonesian definition of minimum wage does not clearly make normative references to 'fair' wages, nevertheless, the Indonesian wage policy does include a reference to standard of decent living. The Act No. 13 of 2003 on Manpower stipulates that minimum wage should make references to decent living needs (locally referred to as Kebutuhan Hidup Layak/KHL).¹²

The Minister of Manpower's Regulation No. 1 of 1999 Article 1 Clause 1 defines minimum wage as:

"The lowest monthly wage that consists of a basic salary and a fixed allowance....."

11 During the Suharto's era there was only one trade union acknowledged by the government namely Serikat Pekerja Seluruh Indonesia /SPSI (All Indonesian Workers Union). By 2005, there are 86 trade union federations registered with the Ministry of Manpower and Transmigration.

12 The government is currently in the stage of socializing decent living wage, yet the current practice remains to apply minimum basic needs (KHM-Kebutuhan Hidup Minimum).

The said regulation further stipulates that sectoral minimum wage at the provincial level should at least five (5) percent higher than that of provincial minimum wage. Likewise, sectoral minimum wage at district level should at least be five (5) percent higher than district minimum wage.

Minimum wage in Indonesia should be considered as the lowest amount of wages that employers have the ability to pay. However, if enterprises are already able to pay higher than the minimum wage level, they must not reduce the wages paid to their workers. At the company's level, wage rate is to be determined according to the Work Agreement, Company Regulation or Collective Labour Agreement. This means that the rate will be determined on the grounds of bipartite agreement between trade union and employer. In case that an enterprise is not able to pay minimum wage, it must request for a waiver from the authority. Before granting a waiver, the government will appoint a public accountant to audit the firm's financial statements to assess the company's ability to pay minimum wages. As a matter of fact very few companies apply for a waiver as the process is laborious and indecisive (SMERU, 2001).

OBJECTIVE OF MINIMUM WAGE FIXING

The considerations of fixing minimum wage in Indonesia according to the Minister of Manpower's Regulation No. 01 of 1999 are as follows.

- ♦ In order to materialize decent income for workers, some considerations are taken into account that include raising the welfare of workers without ignoring company's productivity and its advancement as well as a consideration on general economic conditions.
- ♦ Determination of realistic regional and sectoral minimum wage should take into account some aspects such as company's capability to pay, conditions of the sector in which the company operates and the regional economy where the firm is located, it is also necessary to determine regional and sectoral minimum wage.

Looking at such considerations, it is clear that the aim of minimum wage fixing is not only to raise the welfare of the workers, but also to guarantee the betterment of firm's productivity and to sustain the country's economic growth. Therefore, raising workers' living standard is not the only goal of the minimum wage policy in Indonesia it considers other aspects such as unemployment rate and labour market conditions. With this framework, actually under difficult economic conditions freezing the minimum wage may be a possible option.

CRITERIA FOR MINIMUM WAGE DETERMINATION

Through a wage policy the Indonesian government attempts to set minimum wages that meet decent living. In the past determination of minimum wage was based on minimum physical needs (Kebutuhan Fisik Minimum/KFM), and later it was based on minimum living needs (Kebutuhan Hidup Minimum/KHM). The KHM is twenty (20) percent higher in rupiah terms than the KFM. Even though the newest Act No. 13 of 2003 states that minimum wages should be based on decent living needs (Kehidupan Hidup Layak/KHL), this legislation however has not been fully implemented. Thus, it remains to be set upon KHM.

At present, adequacy of minimum wages in relation to the needs of workers is based on several criteria as follows

1. Minimum living needs (known as KHM)
2. Consumer Price Index (CPI)

3. Company's ability, its growth and sustainability
4. Rate of minimum wages in neighbouring areas
5. Labour market condition, and
6. Economic growth and per capita income.

Unfortunately, there is no clear guideline on how such other information except for the KHM might be collected and utilized for minimum wage setting, either at the national or regional government level. It seems that the adequacy of the minimum wage has been simply based on workers 'needs'.

The KHM package comprises of 47 items made up for the needs of a single worker. It includes food, fuel, housing, clothing and other needs. It also takes account of an increase in rice allocation¹³ and several higher quality items compared with those in the KFM.¹⁴ Manpower Offices in the regions in collaboration with the regional statistic office have the task of estimating the prices of such individual items and of the total value of the KHM each month. The provincial and district wage councils/commissions are required to play a key role in undertaking research and making recommendations for minimum wage revisions to the regional government, based on estimated changes in the KHM. In practice, these estimates might vary due to the types of market visited, quality of goods surveyed and quality of survey.¹⁵ By the end of 2001 arbitrary estimates of KHM changes frequently had become the main basis for setting minimum wages at the provincial and district levels.

MINIMUM WAGE SETTING: MECHANISM AND PROCEDURE

Although minimum wages had been introduced in all provinces by mid 1980s, not until the 1990s did provincial minimum wages receive serious attention. In the pre-crisis period, minimum wages were set by the Minister of Manpower based on the recommendation of the governor of each province. With the implementation of decentralization policy that began in early 2001 the power to set minimum wage levels has been transferred from the central government to regional governments. As minimum wages in Indonesia are set at the provincial level, thus different wages were applied in the 30 provinces across the country.

According to the Act No. 13 of 2003 minimum wage may consist of provincial or district/city minimum wages and provincial or district/city sectoral minimum wages. Sector-based minimum wages are established for economic sector/sub-sector in the respective province/district. As the regions have the authority to determine their minimum wages, some regions may have or may have not applied sectoral-based minimum wage. In making the decision on yearly increases in the minimum wage, the governor and the district head are advised by a Provincial Wages Council and a District Wage Commission respectively. Under the existing legislation wage councils/commissions should be established at the provincial and district levels in order to provide recommendations on minimum wage levels for its region. The wage council/commission should consist of representatives from the government, employers, and trade unions as well as academia.

13 Based on the estimate on minimum requirement of 3000 calories a day

14 The KHM thus includes provision of medium quality rice rather than low ones.

15 See Aslam Sumhudi (2002) in Manning (2003).

Based on the Minister of Manpower's Regulation No 1 of 1999 and No. 226 of 2000 the current framework for minimum wage setting is as the followings. The governor of each province has an authority to determine the provincial and kabupaten/kotamadya minimum wages. The minimum wages at kabupaten/kotamadya levels should not be lower than the provincial rate. The decision for the provincial minimum wage should be made sixty (60) days before the date the minimum wage becomes effective. While the kabupaten/kotamadya minimum wage should be decided forty (40) days before the date of the minimum wage becomes effective. The minimum wage rate will be effective on the 1st of January each year and will be assessed on yearly basis. The councils/commissions normally have to start the process in August /September.

The procedure for deciding the minimum wage is as follows. Based on the survey on market living cost, the Kabupaten/kotamadya Wage council calculates the minimum living needs (KHM). The results are then submitted to Dinas Tenaga Kerja Kabupaten/Kotamadya which further submits them to Bupati/Walikota. The kabupaten/kotamadya minimum wage council makes a recommendation to the Bupati, upon which they decide the Kabupaten/Kotamadya minimum wages, who in turn submits it to the governor. The governor then decides the minimum wage increase for that particular district based on these recommendations. Governors will give the recommendations to the Provincial Wage Councils that then evaluate the recommendations and submit the final results to the Provincial Dinas Tenaga Kerja to be reported to the Governor. After consulting the Minister of Manpower and Transmigration Governors announce the provincial and Kabupaten/kotamadya minimum wages.

In the era of regional autonomy, the Bupati's recommendations carry significant weight in the governor's final decision. Nevertheless, the governor does have considerable discretion in deciding the final wage increase and exercises this discretion if the wage commission fails to determine minimum wage increase within the specified time frame. For example, the Governor of DKI Jakarta exercised considerable discretion over the minimum wage increase for 2002. In short, the authority to decide minimum wages for kabupaten/kotamadya remains in the hand of the governor, who acts based on the recommendations from Bupatis/walikota.

The regional minimum wage in certain sectors should be negotiated and agreed by the respective employer associations and trade unions. In case that the sector does not have employer association, bargaining should be held at company level in the related sector. The practice of determining sectoral minimum wages in Indonesia varies according to provinces. For example, some provinces like North Sumatra, South Sumatra, Maluku, West Papua, and Bangka Belitung legislate separate minimum wages for certain sectors. Meanwhile, some other provinces like Aceh, Batam, Banten, Jambi, and West Java (kotamadya Bekasi and kabupaten Tangerang) apply only a general minimum wage (Hendrani et al. 2002).

CHAPTER 3

FIELD SURVEY: WAGE SETTING IN THE INFORMAL ECONOMY

This chapter presents the results of the survey, which has been carried out in order to collect information from twelve informal employers. The sectors in which these informal employers are engaged in vary, ranging from the one who is involved in electronic repairs to another one who is engaged in catering business. Relevant questions pertaining to wage setting in the informal enterprises are explored, covering such aspects as pay practice, knowledge of minimum wage, and application of minimum wage. The findings of the survey provide an interesting picture. Although they have something in common, yet they have also differences, for example in the pay practice.¹⁶

3.1. PAY PRACTICE

As stated earlier that the coverage of the informal enterprises in this study ranges variably. To get a more understanding on the pay practice in these informal enterprises, the section below presents the cases individually.

3.1.1. NEWSPAPER AGENCY

This newspaper agency located in South Jakarta employs 40 workers, consisting of 12 couriers and 28 newspapers delivery person. All workers include the business owner are male. None of them has a written working contract. Newspaper delivery works are usually conducted during day-time including on the weekends. Courier works are done four days a week in the day time too. The owner does his business operation from his house.

Couriers are paid monthly. Apart from that, they receive a so-called “achievement bonus”. This bonus is given on two conditions (a) the documents/letters are delivered on time and (b) there is no complaint received from customers. The bonus for fulfilling these conditions is Rp 10 per document/letter. Thus a courier will receive as much as Rp 350 multiplied by the number of documents/letters delivered along with the achievement bonus. It should be noted that each courier in general can deliver 1000 documents within a month. This means on average a courier will earn Rp 350,000 in addition to the achievement bonus.

The newspaper delivery workers are paid monthly too. In addition to this, they receive a so-called “attendance bonus” of Rp 60,000 per month with the condition as follows. This bonus is given only to workers if they come for work every day and never being absent from work. In case that one does not come for any reason the bonus is not to be given. Thus, the amount of pay received per month is Rp 5,000 multiplied by the number of monthly customers plus attendance bonus. On average a newspaper delivery man is able to maintain 150 regular customers per month. Thus on average these workers will earn Rp 750,000 per month aside from the attendance bonus.

16 For ethical reason, the names of the informal enterprises interviewed are not revealed in this report.

There is no fixed financial support if a worker gets sick, nevertheless the owner will provide a bit of financial support occasionally. As newspapers and documents delivery jobs usually take only several hours per day, it is not uncommon that newspaper delivery workers and couriers have other casual jobs or attempting to find additional jobs.

3.1.2. VEHICLE BODY REPAIRS

This vehicle body repairs is situated in East Jakarta and employs 5 (five) employees who work on regular basis. All workers including the owner are male who come from the same area (small town in East Java) as that of the enterprise's owner. The enterprise carries out various automotive body repairing jobs ranging from panel beating to car repaints. None of the employees has a written working contract; tasks are given verbally. Even though workers do not work during night time, they do in the weekends, meaning they work seven (7) working days. Food/beverages/cigarettes are provided. Such expenses on these items however will be deducted from the workers' earnings on the pay day.

The workers are paid according to the jobs done and paid after completion with the following calculation. The net amount of money workers will receive is the amount paid by the customer, after being deducted by workers' expenses on food/beverage/cigarette. This amount then is to be divided into two parts, fifty (50) percent for the owner and fifty (50) percent for the workers. The fifty percent share belongs to the workers will be divided by the number of workers who are involved in the respective job. The distribution of money for each worker depends on work seniority and skill level, the difference in earning according to seniority and skill levels can be in the range of Rp 50,000 to Rp 100,000 for one job. It was revealed that on average a worker might receive a net income of Rp 500,000 to Rp 800,000 per month.

The workers are allowed to live in the business premise, no financial support however provided to workers in case they get sick.

3.1.3. MANUFACTURER OF HANDBAGS

This handbags manufacturer is situated in Pasar Minggu, South Jakarta, employing ten (10) workers, being eight (8) males and two (2) females working as four (4) regular workers and six (6) irregular workers. Eight (8) male workers are assigned for different tasks such as one (1) administrator, one (1) fabric cutter and six (6) sewing workers. Two (2) female workers are assigned as administrator and a thread cutter respectively. Written contract describing workers' tasks, working hours and others however has never been given. The industry operates on Saturdays too and work activities are carried out in the owner's premise.

The four (4) regular workers are paid monthly. These regular workers are hired for different kind of tasks. Two (2) workers are employed as administrator with the wage rate of Rp 700,000 monthly, one (1) worker as cutting worker gets paid Rp 600,000 per month and one (1) worker as thread cutter with a wage rate of Rp 350,000 monthly. These regular employees get food money of Rp 7,000 per day and they work six days a week with normal working hours.

The six (6) irregular workers are employed for sewing jobs, paid weekly. The remuneration received for sewing each handbag is Rp 15,000. Each worker normally is able to produce 6 to 7 bags every week. The pay that workers will receive depends on the number of handbags completed each week. Thus with the assumption that each worker would complete 6 to 7 bags means that they will receive Rp 90,000 to Rp 105,000 per week or Rp 360,000 to Rp 420,000 per month. Unlike the regular workers, they do not receive food money.

In case of a worker gets sick, the owner will give limited financial support only if the worker should be hospitalized.

3.1.4. SALON/HAIR DRESSER

This hair dresser, owned by a woman, is located in South Jakarta and employs five (5) regular employees although without written contract. This hairdresser provides such service as hairdressing, facial treatment, hair cream-bath, body massage, and manicures/pedicures. Its five employees are grouped into a four female employees doing various tasks ranging from hair-washing, hair-cutting, to facial make up, and one male employee is working as an assistant, whose task is to clean and look after salon tools/equipments. This business is carried out in the owner's premises.

One out of the four woman employees is paid on the basis of net income sharing, with the ratio of 60 and 40 percent for "the owner" and "the respective employee" subsequently. With the forty percent (40 %) of net income, this employee gets on average Rp 700,000 per month. This pay arrangement is based on this particular employee's work seniority. She has been working in this hairdresser for a long time, since the opening of the business. Meanwhile, the three other employees and the assistant are paid Rp 400,000 monthly. Except the assistant who gets free meal, all employees receive food money of Rp 15,000 per day.

Working hours from 09.00 to 18.00 with 6 working days per week, with the condition not taking work leave on Saturdays or Sundays. According to the owner, the remuneration given to employees is made in reference to the prevailing wage rate for hair dressing industry. Even though she knows about the minimum wage rate in Jakarta, she will not apply this rate for her enterprise with her reason that the business' revenue fluctuates. Thus without steady returns her establishment can not afford to pay minimum wage rate to its employees, although she provides limited medical support to her employees.

3.1.5. CAKE MAKER

This woman producer of cakes and cookies employs four workers, all women. The business activity is carried out in the owner's house. Apart from making cakes and cookies, her enterprise also takes order for food catering. There is no specific work division among workers. Every one has to be involved in a team work. They work around eight hours daily, with flexible working hours. In the case that there is a substantial work order, working hours can be extended. The business activities require workers to work seven (7) working days per week.

All workers get paid Rp 300,000 per month and an incentive of Rp 50,000 per week. If there is any order, every one gets "over time bonus". A so called Tunjangan Hari Raya/THR (an annual allowance given to celebrate the end of Ramadhan, known as Idul Fitri Day) ¹⁷ is also granted with the amount of one month wage rate. Thus, in a month a work might receive Rp 500,000 along with the overtime bonus, if any.

The workers do not live in the owner's premises, but when there are lots of job orders and they have to work until late for few weeks in a row, the workers usually stay in the owner's house. These cakes and cookies are sold by putting the goods in a number of food shops or kiosks. The shop/kiosk' owners in return will get a certain percentage of the sale. Apart from selling

¹⁷ Idul Fitri is a Moslem festive celebrated at the end of the Ramadhan (fasting month). As the majority of Indonesia's population are Moslem, this Idul Fitri celebration means a very great deal to most people in the country.

the products through these food shops/kiosks, this enterprise as stated earlier takes job orders for catering food for some social occasions or functions. With such activities this small business can survive and operates on routine basis. The owner does not know about the minimum wage rate in Jakarta.

3.1.6. TAILOR

This home-based tailor is owned and run by a man with the assistance of two regular male workers. Working hours starts from 09.30 to 10.00 and finishes by 20.00. The tailor operates every day, on Saturdays too. Even though wage remuneration in this business is based on the number of pieces of clothes that can be completed, workers are expected to come every day.

In this tailor business, jobs are divided into “taking measurement”, “making pattern, “fabric cutting” and “sewing”. Taking measurement, pattern-making and fabric cutting are done by the owner and sewing is carried out by his two workers.

Sewing workers get paid based on the number of pieces completed. Workers get Rp 15,000 for every pair of trousers/pants and Rp 14,000 for every shirt sewed. In the case that the fabric is too difficult to handle due to the fabric’s nature and type as well as its expensiveness, sewing wage rate is increased up to Rp 17,000 per piece. Normally, a sewing worker can complete 3 to 4 male outfits or 2 to 3 woman dresses in one day. There is neither extra pay, nor bonus nor medical support provided by the owner. To pay his workers, the owner makes a wage reference to that of the same industry in the area.

3.1.7. PRINTING

This printing enterprise does make the printing of invitations, receipt books, and other-printing related jobs as well as book binding. Owned by a man, this business unit employs two regular male employees who work with normal working hours. The business opens every day also on weekends. However, in the case there are a lot of job orders to be completed works are carried out during night time too.

Wages are paid on monthly basis with the amount of Rp 350,000 and bonus is given to workers when there are job orders of certain value. When the printing business receives job order with the value of Rp 500,000, each worker gets bonus of Rp 75,000 per job order. The enterprise provides Idul Fitri allowance of Rp 500,000 for each worker.

Even though the owner knows about the minimum wage rate, it is not applied in his business with the reason that his business is not able to pay as much. When recruiting workers, there has been hardly any bargaining on the wage rate. The determination of wage rate is based on the prevailing wage rate in the similar industry in the area.

3.1.8. ELECTRONICS REPAIRS/SERVICES

This establishment is engaged in electronics repairs business. The service rendered includes cleaning and repairing air conditions (AC), refrigerator, microwave, TV, radio and other electronic appliances. It is owned by a man with 10 male workers, eight (8) employed as craftsman and two (2) as assistant. No written working contract made for the recruitment of these workers. All workers come from the same area as that of the owner. They were neighbours in the area of origin. The establishment runs its operation for six (6) working days per week. No work is carried out at night time even though the enterprise operates on weekends.

Workers are paid monthly with the rate as follows. Craftsman gets paid Rp 500,000 per month and food money of Rp 10,000 per day. New recruit gets paid Rp 200,000 per month and food money Rp 10,000 per day. Whenever a worker gets sick the owner will provide some financial support for medication.

The owner does not know about the minimum wage rate in Jakarta and he does not apply minimum wage in his firm. The determination of wage rate by the owner is made reference to the similar industry in the area. All workers live in the owner's premises, some having meals too but some without. Although accommodation is free of charge, provision of meals does get charged.

3.1.9. FOOD CATERING

This food catering business is owned and run by a man with the assistance of nine (9) regular workers without written working contract: five (5) male and four (4) female workers. These nine (9) workers are assigned in various tasks as follows, two (2) males and four (4) females working as cooks, one (1) male driver and two (2) male waiters.

Apart from doing business in food catering, the enterprise runs also a restaurant that opens day and night. Thus it operates seven (7) working days per week. In case there are a lot of catering orders, the working hours can be extended beyond normal working hours, from morning to night time but carried out on shift basis.

Workers get paid by monthly wage. Cooks get paid from Rp 400,000 to Rp 500,000 depending on their skills; driver gets paid Rp 400,000 and waiter receives Rp 300,000 monthly. Apart from the monthly payment, workers also receive bonus in the following way. In the event that this restaurant obtains food catering order for parties or other social function in which waiters are needed, the respective waiters will get additional remuneration of Rp 50,000 per occasion.

Workers are also provided with non-money bonus such as the provision of three times meal. Over time remuneration is given when the business gets catering orders. Other incentives that are also granted are as follows.

- ◆ Idul Fitri allowance with the amount of one to one and half month of monthly wage
- ◆ Provision of first aid kit and minor medical costs
- ◆ Provision of accommodation. In fact 5 out of the 9 workers are living in the owners' premises.

Thus along with the bonus, workers are also provided with three free meals.

3.1.10. MANUFACTURE OF FURNITURE

This furniture manufacturing business is located in Kalibata, Jakarta producing office tables, desks, cupboards, room partition and other furniture products by employing four (4) regular workers and seven (7) non regular workers. Three (3) out of the seven (7) non-regular workers are assigned as assistant and the rest, four (4) workers, are working seasonally. All workers including owner are male.

None of the workers has a written work contract. Pay is based on the number of furniture piece that has been completed. The pay rate for craftsman is between Rp 50,000 to Rp 60,000 per day. While assistant receives between Rp 30,000 to Rp 40,000 per day. In the event that there is any job order, usually a craftsman will at least earn Rp 2,500,000 in one month.

Normal working day is six (6) days per week, starting from 08.00 to 16.00. However, working hour can be extended when there is a substantial job order. Workers normally will regulate their working hours accordingly for six working days per week.

Regular workers live in the premises. Non regular workers are usually hired when the enterprise has more job order that requires more helps. Neither bonus nor extra pay nor non money pay is provided to workers, nonetheless, in case that a worker gets sick the owner will help with some financial support.

3.1.11. HARDWARE STORE

This hardware store, located in Pasar Minggu, Jakarta, trades hardware goods such housing materials as ceramic tiles, paints, nails, sands and bricks as well as simple construction tools/equipments.

Hiring ten (10) workers, the store categorizes them into field workers (6) and in-store workers (4). Field workers are normally those workers who carry out goods delivery to the customers' place. In-store workers are basically shop keepers, two of which are women. None of the workers has written work contract.

Like most hardware stores, it does not operate during night time, although it opens on weekends. Working hour is from 07.00 to 19.00 with seven (7) working days per week. Pay rate for field workers is Rp 175,000 per week or Rp 700,000 per month, while in-store worker gets Rp 500,000 per month. These in-store workers live in the owner's premises, which is next to the store. Workers who come late for work will get a penalty of Rp 2,500 per day.

Workers are paid weekly, non-money pay is not provided. Nevertheless, prior to Idul Fitri a special allowance of Rp 400,000 is given to workers. In addition to that, a bonus is also given on the Chinese New Year. This is most probably due to the fact that the owner is a Chinese descendent that celebrates this festive.¹⁸ When worker gets sick the owner feels responsible for helping them.

3.1.12. FOODS KIOSK

This small enterprise is one of the businesses owned by a man whose main business activity more focuses on selling herbal medication. Thus, this foods kiosk is only his secondary branch of activity. He employs two women to run this foods kiosk. One of these women, a more senior and experienced woman operates and manages the kiosk and the other woman acts as her assistant. The woman manager works as the cook in this kiosk while the other does other tasks except cooking. Even though there is no written work contract, the owner describes the tasks and working conditions verbally. The business runs seven (7) working days a week.

Although there is no formal social assistance, but workers may rely on the employer on many things. For example, in case the workers get sick employer will bear all financial burdens for medical costs. In the event that the worker needs money for personal reason employer is willing to provide loan without interest. The pay practice of the cook and her assistant is described below.

The Cook who has been working in this kiosk for 15 years gets paid Rp 500,00 monthly. She receives a bonus with the amount of five (5) % of the total net revenue per month. Normally the

18 Usually on Chinese New Year they will distribute "envelope" (containing a bit of money)

net revenue of this kiosk ranges from Rp 200,000 to Rp 300,000.per day. Assuming that she works 30 working days in a month, she may expect to receive a bonus of Rp 300,000 to Rp 450,000 per month. Adding to bonus to her basic wage, the amount she receives in a month would be around the Jakarta minimum wage.

Aside from this wage, the cook receives also Idul Fitri allowance each year with the amount of 150% of the monthly wage. Medical expenses are borne by the employer.

Assistant Cook receives Rp 250,000 per month. Apart from that, she also receives Idul Fitri allowance and is provided with medical support when she gets sick. Both workers live in the owner's housing and get three meals a day.

The ground for determining wage rate is based on seniority and the wage rate in the same sector. Bargaining on pay rate during the process of recruitment never occurred. The rise of wage rate in this business mainly depends on the length of working duration in the enterprise and clearly the skill.

3.2. KNOWLEDGE OF MINIMUM WAGE

Ten (10) out of the twelve (12) informal employers that were interviewed admitted that they do not know about the minimum wage. Two employers understand the minimum wage regulated by the government. However, they do not apply such regulation to their enterprises with the reason that their business activities are not able to pay this wage rate due to the fact that the amount of works or job orders fluctuates, not giving them steady revenue apart from the reason that the size of their enterprises is relatively small.

Making reference to the prevailing wage rate for similar industry or similar occupation in the respective area is the common practice to determine the pay rate of workers in the informal enterprises. For example, the pay rate for sewing worker in tailor business is more or less similar to sewing worker in handbags makers. This is also the case in the printing business, electronics repairs/services, and furniture industry as well as hardware store.

Although most employers do not understand the minimum wage legislation, at least they hear the term of "minimum wage". This stems from the fact that rallies or protests conducted by unsatisfied workers and trade unions are usually broadcasted by radio, newspapers or TV intensely, which most likely attract public attentions. Such intensely publicized minimum wage is particularly high in the mass media during the months of the new wage rate fixing.

As mentioned earlier that the majority of the Indonesian workers are employed in the informal sector. At present the minimum wage regulation is not applied in the informal sector for the clear reason that it is not practical to enforce. The government regulations do not stipulate that minimum wages only apply to the formal sector. Thus far government supervision and enforcement have been limited to the formal sector, and in particular large firms.

The unawareness of these informal enterprises towards the minimum wage regulation may be due to the notions that regulations are normally applied to formal enterprises, thus leaving the informal ones out of such regulation. Such notion also excludes those informal employers of wanting to know about minimum wage legislation or to comply with it. Another fact that labour inspector normally only focuses on formal enterprises further encourage informal enterprises to disregard the application of minimum wage in their enterprise.

3.3. APPLICATION OF MINIMUM WAGE

As stated in the previous chapter, sectoral wages are determined by the respective provincial/district government. The province of Special Region of Jakarta in which the field survey was conducted does apply sectoral minimum wages.¹⁹ Minimum wages are normally applied within enterprises that have employer and employee formal working relationship and this usually only in the enterprises that have legal status and legal permit. Therefore most sectors that apply minimum wages are mainly those of the formal enterprises. As the informal enterprises covered in this study are those not having legal status or permit, it is not surprising that none applies minimum wage regulation.

The finding shows that minimum wage is not used a reference for paying workers in the informal establishments. None of the twelve (12) informal enterprises interviewed do apply the Jakarta minimum wage for determining the wage setting. As economic situation is not very good at the moment, and employment has been scarce while people needs jobs to survive, most potential workers seem to have an attitude of “taking any job available with the given pay rate rather than having no income at all.”

It is interesting to note that recruitment of workers in a couple of informal establishments under study is based on the similarity of worker's area of origin or home town/village with that of the business' owner. This is the case in the vehicle body repairs and electronics repairs/service. Recruiting workers from the same area of origin or neighbour seems to be the common practice. Such practice is most likely to be based on the belief that workers from the same area (neighbourhood) in which familial relation most likely exists can be more trusted than workers whose background are not previously known. With such practice, it encourages rural job seekers to migrate particularly if they have relative in urban area. Most frequently these young inexperienced villagers would work as apprentice with a consequence of lower wage.

In general, the bargaining of wage rate hardly occurs. No open negotiation occurs between potential employer and worker regarding pay rate. During the bargaining it is not normally referring to minimum wage. Commonly employer will state the wage rate he/she is willing to pay workers. It is up to job seeker whether she/he wants to accept the offer or not. In the recruitment stage, employers hardly make any reference to the minimum wage rate. Bargaining of pay rate is referred to the prevailing wage rate for similar occupation or similar industry in the respective area. In many cases bargaining of pay rate in Indonesia including Jakarta hardly occurs overtly, a worker could either accept or refuse the wage being offered.

The occurrence of pay rise in the informal enterprises exists, but not as often as it does in the formal sector that is regulated by law. The rise normally would mainly be based on the rise in living cost and work seniority.

19 For 2006, provincial sectoral minimum wage ranges from Rp 860,055 to Rp 884,628 (Ministry of Manpower and Transmigration, 2006).

3.4. WORKING CONDITION

Working conditions in this study is expressed in working hours, bonus/extra pay and medical support workers may receive. The findings reveal that the application of working hours depends on the nature of business activity. As most informal enterprise works are piece-based or contract-based, the working hours for this type of work is therefore flexible. The most important thing for this type of business is the outputs produced or completion of job order. But activities like tailoring, although their works are quantified by piece but the daily presence of workers is important. Some other business activities such as hair dresser, handbags manufacturer, and food kiosk apply fixed working hours.

The number of working days in most of these informal enterprises is seven (7) working days. Some enterprises nonetheless operate six days a week. Lengthy working hours are sometimes applied in such business activities as food catering, printing, cake/cookies maker although the enterprises will compensate for the extended working hours with extra pay.

Except in such enterprises as tailor, vehicle body repairs, and hairdresser, all informal employers under study provide bonus or extra pay to their workers. These bonuses can be in the form of “attendance bonus”, “achievement bonus”, “over time bonus”, “job order bonus” and others. Food kiosk, hair dresser, handbag manufacturer and food catering enterprises provide free meals to their workers. Five (5) out of the twelve (12) informal enterprises give Idul Fitri allowance to their workers.

Except in such businesses as tailor and vehicle body repairs, all informal employers assist workers with medical expenses in case of their worker gets sick although in varying amount. Some only provide financial support if worker is hospitalized, some only help in minor expenses. One business employer also helps his workers by lending money when needed without interest.

3.5. WAGE DETERMINATION IN THE INFORMAL ECONOMY

It might be noticed from the earlier section that wage determination in these informal enterprises is mainly based on the prevailing wage rate in the similar industry or occupation in certain areas, but it varies within industry according to worker's experience and skill level. This practice explains why one finds wage structure in the informal firms is remarkably homogeneous.

A skilful sewing worker in tailoring business may get Rp 15,000 to Rp 17,000 per piece. Beginners normally get less as they are novice and are usually given minor tasks for example doing seaming jobs or stitching buttons. For this job a beginner will get around 50-60% of skilled worker wage rate. A sewing worker in the enterprise under study normally is able to complete 3 to 4 male outfits a day or fewer pieces for sewing woman dresses as the work is more complicated, normally only 2 to 3 woman dresses can be completed in a day. Using the assumption that a worker is able to finish that many pieces and at least working for 6 days in a week then a skilled sewing worker might receive a wage that is very close to minimum wage rate, even more (see the calculation in the footnote).²⁰

20 If a sewing worker on the average can complete 2-4 pieces (taking the average of 3 to 4 pieces male outfits and 2 to 3 female dresses a day), then using the rate of Rp 14,000 to Rp 17,000 per piece, in a day he would receive between Rp 34,000 (2x17,000) to Rp 56,000 (4x14,000). With 6 working days per week, a sewing worker will be working 24 working days in one month. Based on this assumption, a sewing worker may receive Rp 816,000 to Rp 1,344,000 per month.

CONSTRUCTION

Reference wage that is made to the prevailing wage rate in similar industry also occurs in the informal construction enterprises. The daily wage rate of construction workers in urban informal sector of Indonesia was recorded at Rp 33,178 in January 2006,²¹ although it will vary with region. In Jakarta, the current prevailing pay rate for craftsman in this industry is Rp 60,000 to Rp 75,000 per day. Unskilled labour, usually newcomers in the industry, is commonly assigned to do apprenticeship jobs. As the beginner in the occupation, the prevailing rate for them is around 50-60 % of that skilled worker. There is no reference made to the minimum wage rate for determining the beginner's pay. However, the amount they receive is extremely close to minimum wage level, if not even higher. The calculation is illustrated in the footnotes.²²

AGRICULTURE

Regarding agriculture, it should be borne in mind that Special Region of Jakarta is an urban province, thus employment is mainly urban-based. Agricultural employment in Jakarta particularly in the informal enterprises is insignificant. As shown by the 2005 data that the percentage of Jakarta male working as casual workers in agriculture was only 0.07% of the total employment, and there was no female casual agricultural worker recorded in the respective survey (CBS, 2006b). What most people would refer to those who are involved in informal agriculture enterprises might be described as follows. Cultivating and selling ornamental plants/flowers is a seemingly widespread informal business activity in Jakarta as the demand for floricultural produce is relatively good. Such horticultural and floricultural employers may rent or own a very small plot of land to do their businesses. They normally work as own account workers and most frequently assisted by family members. The Indonesian data show that the daily wage rate for agricultural labourers at national level was Rp 12,292 in October 2005, broken down between Java and outer Java it was Rp 11,113 and Rp 14,375 subsequently (CBS, 2006b).

An agriculture-related worker who is employed as a gardener or a casual worker in Jakarta normally receives a wage rate of Rp 25,000 to Rp 50,000 per day, depending on the location. This pay, depending on the agreement, normally net pay, as employer commonly will provide them with foods and drinks. This kind of job is commonly casual in nature and the service required from such casual works is normally a short time.

Similarly as the case in the other informal sector, daily pay rate in agriculture is referred to the prevailing pay rate for such worker in the respective region. If casual workers may be identified as worker in the informal employment, the data demonstrate that the monthly wage rate of informal agricultural worker in 2004 was Rp 328,403 for males and Rp 180,599 for females, meaning that female worker only receive 57 % of that of males (Annex 3). These rates have increased 4.7% from the previous year's rate. Comparing to the wage rates to those of total workers, the wage rates of workers both of casual workers in agriculture and non-agriculture were much lower.

21 CBS, 2006a.

22 The prevailing daily wage rate of construction worker (craftsman) is Rp 60,000 to Rp 75,000 (Jakarta). If a worker works for 6 days a week that means that he will get between Rp 1,440,000 to Rp 1,800,000 per month. For the beginners, they will receive between Rp 864,000 to Rp 1,080,000 per month (60% of skilled worker).

DOMESTIC SERVANT

Pay rate for domestic servants is usually determined on the basis of the prevailing pay rate for such occupation in the respective area. Prior to recruitment, employer will normally interview the potential worker although in informal way. The questions may range from working experience, education, reason for leaving previous job, family where-about, marital status and other personal questions to question on expected pay rate. Potential employer could either agree or disagree with the rate asked. Bargaining process may end until they settle to an agreed pay rate or when no agreement is reached. The BPS reports that the monthly wages of domestic workers in the urban Indonesia for January 2006 was Rp 158,669.²³ The pay rate for domestic workers generally varies according to the area where they work in and whom they work for. In some elite areas, pay rate is expected to be a little higher. Likewise, maids working for expatriates expect to get better pay. In Jakarta, the prevailing wage rate for domestic workers is around Rp 300,000 to 500,000 per month. Some however will receive either less than or beyond this range. In the outskirts of Jakarta, such as Bekasi for example, domestic workers only get Rp 200,000 to Rp 300,000 per month. Obviously, such pay differences are originated partly from skills, experience and education as well as employer's residency.

The pay received by domestic servant is commonly a net pay, because most servants are living in the employers' premises and all their necessities from meals, simple toiletries, and some times to clothing are provided by the employers. In most cases, Idul Fitri (THR) allowance is provided with varying amount. In few fortunate circumstances, employer sends their servants to take cooking or sewing class. If all of these expenses are calculated and included in their pay perhaps in the end domestic workers' earning would be close to the minimum wage in the respective area. Being domestic servant is frequently associated with long working hours and abusive employers. Therefore, the authority should pay a special attention on these workers' protection legally.

In the last few decades in big cities like Jakarta, the presence of recruiting agencies supplying maids and baby sitters is prevalent. Such agencies have usually set pay rates for these workers, although such rates more or less are similar to the prevailing pay rate in the areas. In most cases domestic servants are paid monthly, there is no daily pay rate applied for them. However, during special days such as Idul Fitri when most maids return to their villages or home towns to celebrate the festive, some recruiting agencies provide temporary helpers on daily basis to the needy households.²⁴

The findings have demonstrated that the income of workers in the informal enterprises may be differentiated in two types, namely (a) those who get paid on regular basis and (b) those who get paid by piece rate or contract. Regular wage workers that are covered in this study receive from Rp 200,000 (electronic repairs/assistant in food kiosk) to Rp 700,000 (hardware store, and handbags manufacturer), which were below the minimum wage rate. Meanwhile, those workers that are paid on piece rate or contract basis receive higher pay than that of the Jakarta minimum wage rate, which was Rp 711,843 in 2005. For example, skilled furniture worker was frequently able to make Rp 2,500,000 per month, although, the opportunity of obtaining such higher income is not always there. The issue of income security is very critical in one's working life in the informal economy. The variations of income or wage rate of the informal workers

23 Although there was a 6.03% rise compared to January 2005, the wage rate in real terms was in fact declining by 9.4%.

24 It seems like an established pattern that during the Idul Fitri holiday most urban workers including domestic servants return to their home villages, leaving urban families in disarray for not having servant at home.

seem to be derived from the differences in types of occupation, branch of industry, nature of work and skills.

The picture depicts that most of the workers in the firms under study are male, which is a usual observation in Jakarta, although not entirely true for each branch of activity. For instance, the dress making is occupied by males. Although dress making is considered as a feminine type of occupation, in reality, such an occupation in Indonesia including Jakarta is shared both by men and women. Another example, hair dressing is also an occupation that is shared by both women and men, although the enterprise visited shows it is a woman occupation. The observation shows that on the one hand a few numbers of big hairdresser and beauty salon in Jakarta are owned, managed and executed by males. On the other hand, non-legal hairdresser and beauty salon are more dominated by women. Is this a reflection that women are more likely to be involved in the informal activities as they don't have to be hassled by a considerable of paper works in order to meet the requirements for formal enterprises? Domestic works on the other hand are more dominated by females (Annex 4). Variations in occupations by sex can be partly due to the nature of jobs, economic opportunities in the area, and business scale. Women in the informal jobs are most likely involved in more invisible activities such as home workers, domestic workers, casual workers, and unpaid family helpers.²⁵ Being workers in informal activities and usually low education, they can not afford to employ helpers in releasing them from household works and child rearing, thus they would prefer to be involved in income generating activities that can be combined with child rearing.

25 A study demonstrates that women are predominant in garment home industries, for example in West Java, they manage their work at home and all workers are female. The main reason for them is that they can combine their economic activities with household chores including child rearing (Widarti, 2004).

CHAPTER 4

CONCLUSION

Based on the results of the survey one may conclude as the followings.

1. As the findings show that most informal enterprises do not know about the minimum wage legislation, it is not surprising that they use prevailing wage rate in similar industry or occupation in their respective area to determine the wage rate for their workers. To a large extent such practice causes wage structure in informal enterprises is homogeneous
2. There is something that workers in the informal enterprise have in common, i.e. they do not have written working contract. Job description, working condition and other work arrangements are commonly expressed verbally. Relatively low education background and being informal firms seem likely to be the reason for being unnecessary to draw a written working contract with their workers.
3. There are two types of pay practice in the informal enterprises, namely (a) those workers who are paid on regular basis (b) those workers whose pay are based on either piece rate or contract. Regardless of the pay mechanism, nonetheless, the pay rates of workers in the informal enterprises vary according to occupation, skill and branch of activity.
4. Regular paid workers usually receive relatively small pay but there might be an incentive, which is commonly granted to motivate workers to do better and produce more. Such incentives can be related to “additional job order”, “overtime work” and others. Those workers who are paid under contract or piece rate on the other hand might have flexible hours, but they are no such incentives. These include workers in furniture and vehicle body repairs.
5. The provincial minimum wage rate for DKI Jakarta in 2005 was Rp 711,843. According to the regulation, provincial sectoral minimum wage rate should be at least five (5) percent higher than the provincial minimum wage rate, which means that sectorally it should be at least around Rp 747,435. The findings show that the pay of the majority of informal workers under study was clustering around the provincial minimum wage rates, although some variations might occur. For example, those who work as newspaper delivery man on average receives Rp 750,000 per month, apart from that he will get an attendance bonus of Rp 60,000. If this amount of pay received regularly, then their pay is above the provincial minimum wage level. Regularity of income is a critical issue for workers in the informal economy. Some workers in the informal enterprises visited however receive the pay that was under the minimum wage rate too. For example, the shop keepers in hardware store and printing workers are lowly paid. As workers in these types of enterprise are not required to have high skills, thus seems that pay rate is also determined by skills demanded.
6. Most of the informal enterprises apply seven (7) working days per week, leaving no time for rest for their workers. Some enterprises demand workers to work six (6) working days.
7. Most workers employed in the informal enterprises receive bonus or extra pay that is manifested in various forms, such as “attendance bonus”, “achievement bonus” (newspaper agency), bonus for additional job order (printing business), “over time bonus for a lot of catering orders” (restaurant/catering)”, “provision of lunch money (hair dresser), and others. Some workers also obtain “non-money benefits” ranging from “provision of three time meals” (food catering firm) to “provision of free accommodation” (electronic repairs/services, and vehicle body repairs). All these bonuses or non money pay are certainly an influential factor for entering these activities.

8. Provision of medical support is not employers' formal obligation. Nevertheless on the ground of humanitarian reason most employers provide financial support in case of workers are ill. Such supports can be in different ways and in varying amount. For example, one employer contributes financial support only if the worker is hospitalized. Some employers help them out with a certain amount of medical expenses, but there are some employers who do not give financial help at all. Looking at such practice it seems that financial supports for medical purpose given to workers is more compelled by humanitarian feeling than anything else. With the same reason the employer of food kiosk firm is willing to lend some amount of money without interest to the needy worker.
9. Working in the informal economy is deemed for not having job security and leading to income security. Apart from that, workers in the informal economy are usually representing poor families. Thus, in the framework of poverty reduction, the provision of at the least health supports for informal workers is very crucial. Considering the fact that the role of the informal economy is very important in employment absorption, the government needs to pay serious attention on the issue of its social protection and health supports.