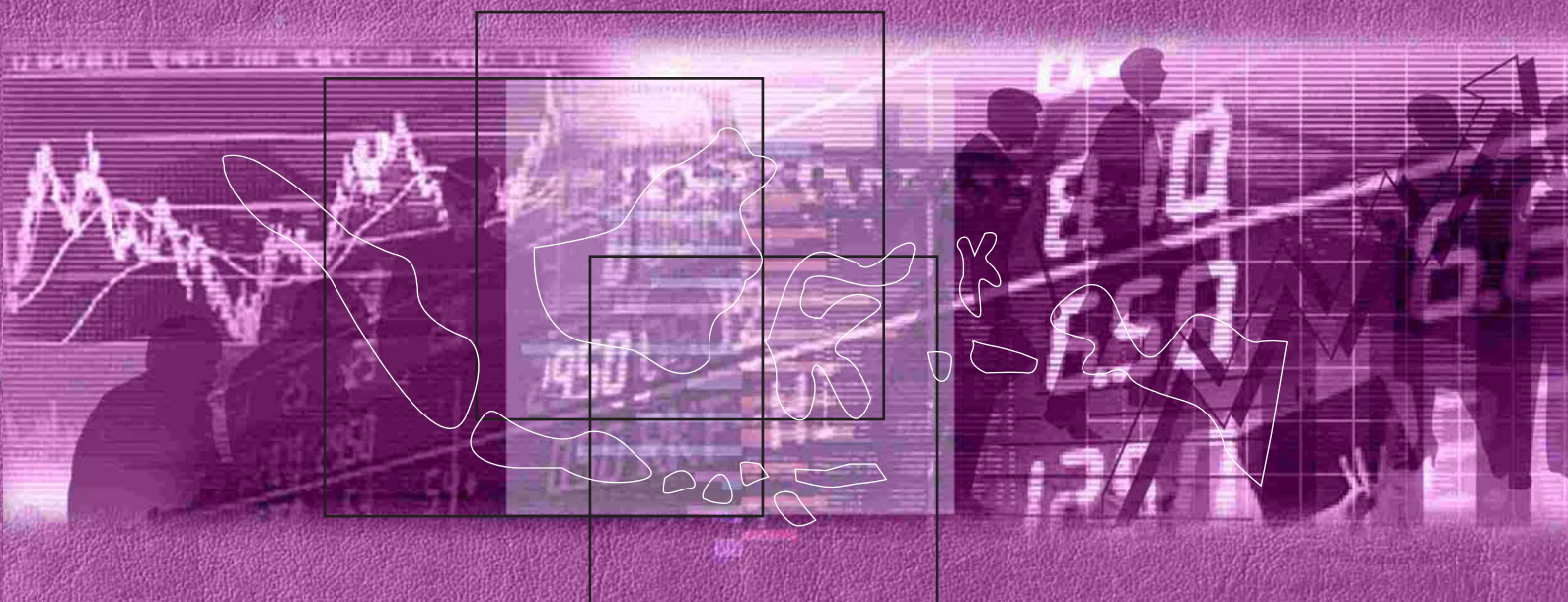




Labour and Social Trends in Indonesia 2013

Reinforcing the role of decent
work in equitable growth



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Foreword

The ILO's Jakarta Office's sixth issue of the Labour and Social Trends in Indonesia focuses on reinforcing the role of decent work for equitable growth. This report is released by the International Labour Organization, which is the organization of 185 governments, workers' and employers' organizations worldwide dedicated to the realization of decent work. The ILO Jakarta Office is frequently asked for information on the latest trends in employment from its Constituents, and this report is aimed at responding to this request. We anticipate that the information in the latest labour and social trends report can support constituents in using evidence-based approaches in their ongoing dialogue on the expansion of decent work. We also hope that the issues discussed may be useful for supporting medium term planning and other employment promotion strategies.

Last year's report analyzed progress towards the goal of sustainable growth with equity, as sustainability has been a concern, on economic, environmental and social fronts in Indonesia. This year we turn our attention to reinforcing the role of decent work for equitable growth. In 2013 the Indonesian economy has faced adjustments in its macroeconomic indicators, and these adjustments have been reflected in a slight increase in unemployment in August 2013. However, in general we can see that outcomes across a range of employment indicators have been positive over the last number of years. More workers are working in the formal economy and more workers have higher levels of educational attainment than before. These trends demonstrate that Indonesia is making progress on the road to decent work, however, there are core challenges that persist in realizing decent work for all. The productivity of labour, access to social protection and wage remain contentious issues. Therefore, this year our message is about maintaining the gains that have been made in the world of work, while at the same time reinforcing the role of decent work in equitable growth.

This report was prepared by Emma Allen, labour market economist for the ILO Office in Jakarta, with support from Peter Simojoki, Georgiana Runceanu and Miranda Fajerman. The report benefited from valuable comments provided by colleagues from the ILO Country Office for Indonesia and Timor-Leste, as well as the Regional Economic and Social Analysis Unit of the ILO Regional Office for Asia and the Pacific. We also extend thanks to Professor Chris Manning for valuable comments that he provided on the report.

We hope that the report will generate productive dialogue among ILO Constituents and support Indonesia to reinforce the role of decent work in equitable growth. We look forward to working with the Government, employers and workers through both provision of technical expertise and technical cooperation projects in 2014. In particular, we hope to reinforce the role of decent work in equitable development through supporting strategic efforts on employment promotion, industrial relations and social protection as part of our joint country programme.

Peter van Rooij
Director
ILO Country Office for
Indonesia and Timor-Leste

Contents

Foreword	iii
List of tables	vi
List of figures	vi
List of boxes	vi
List of abbreviations and terms	vii
Executive summary	ix
 Chapter 1. Trends in the economy and the labour market	 1
1.1 Economic trends	1
1.2 Labour market trends	7
1.3 Wage trends	19
 Chapter 2: Reinforcing the role of decent work in equitable growth	 27
 DWCP 2012-15 Objective 1: Employment creation for inclusive and sustainable growth	 28
2.1 Promoting more and better jobs for inclusive growth: Trade and employment	29
2.2 Promoting more and better jobs for inclusive growth: Labour market information	32
2.3 Jobs and skills for youth: Active labour market programmes and youth	35
2.4 Decent work in the rural economy: The impact of infrastructure investment	40
2.5 Productivity and working conditions in SMEs: Understanding SME challenges	43
 DWCP 2012-15 Objective 2: Sound industrial relations for effective employment governance	 47
2.6 Workplace compliance through labour inspection: Progress on inspection	48
2.7 Protection of workers from unacceptable forms of work: Homeworkers	51
 DWCP 2012-15 Objective 3: Social protection for all	 54
2.8 Creating social protection floors: Strategies for closing the gap in Indonesia	54
2.9 Formalization of the informal economy: Domestic work in Indonesia	59
 Annex I: BPS disaggregation of employment in the formal and informal economy	 62
Annex II: Statistical appendix - Labour market indicators by gender 2009-2013	63
Annex III: Statistical appendix - Labour market indicators for youth 2009-2013	65
Annex IV: Statistical appendix - Labour market indicators by economic sector 2009-2013	66
Annex V: Statistical appendix - Labour market indicators by status in employment 2009-2013	66
Annex VI: Statistical appendix - Wage indicators 2006-2012	67

List of Tables

Table 1: Distribution of income derived from SAM, 1971-2008 (per cent)	5
Table 2: Percentage of workers in vulnerable employment in 2012-2013	13
Table 3: The employment impact of bilateral import tariff elimination in 2009	30
Table 4: Registered job seekers by education level for 2009-2011	33
Table 5: Total jobs with filled vacancies for 2009-2011	34
Table 6: Active labour market programmes - summary of evaluations	37
Table 7: Definitions of status in employment	44
Table 8: Targets for the expansion of labour inspection in Indonesia, 2009-2013	49

List of Figures

Figure 1: GDP growth for Indonesia, ASEAN 5 and the World, 2002-2012	1
Figure 2: Expenditure on GDP (at 2000 constant prices, trillion IDR)	3
Figure 3: Labour force participation rate by household expenditure decile for 2002-2011	7
Figure 4: Employment growth and real GDP growth, 2007-2013	8
Figure 5: Employment-to-population ration by gender, 2009-2013	9
Figure 6: Unemployed persons by age, May 2013 (per cent)	10
Figure 7: Underemployment rates by gender, 2009-2013	11
Figure 8: Part-time workers as a percentage of employed workers by gender, 2012-2013	12
Figure 9: Workers by status in employment, 2007-2013	14
Figure 10: Workers aged 15-24 years and total workers by status in employment, August 2012	15
Figure 11: Formal and informal employment between 2010 and 2013, per cent	16
Figure 12: Formality of workers by gender, May 2013	17
Figure 13: Employment by economic sector, 2012-2013 (per cent)	17
Figure 14: Growth of nominal and real average wages for employees, 2010-2013	19
Figure 15: Average nominal wages by educational attainment for employees, 2008-2013	20
Figure 16: Average nominal wages by educational attainment and gender, August 2013	22
Figure 17: Minimum wages in nominal and real terms, 2008-2013	23
Figure 18: Trends in minimum wages and the <i>Kehidupan Hidup Layak</i> (KHL), 2008-2012	24
Figure 19: Trends in minimum and average wages for Indonesia, 2001-2013	25
Figure 20: Percentage of employees below and above the provincial minimum wage, 2011-2013	26
Figure 21: Number of formal job seekers and job vacancies in 2011	34
Figure 22: Results of the traffic count survey for selected locations on Nias Islands	41
Figure 23: Results of the traffic count survey by transport mode	42
Figure 24: Real labour productivity for the manufacturing sector, 2001-2011	46
Figure 25: Social protection floor assessment for Indonesia	56

List of Text Boxes

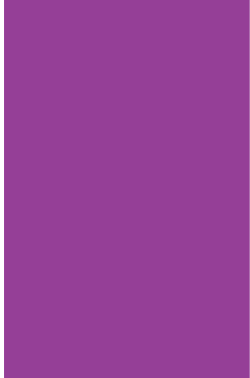
Box 1: MDG Target 1B: Achieve full and productive employment and decent work for all, including women and young people	3
Box 2: Sharing best practices to improve the business environment	6
Box 3: A dynamic social accounting matrix	39
Box 4: Industrial dispute resolution and key challenges in Indonesia	50
Box 5: What is a social protection floor?	58

List of abbreviations and terms

ACFTA	ASEAN-China Free Trade Area
AFTA	ASEAN Free Trade Area
ALMP	Active Labour Market Programmes and Policies
ANZFTA	ASEAN – Australia-New Zealand Free Trade Agreement
APINDO	<i>Asosiasi Pengusaha Indonesia</i> (The employers' association of Indonesia)
ASEAN	Association of Southeast Asian Nations
BAPPEDA	<i>Badan Perencana Pembangunan Daerah</i> (Regional development planning agency)
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> (National development planning agency)
BinaPenta	Directorate General of Employment Placement and Development
BPJS	Social Security Providers (<i>Badan Penyelenggara Jaminan Sosial</i>)
BKPM	Indonesian Investment Coordinating Board
BPS	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
DWCP	Decent Work Country Programme
FDI	Foreign Direct Investment
FTA	Free Trade Area
G20	Group of Twenty
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IDR	Indonesian Rupiah
ILO	International Labour Organization
Inpres	Presidential Instruction
KHL	<i>Kebutuhan Hidup Layak</i> (minimum decent standard of living)
KILM	Key Indicators of the Labour Market
KPS	<i>Kartu Perlindungan Sosial</i> (Social Assistance Card)
LMI	Labour Market Information
LRB	Local Resource Based
MP3EI	<i>Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia</i> (Masterplan for the Acceleration and Expansion of Economic Development of Indonesia)
MDG	Millennium Development Goal
MSMEs	Micro Small and Medium Enterprises
MOMT	Ministry of Manpower and Transmigration
OECD	Organization for Economic Co-operation and Development
PKH	<i>Program Keluarga Harapan</i> (conditional cash transfer programme)
RACBP	Nias-Islands Rural Access and Capacity Building Project
RPJMN	Mid-Term Development Plan
SAM	Social Accounting Matrix

SMEs	Small and Medium Enterprises
Sakernas	<i>Survei Angkatan Kerja Nasional</i> (National Labour Force Survey)
SPF	Social Protection Floor
SPF-I	Social Protection Floor Initiative
SJSN	National Social Security System (<i>Sistem Jaminan Sosial Nasional</i>)
Susenas	<i>Survei Sosial Ekonomi Nasional</i> (National Socioeconomic Survey)
USD	United States Dollar

Note: English spelling of the island of Java is with a ‘v’, whereas Indonesian spelling is with ‘w’, Jawa. When the report refers to the name of a province in Java, it follows the Indonesian spelling (e.g. Jawa Timur)



Executive Summary

In 2013 the Indonesian economy has faced adjustments in its macroeconomic indicators, and these adjustments have been reflected in declining employment indicators in August 2013. To illustrate, employment in manufacturing, which provides important information on trade and investment trends, has experienced a decline for the first time in five years. However, in general outcomes across a range of indicators have been positive over the last number of years and Indonesia is making progress on the road to decent work. There are challenges that remain and greater focus is needed on reinforcing the role of decent work in equitable growth.

The economy has faced adjustments in 2013 and this has been reflected in an increase in the number of people unemployed

The economic downturn over the course of 2013 has been driven by a tightening of monetary policy in the US, modifications to trade policies, fiscal uncertainty and pressures on domestic consumer prices that were associated with modifications to the fuel subsidies. The Government was proactive in its response to the decline in economic statistics, and launched a number of crisis response measures to support the stabilization of the economy. The policy reforms that have taken place in 2013, in particular regarding the fuel subsidy, are expected to reduce the pressure on the Government budget in future years and free up space for the extension of social protection programmes. It is important that plans for upscaling social protection programmes are realized now, in order to reduce the impact of economic shocks and policy reforms in the future.

Trends towards formal employment, which have important implications for workers' welfare, have been maintained

As mentioned, adjustments in economic growth have led to adjustments in employment in 2013. Data from the February and May Sakernas surveys indicates that employment had been growing (year-on-year) in the first semester of 2013. However, the downturn in economic trends that occurred in early 2013 was realised in the labour market in August 2013, and subsequently the employment situation has suffered a setback. The labour force participation rate declined as did the employment growth rate. Employment in the manufacturing sector has also declined by half a million workers. On a more positive note, formal employment and vulnerable employment have remained steady, and these transitions have been driven by workers moving onto employee contracts. It is particularly

important that this trend is maintained as it has implications for workers' welfare, as workers with an employee contract generally have better access to social services, such as healthcare and workers' compensation.

Unemployment had been trending downwards in recent years in Indonesia, hitting a low point of 5.8 per cent in May 2013 - the lowest unemployment rate achieved in Indonesia over the last decade. However, the recent downturn in the economy has seen the August 2013 unemployment rate rise to 6.25 per cent. This is the first time that unemployment has increased in Indonesia since 2005. While Indonesia recorded an increase in unemployment, it continued to record a decrease in underemployment as well as an increase in part-time employment.

Indonesia is currently in a phase of development where it has a high working-age population rather than an ageing, dependent population. In order to optimize the benefits associated with this low dependence ratio, it is essential that the Government expands its investment in education and skills training, particularly as highly educated workers enjoy higher wages and better job opportunities. In this regard, according to data from the Ministry of Manpower and Transmigration, the Indonesian labour market is currently experiencing a skills mismatch, reflected in a skilled labour deficit and an unskilled labour surplus that is observed within the job seeker / job vacancy data set. Unemployment in Indonesia is therefore linked with structural issues and demand deficiency as well as skills mismatch. The current lack of labour market information and wide spread informal recruitment processes exacerbate the challenge of skills mismatch throughout the economy. As the economy continues to modernize and transition to an information-based economy, the demand for highly educated workers will continue to grow, underscoring the importance of education and skills investment now.

*Nominal wages
have increased, while
real average wages
have been influenced
by inflationary
pressures*

2013 has seen increases in average nominal wages, with real average wages being heavily influenced by inflation. This trend reveals the impact that inflation has on the purchasing power of workers. In terms of sectoral wages, the highest wages were observed in the mining and quarrying sectors, followed by the banking and financing sector. As in previous years, the lowest average wages were found in the agricultural sector. Interestingly, strong growth in wages in 2013 occurred in the finance and banking sector, while weak growth was seen in the agricultural sector. This highlights that the sectors with the lowest wages also suffer from the lowest levels of wage growth, while those sectors with comparatively higher wage levels tend to enjoy higher rates of wage growth.

Recent years have seen much focus on minimum wages, with significant increases in nominal minimum wages observed in several provinces in Indonesia as of 1 January 2013. Although the average nominal minimum wage increased by 15 per cent across Indonesia in 2013, in real terms the increase was less. Another trend has been the narrowing of the gap between average wages and average minimum wages, indicating that wage bargaining by sector and occupation structures in Indonesia needs to be strengthened.

In addition, despite workers' legal right to remuneration equivalent to the minimum wage, high levels of vulnerability and informality in the Indonesia labour market, as well as limited capacity for labour inspection, see approximately one third of employees earning less than the provincial minimum wage.

A gender gap continues to persist in Indonesia, with women experiencing poorer results across a number of indicators, including formality, vulnerability, wages, and labour force participation. Some differences in gender outcomes can be explained by educational attainment, occupation, and hours of work, while a portion of the disparity in gender outcomes relate to discrimination. The gender pay gap is especially high among employees with tertiary education in Indonesia. Further efforts are needed to better understand inequalities in salaries between male and female employees, with particular focus on equal access to education and training opportunities as well as ensuring "equal work for equal pay". Further strategies are also needed to support women to enter non-traditional areas of study in tertiary education, such as medicine, law and engineering, where wages can be higher.

The increase in unemployment has implications for youth employment outcomes. Trends indicate that labour force participants aged between 15 and 29 years account for approximately 70 per cent of unemployment in Indonesia. While trends on youth unemployment rates were falling until May 2013, the overall level of youth unemployment has remained high and improving the quality and quantity of youth employment opportunities remains a critical concern in Indonesia. On a more positive note, youth workers in urban areas appear to have been effective in accessing jobs in the formal economy, with almost half of all employed youth on employee contracts.

The rural economy in Indonesia accounts for over half of those employed, with higher participation rates observed in rural areas than in urban areas. However, these higher participation rates do not necessarily translate into a better situation for rural workers, as in rural areas there continues to be a large number of unpaid workers with lower levels of educational attainment who work in the agricultural sector. One step to improve employment outcomes in rural areas is to invest in infrastructure, including the transportation network, thereby allowing for greater access to employment and livelihood opportunities as well as access to markets.

A reoccurring theme throughout this year's report relates to the issue of productivity. Trade policies and infrastructure investment have boosted productivity and employment growth. However, at the micro level, gains in labour productivity have been experienced unevenly by firms of differing sizes and there are indications of an increasing skills mismatch. Labour market institutions, particularly active labour market programmes, skills policies and labour market information systems, therefore have an important role to play in reinforcing access to decent work for equitable growth. In

Increasing unemployment has implications for access to employment for youth

Government policies can stimulate employment outcomes, however, institutions and programmes are needed to support access to emerging opportunities

this sense there is still a strong need for institutions and programmes to assist and support the labour force in this transition. The current institutions responsible for labour placement face some weakness and will require further development and strengthening if they are to take a leadership role in the reduction of unemployment and the increasing of efficiency in job matching in Indonesia.

A second theme through the report relates to concerns on worker vulnerability and access to protection. This situation emphasizes the need to promote equitable growth through decent work. Therefore, in this year's report, our main message is about reinforcing the role of decent work in equitable growth and ensure that investments in employment are not halted by slowing economic growth. The situation on unemployment highlights that it is now important to formulate strategies to restore the previous declining unemployment trend, in order to ensure that the target of reducing unemployment to between five and six per cent by 2014 is achieved.

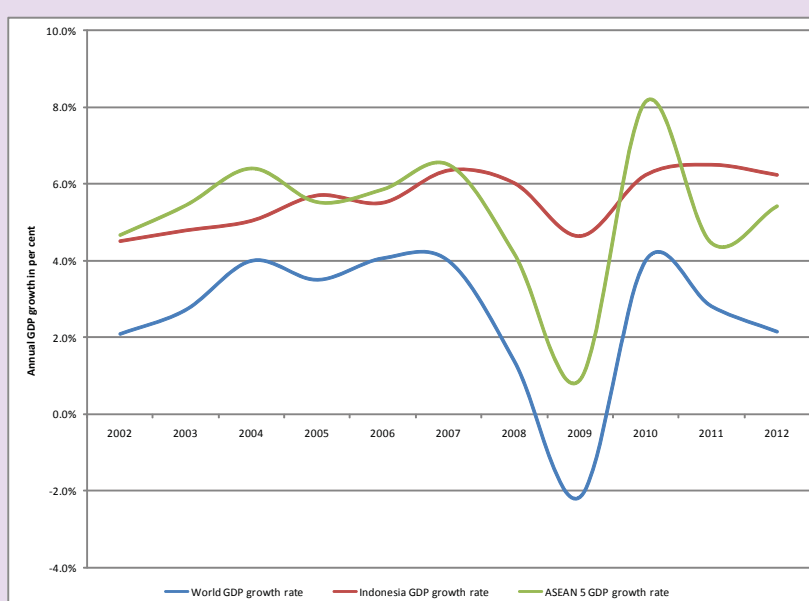
Trends in the economy and the labour market

1.1. Economic trends

In comparison to other countries in the region and throughout the world, the Indonesian economy continues to be in a favourable position. Growth rates are higher than both the global and the ASEAN 5¹ average GDP growth estimates. In general growth rates after the Global Financial Crisis 2008/2009 have also been stronger than they were before the crisis. As figure 1 illustrates, Indonesia's GDP growth rate experienced a slight decline in 2009 due to the Global Financial Crisis (GFC), however, in general growth has been strong and has ranged between 4.5 and 6.5 per cent over the last ten years. In comparison, global growth has hovered between 2 and 3 per cent in recent years and regional growth rates are also still recovering to pre-GFC levels. However, within ASEAN the smaller economies of the Lao PDR and Cambodia have grown faster than Indonesia in recent years.

In comparison with ASEAN, Indonesia has experienced relatively faster growth

Figure 1:
GDP growth for Indonesia, ASEAN 5 and the World, 2002-2012



Source: World Bank (2013) World Development Indicators, World Bank, Washington D.C.

1 ASEAN 5 includes Indonesia, Malaysia, Philippines, Singapore and Thailand.

Indonesia plays an important role in both the global and ASEAN economies

The Indonesian economy accounted for 1.2 per cent of global GDP² in 2012 and is one of the world's top twenty economies. Indonesia is also the largest economy within ASEAN and accounts for 30 to 40 per cent of regional income within ASEAN in any given year. The other major economies of ASEAN include Malaysia, The Philippines, Singapore and Thailand, which together account for 50 to 60 per cent of the regional GDP within a given timeframe. The remaining countries (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Vietnam) together generally account for less than 10 per cent of regional GDP.

The economy has been undergoing adjustments in 2013

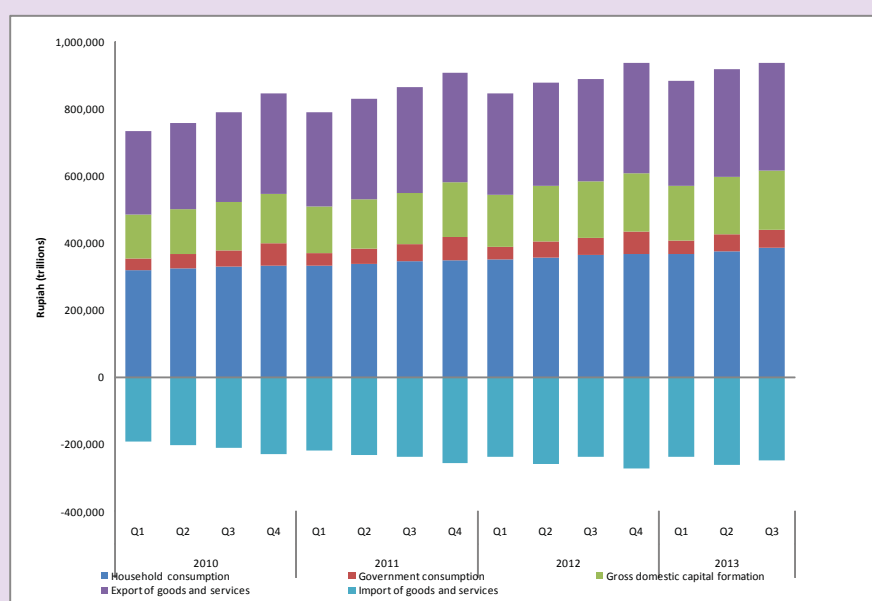
Despite positive trends within the region, the domestic climate has suffered a downturn in economic indicators in 2013 due a combination of internal and external factors. The downturn has been associated with international financial market volatility, a tightening of monetary policy in the US and revisions to the domestic fuel subsidy which have spurred inflation. Inflation hit 8.40 per cent year-on-year in September 2013. The inflation rate is estimated to peak in the last quarter of 2013, and in the absence of further significant shocks, should stabilize at 6.7 per cent moving into 2014.³

The World Bank has estimated that GDP growth will slow to 5.6 per cent in 2013 and 5.3 per cent in 2014. Historically, over the last decade, household consumption and investment have been the main drivers of GDP growth in Indonesia. In the first quarter of 2013, domestic consumption weakened and fell by 0.2 percentage point year-on-year. In addition, monetary policy challenges have led to a fall in investment growth in Indonesia, with investment declining more than 4 percentage points year-on-year in the first quarter of 2013 (see figure below). This reduction in investment could impact negatively on employment growth in 2013, as well see less capital flowing into employment creation activities in Indonesia.

2 1.2 per cent of GDP in current prices or 0.8 per cent of GDP in constant 2005 prices.

3 World Bank (2013) Indonesia Economic Quarterly: Continuing adjustment - October 2013, World bank, Jakarta.

Figure 2:
Expenditure on GDP (at 2000 constant prices, trillion IDR)



Source: BPS (2013) GDP Quarterly data (selected years), Badan Pusat Statistik, Jakarta.

Inflationary influence in the Indonesian economy in 2013 have been dominated by reductions in the fuel subsidy and exacerbated by restrictive trade policies as well as seasonal fluctuations associated with Idul Fitri. The Government's move on the 22nd of June 2013 to reduce the diesel subsidy by IDR 1,000 per litre and the petrol subsidy by IDR 2,000 per litre has led to a sharp increase in headline inflation, and price adjustments will likely continue to unfold in 2014.

Outcomes on inflation have been dominated by adjustments associated with the fuel subsidy

Concerns have also been raised on risks to supply-side inflation due to the increases in minimum wages in 2013. In this regard, a Presidential Instruction (No. 9/2013) was recently released which provides guidelines on annual minimum wage increases for provincial and district wage councils. The instruction attempts to address issues associated with uncertainty in wage increases for investors by providing guidelines on the relation between annual minimum wage increases, inflation and productivity. However, overall trends on wage increases do not point to an issue of wage-push inflation to date. Section 1.3 discusses the issue of wages in further detail.

Box 1: Response to declining economic indicators

On August 24th 2013, the Government of Indonesia announced a package of four economic policies to provide stimulus to Indonesia's economy and respond to a downturn in economic indicators. The policy package included provisions for:

4 World Bank (2013) Indonesia Economic Quarterly: Continuing adjustment - October 2013, World bank, Jakarta.

- (1) Improving the current account balance and stabilizing the currency (IDR);
- (2) Maintaining economic growth and purchasing power;
- (3) Maintaining price stability and suppressing inflation rate;
- (4) Accelerating investment.

In follow up, the Ministry of Finance issued regulations that included revisions to taxes on luxury goods, non-fiction books, and labour intensive industries to stimulate growth. A presidential Instruction on wage setting (Inpres No.9, 2013) was also released, that provided guidance on the setting of minimum wages for wage councils. In addition, the Bank of Indonesia has taken steps to curb inflation and maintain sustainable balance of payments while strengthening financial system stability. The package of policy measures included extending the tenure of foreign exchange deposits, loosening foreign exchange buying restrictions, adjusting the provision on foreign exchange swaps for banks, relaxing foreign debt provisions by extending the number of exemptions for short-term foreign debt and issuing Bank Indonesia Deposit Certificates (SDBI).

Fiscal gains from adjustment to the fuel subsidy may not be realized due to exchange rates adjustments

In 2013 Government expenditures were estimated at IDR 1,726 trillion and Government revenues were estimated at IDR 1,502 trillion. Since 2010 Government expenditure has been growing by between 9 and 17 per cent per year, with increases in expenditure on personnel (staff), goods and services as well as capital. Expenditure on social assistance has been fluctuating, and slightly declining as an overall share of expenditure since 2005. Expenditure on subsidies, particularly for fuel, has also been fluctuating, due to changes in the valuation of the rupiah and changes in the international price of oil. On the 22nd of June 2013 the Government committed to removing IDR 1,000 per litre from the diesel subsidy and removing IDR 2,000 per litre from the petrol subsidy. The increase in subsidized fuel prices was originally estimated to provide the Government with IDR 13.1 trillion in expenditure savings in 2013. However, due to the recent depreciation of the rupiah, these expenditure savings may not be realized. This situation highlights the risks associated with provision of fixed subsidies for commodities from international markets that are subject to adjustments in prices and exchange rates.

Government revenue has been growing by between 12 and 18 per cent per year since 2010, with most gains in the area of value added taxes and non oil and gas income tax. It is planned that value added and non oil and gas income tax will account for over 60 per cent or IDR 937 trillion of revenue in 2013. However, the decline in nominal GDP growth and the depreciation of the rupiah, may impact on the realization of the Government's revenues. The Government has been running fiscal deficits in recent years, with the

5 Revised figures.

deficit estimated at 1.1 per cent of GDP in 2011 and 1.9 per cent of GDP in 2012. In 2013 it is expected that the fiscal deficit will reach 2.4 per cent of GDP, largely due to the decline in macroeconomic conditions, including the depreciation of the rupiah, and such trends will have implications for revenue collection.

Data from Statistics Indonesia indicates that in March 2013 11.4 per cent of the population were below the national poverty line of IDR 271,626 per month. This is a decline from poverty estimates in March 2012 of 12.0 per cent. Poverty continues to be spatially concentrated in rural areas, with 14.3 per cent of the rural population and 8.4 per cent of the urban population falling below the poverty line. Although the poverty head count has continued to decline, overall inequality measured by the Gini index has been on the rise, reaching a peak of 0.41 in 2011 and 2012. Similarly, data on returns to capital and returns to labour as derived from input-output tables indicate that the labour share has not risen over 40 years, despite the increase in the share of paid employment in total employment. Such structural transformation should be accompanied by a shift from mixed income towards wage income. The table below is extracted from Indonesia's input-output tables between 1971 and 2008, and details distribution between labour and capital over time.

Poverty continues to decline, but spatial challenges persist...

Table 1:
Distribution of income derived from SAM, 1971-2008 (per cent)

Input output table code	1971	1975	1980	1985	1990	1995	2005	2008
201 Compensation of workers	29.2	24.9	24.1	27.7	27.4	30.5	30.7	30.9
202 Net operating surplus and mixed income	62.4	68.1	71.2	63.8	60.7	56.8	57.6	58.7
203 Depreciation	5.3	5.0	5.4	6.4	7.4	8.1	10.1	10.4
204 Indirect tax	3.1	2.0	2.3	2.9	5.0	4.6	3.9	3.8
205 Subsidy	0.0	0.0	-3.1	-0.8	-0.6	0.0	-2.3	-3.8
209 Gross value added	100	100	100	100	100	100	100	100

Source: BPS, Input Output Table, various years.

Given the recent downturn in macroeconomic indicators, the likelihood of achieving the Government's medium term poverty reduction target (reducing poverty to between 8 to 10 percent by 2014) is uncertain. The recent temporary and targeted upscaling of social protection programmes, which compensate for the decreases to fuel subsidies will provide an increase in income for poor and vulnerable households and this may impact on poverty rates in the short term. However, the policy is unlikely to impact on distribution and inequality within Indonesia in the longer term as the cash transfer programme is temporary and the continuation of the scaling up of other social protection programmes is unclear.

6 Gini Index is the measure of income distribution calculated based on income classes. The gini ratio lies between zero (perfect equality) and one (perfect inequality). For further discussion see: http://www.wilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_145695.pdf.

Box 2: Temporary increase in social protection programmes

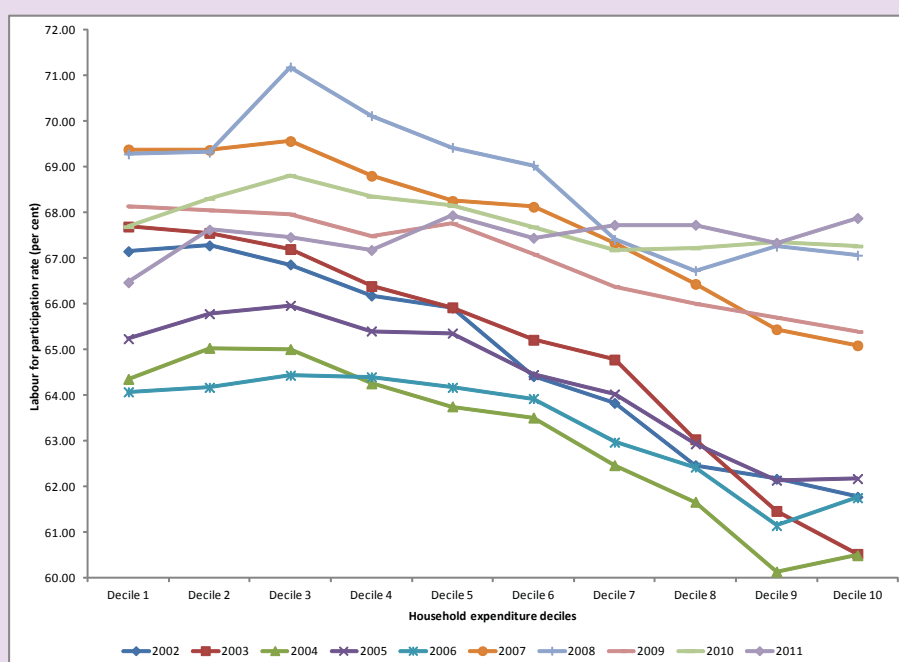
Following the increase in the price of subsidized fuel on June 22, the Government announced a temporary unconditional cash transfer programme (Bantuan Langsung Sementara Masyarakat, BLSM) and upscaled other social protection programmes to compensate low income households for the increase in subsidized fuel prices. The unconditional cash transfer was distributed to Indonesia's poorest households (bottom 25 per cent or bottom 15.5 million households) through the state owned post office (PT POS) using "Social Protection Cards" (*Kartu Perlindungan Sosial, KPS*). The Government's ability to develop and administer a targeted temporary unconditional cash transfer programme is a substantial achievement. Other programmes that were temporarily upscaled, including the conditional cash transfers (*Program Keluarga Harapan, PKH*), the scholarships programme (*Bantuan untuk Siswa Miskin, BSM*), and the rice for the poor programme (*Beras Miskin, Raskin*).

Poorer households typically have higher rates of labour force participation than more affluent households

As social protection systems in Indonesia are developing and currently only provide limited coverage for poor and vulnerable unemployed households, many of these households have no choice but to participate in the labour market in order to support themselves and their families. The figure below presents data on labour force participation by household expenditure decile between 2002 and 2011 from Statistics Indonesia's Susenas survey. The figure illustrates that poorer households typically have higher rates of labour force participation than more affluent households. In the crisis years labour force participation across the deciles tends to flatten out, which is likely due to a general tightening of household income during economic downturn.

It is probable that poorer households in Indonesia have higher rates of labour market participation due to the lack of options for attaining income from alternative sources to support their existence. However, the labour market opportunities that poorer households are able to access are less likely to meet standards for decent living needs. Such employment may be precarious, below the minimum wage and lack other worker protections. This situation therefore highlights the urgency for the extension of social protection coverage for improving development outcomes, particularly for poor and informal households. This regard the Government plans to commence implementation of the National Social Security Law in 2014, which will be supported through the national budget and development loans. At the same time, cash transfer programmes, microfinance programmes and community based public works programmes are also being extended.

Figure 3:
Labour force participation rate by household expenditure decile for 2002-2011



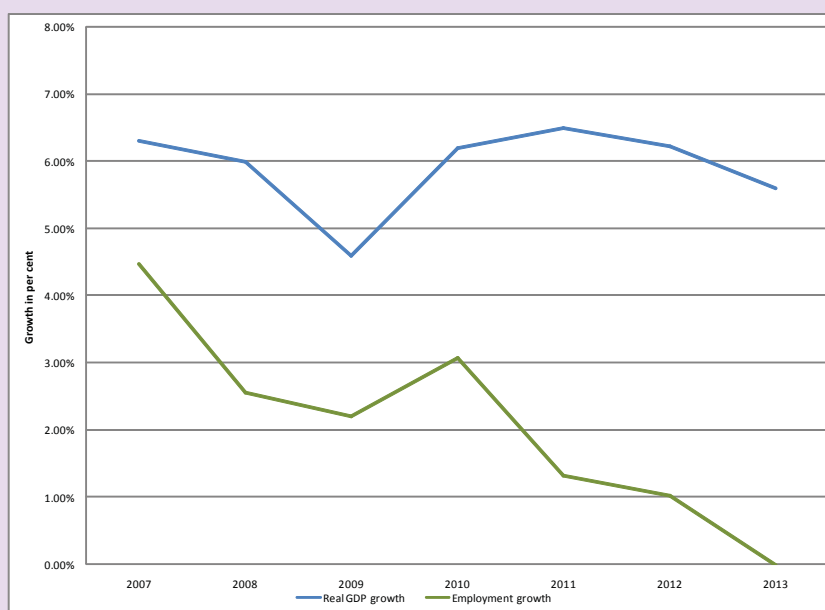
Source: BPS (2013) SUSENAS (selected years), Badan Pusat Statistik, Jakarta.

1.2. Labour market trends

The Indonesia economy has been able to achieve rates of economic growth that are much higher than rates of job creation. The GDP growth rates have been between 5 and 6 per cent over the last period, however, employment growth rates have fluctuated and tended to decline over time (see figure below). Data on employment growth between August 2012 and 2013 suggests that the employment situation has been relatively stagnant or declining over the year. However, data from the February and May Sakernas surveys tells a somewhat different story, and indicates that employment had been growing (year-on-year) in the first semester of 2013. In addition, there are indications of labour market churning, with employed workers in urban areas increasing by close to 1 million while employed workers in rural areas declining by close to 1 million between August 2012 and August 2013. Therefore it is likely that the downturn in economic indicators that occurred in early 2013 was only realised in the labour market in August 2013, and subsequently the employment situation has suffered a setback.

Macro-economic adjustments in 2013 have resulted in labour market adjustments

Figure 4:
Employment growth and real GDP growth, 2007-2013



Source: BPS (2013) Labour force situation: August 2013, Badan Pusat Statistik, Jakarta.

*Employment growth estimates are based on August Sakernas data; GDP growth for 2013 is estimated.

*Gender inequalities
in labour force
outcomes continue to
persist*

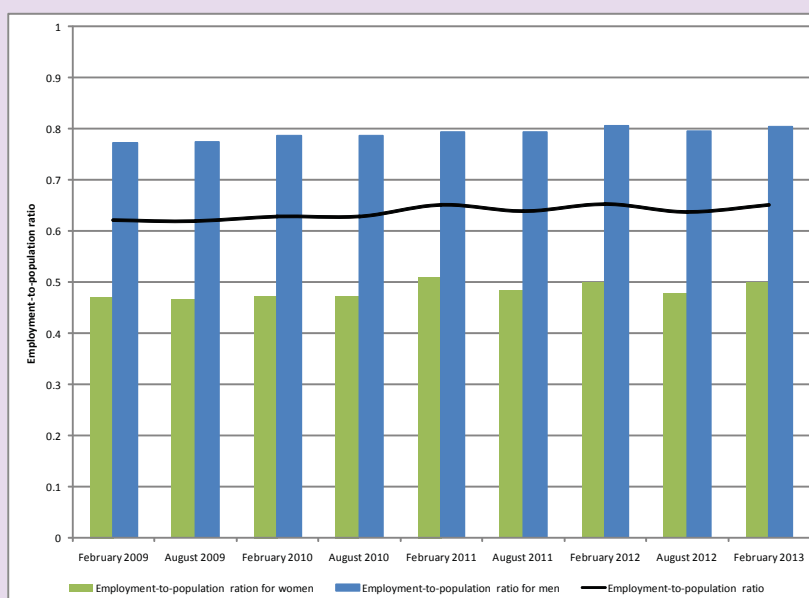
Building on this, adjustments are also reflected in a decline in labour force participation, from 67.9 per cent in August 2012 to 66.9 per cent in August 2013. Between August 2012 and August 2013 both men's and women's participation in the labour force declined dramatically, with an additional 1 million men and 1.6 million women reporting that they were not economically active. Women aged between 30 and 45 had largely taken up housekeeping duties and men in rural areas reported to be undertaking other activities not in the labour market. These fluctuations in labour force participation may in part be a reflection of economic downturn and may also have been influenced by Ramadan.

Gender disparities in labour force participation continue to persist, with the labour force participation rate for men ranging between 84 and 85 per cent, and the rate for women ranging between 50 and 53 per cent during 2012 and 2013. In terms of employment, in 2013 men accounted for approximately 62 per cent of those employed, while women accounted for 38 per cent of those employed.

Regional inequalities also persist, with the labour force continuing to be clustered around the island of Java, Sumatera and Bali, and employment outcomes continuing to be poorer in the eastern parts of Indonesia. In terms of location, urban areas accounted for 48.8 per cent of employment, while rural areas accounted for 51.2 per cent of employment in May 2013. Labour force participation rates were also higher in rural areas than in urban areas.

The employment-to-population ratio – the share of the working-age population that is employed – was estimated at 65 per cent from November 2012 until May 2013, which is higher than the 2012 global average of 60.3 per cent.⁷ The employment-to-population ratio for men and women exhibits significant variation, with the ratio for men and women estimated at 80.3 per cent and 50.0 per cent respectively in February 2013. Trends in gender outcomes have shown limited improvement in the disparity over time. For youth (15-24 years) the ratio also features gender disparity, but the discrepancy is not as great. The employment-to-population ratio for youth was 41.2 per cent in February 2013 and the ratio for young men and young women was estimated at 50.0 per cent and 32.4 per cent respectively. The composition of the employment-to-population ratio for youth may be associated with improving educational attainment, particularly for young women, which should help to improve the gender outcomes of the employment-to-population ratio over time. Moreover, it is also likely that the employment-to-population ratio is high as Indonesia is currently experiencing a “demographic dividend” (high percentage of the population that are working age and a low dependency ratio). In order to optimize the economic benefits associated with this low-dependency ratio, it is important that extra efforts are made to promote equitable outcomes for women through supporting human capital development and reducing barriers to entry of the labour market for women.

Figure 5:
Employment-to-population ration by gender, 2009-2013



Source: BPS (2013) Labour force situation: February 2013, Badan Pusat Statistik, Jakarta

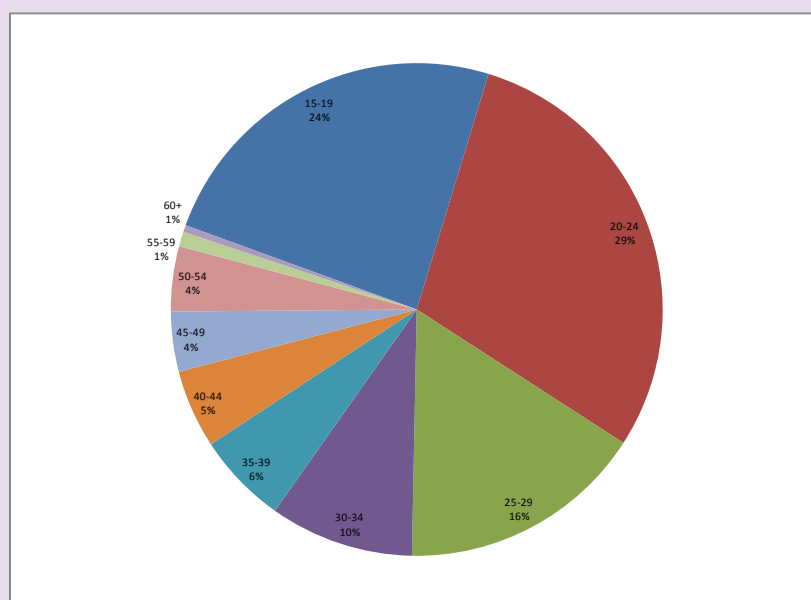
⁷ ILO (2013) Global Employment Trends Report 2013: Recovering from a second jobs dip, International Labour Organization, Geneva.

The unemployment rate in August 2013 increased for the first time in since 2005

Unemployment has been experienced a downward trend in recent years in Indonesia, largely due to positive economic growth. In May 2013 unemployment was estimated at 5.8 per cent, the lowest unemployment rate achieved in Indonesia over the last decade. However, the recent downturn in economic indicators has seen the August 2013 unemployment rate rise to 6.25 per cent. This is the first time that unemployment has increased in Indonesia since 2005. The highest unemployment increases were seen among senior high school and vocational high school graduates. These workers were predominantly in aged between 15 to 25 and had never worked before. In general, most unemployed workers in Indonesia were looking for work. Only a small per cent of unemployed workers had lost hope of finding a job or were considering starting their own business or awaiting the commencement of a new job.

The situation on unemployment highlights that it is now important to formulate strategies to restore the previous declining unemployment trend, in order to ensure that the target of reducing unemployment to between five and six per cent by 2014 is achieved. Moreover, further attention on unemployment outcomes are warranted, as unemployment continues to be unevenly distributed across demographic groups. For example, of the people that were unemployed in 2013, over 70 per cent were aged between 15 and 29 years.

Figure 6:
Unemployed persons by age, May 2013 (per cent)



Source: BPS (2013) Labour force situation: May 2013, Badan Pusat Statistik, Jakarta

Educational attainment plays a role in labour market engagement for unemployed people

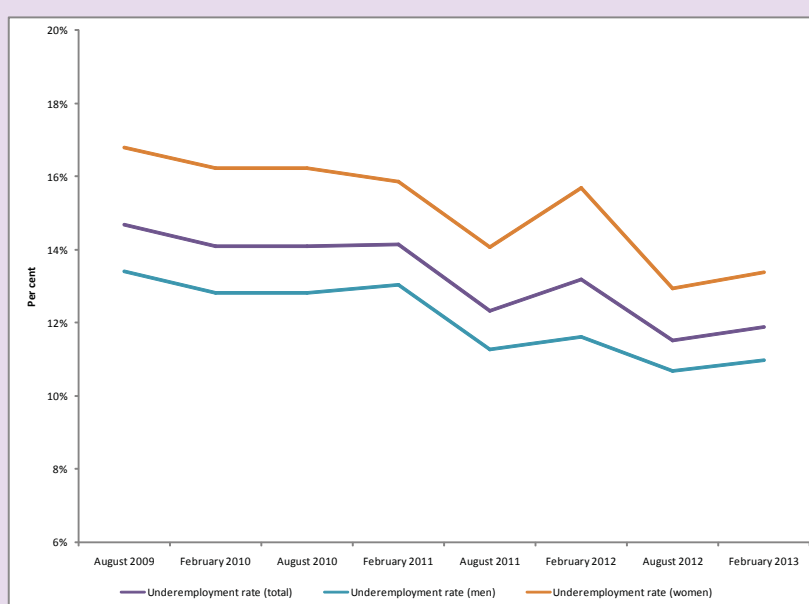
Educational attainment plays a role in labour market engagement for unemployed people. To further explain, most unemployed job seekers had high school as their highest level of educational attainment, while most unemployed discouraged workers had an educational attainment of junior high school or lower. Workers with higher levels of educational attainment

have a higher chance of meeting the recruitment criteria of employers, while those with lower levels of education may not meet the demands as easily, and therefore these workers have a higher risk of becoming discouraged.

Educational attainment has been improving over time, with less of the working age population having no schooling and more of the population having tertiary qualifications. Improvements in educational attainment are observable between 2012 and 2013, particularly for increases in the number of people with tertiary educational attainment and decreases in the number of people with no schooling and primary schooling as their highest level of educational attainment. It is important that policies continue to provide support for the working age population, particularly youth, to continue their education, in turn reducing the number of low-educated workers entering the labour market in the future.

Some workers want to work additional hours and are considered to be part of the “time related” underemployed (working less than 35 hours and willing to work more hours). In general, trends in underemployment have been declining in Indonesia (see figure below). In February 2013, 11.89 per cent of the employed population were considered underemployed, which is a slight increase from August 2012 (11.52 per cent). The August 2013 underemployment estimate was 9.2 per cent, which shows that underemployment has continued to decline, while unemployment has risen. The decline in underemployment is most likely due to women shifting from being underemployed to becoming part time workers, with underemployment for women decreasing by 1.8 million workers and part-time work for women increased by 1.8 million workers between August 2012 and August 2013.

Figure 7:
Underemployment rates by gender, 2009-2013

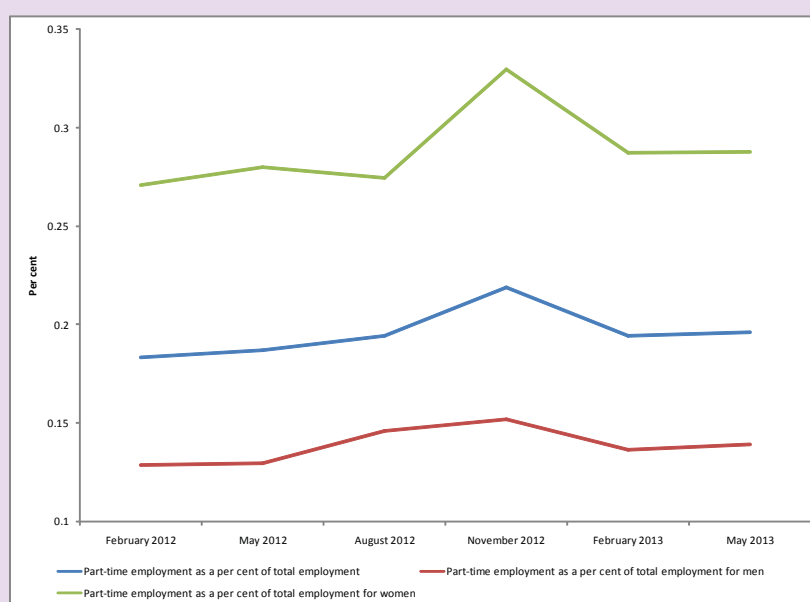


Source: BPS (2013) Labour force situation: May 2013, Badan Pusat Statistik, Jakarta

*Part time work
is linked to rural
agricultural areas*

Part time employment in Indonesia has been increasing and is playing an important role in expanding employment opportunities and reducing unemployment. Part time employment, defined as employment that is less than 35 hour per week, was estimated at 22.0 per cent in August 2013 (see below). Part-time work is highest among women, those with a low educational attainment and those residing in rural areas.⁸ Part time workers are found in the agriculture, trade and community/personal services sectors. As part time work is typically found in rural areas among low skilled workers, it may indicate that part time work is linked to limited access to opportunities in the labour market.

Figure 8:
Part-time workers as a percentage of employed workers by gender, 2012-2013



Source: BPS (2013) Labour force situation: May 2013, Badan Pusat Statistik, Jakarta

*The number of
workers in vulnerable
employment
continues to decline*

Vulnerable employment, a measure of the quality of work by employment status, provides insight on employment conditions and livelihood vulnerability. Indonesia defines vulnerable employment to include own-account workers, employers assisted by temporary workers, casual workers and unpaid family workers.⁹ Vulnerable employment in Indonesia has been declining over time, with the number of people on employee contracts increasing. In May 2013 and August 2013, approximately 59.6 per cent of workers were considered to be vulnerable workers (see table below).

⁸ In August 2012 69.7 per cent of part time workers were in rural areas; 53.2 per cent of part time workers were women; 64.4 per cent of part time workers had an educational attainment of junior high school or less.

⁹ The Indonesian definition of vulnerable employment and the ILO definition of vulnerable employment varies somewhat. ILO defines vulnerable employment as the sum of own-account workers and contributing family workers, while Indonesia also includes casual workers and employers assisted by temporary worker/unpaid worker in their definition of vulnerable employment. This is because of the nature of casual employment in Indonesia, which is often informal and lacking in decent working conditions, and characterised by inadequate earnings, low productivity and working conditions that undermine workers' fundamental rights

The situation in 2013 demonstrates a solid improvement from estimates in February 2011, when vulnerable workers accounted for approximately 65.8 per cent of employment. Safeguards are needed to ensure that the recent downturn in economic indicators does not halt progress in reducing the share of workers in vulnerable employment.

Table 2:
Percentage of workers in vulnerable employment in 2012-2013

Total	February 2012	March 2012	August 2012	November 2012	February 2013	May 2013
a) Employee	33.81	34.05	36.36	36.47	36.45	36.63
b) Entrepreneur	48.91	49.24	47.49	47.72	47.33	47.62
i) Employer	3.48	3.90	3.50	3.70	3.53	3.73
ii) Own account worker	35.38	34.81	33.57	33.41	33.78	33.53
iii) Casual worker	10.04	10.53	10.42	10.61	10.02	10.36
c) Family worker	17.29	16.71	16.15	15.81	16.22	15.75
Vulnerable workers (ii+iii+c)	62.71	62.05	60.14	59.83	60.02	59.64
Total	February 2012	March 2012	August 2012	November 2012	February 2013	May 2013
a) Employee	35.65	35.80	38.18	37.91	38.26	38.26
b) Entrepreneur	56.88	56.92	54.80	55.05	54.58	54.91
i) Employer	4.52	5.03	4.58	4.77	4.61	4.83
ii) Own account worker	40.20	39.06	37.48	37.05	37.56	37.37
iii) Casual worker	12.15	12.83	12.75	13.23	12.41	12.71
c) Family worker	7.47	7.28	7.01	7.04	7.16	6.83
Vulnerable workers (ii+iii+c)	59.83	59.17	57.24	57.32	57.13	56.91
Total	February 2012	March 2012	August 2012	November 2012	February 2013	May 2013
a) Employee	30.85	31.23	33.35	34.11	33.55	34.01
b) Entrepreneur	36.12	36.81	35.37	35.66	35.73	35.88
i) Employer	1.82	2.07	1.71	1.94	1.79	1.95
ii) Own account worker	27.65	27.93	27.12	27.41	27.74	27.35
iii) Casual worker	6.65	6.81	6.55	6.31	6.20	6.58
c) Family worker	33.03	31.96	31.28	30.23	30.72	30.11
Vulnerable workers (ii+iii+c)	67.33	66.70	64.95	63.95	64.66	64.04

Source: BPS (2013) Labour force situation: May 2013, Badan Pusat Statistik, Jakarta

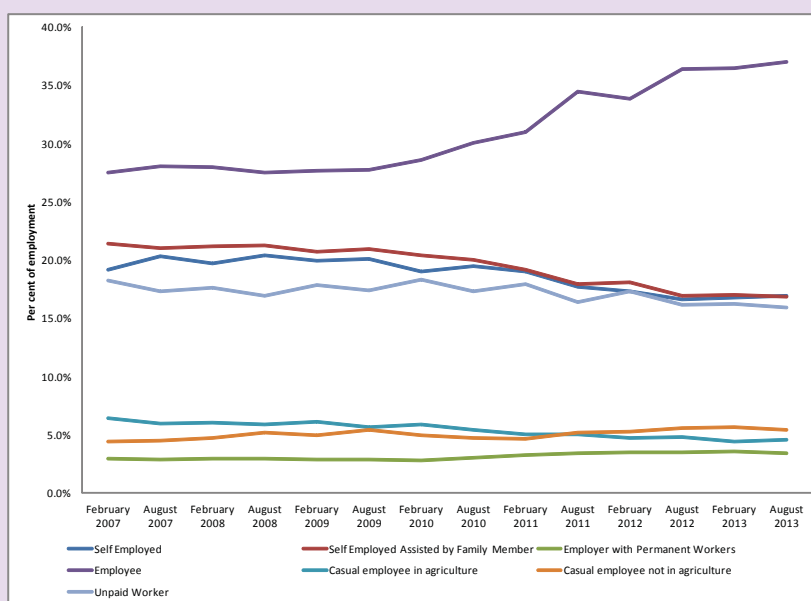
*Women and men
experience vulnerable
employment
differently...*

Vulnerable employment is declining for both genders, however, there continues to be disparity in outcomes, with 57 per cent of men and 65 per cent of women workers considered to be vulnerable. As mentioned in the labour and social trends report of 2012, the nature and composition of vulnerable employment is vastly different for men and women. Men tend to be considered to be vulnerable workers due to their status as an own account worker or casual worker, while women tend to be vulnerable workers as they are unpaid family workers.

Vulnerable employment for men is reducing, as the number of men who are own-account workers reduces and the number of men on employee contracts increases (see table above). The situation for women is also improving as women transition from being family workers to employees. However, as it is more difficult to transition from being a family worker to the world of work that is external to the family unit, programmes that support women to build their skills and access formal employment are needed.

In general, wage employment or workers on employee contracts has been increasing in Indonesia. The figure below illustrates that wage employment has increased substantially from 27.5 per cent in February 2007 to 37 per cent in August 2013 (see figure below).¹⁰ On a related note, the number of employers that hire permanent employees has also increased from 2.9 per cent in February 2007 to 3.4 per cent in August 2013. The trends in the increasing number of formal employers and formal employees operating within the economy seem to be positively related. That is, for every one formal economy employer, there are approximately 10 jobs that are associated with formal economy employees.

Figure 9:
Workers by status in employment, 2007-2013



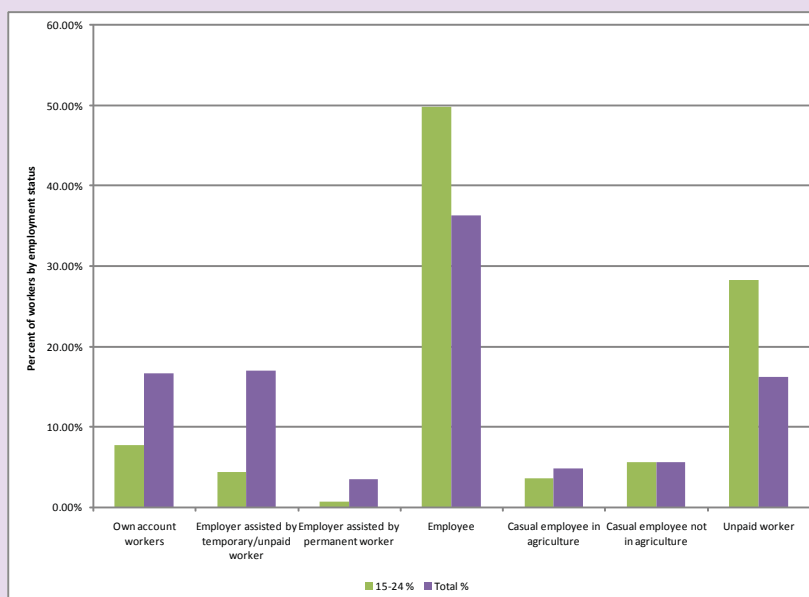
Source: BPS (2013) Labour force situation: August 2013, Badan Pusat Statistik, Jakarta

¹⁰ Employment status 4 of BPS refers to “permanent employees” and defines a worker to be a permanent employee if he/she has the same employer during the past month. The definition therefore includes contract workers and permanent employees.

In general, employers in the informal economy - self employed assisted by temporary workers or family members – do not create as many job opportunities for workers as their formal economy counterparts. That is, for every one informal economy entrepreneur working with labour, approximately 1.5 jobs are associated with casual and family workers. To support the expansion of employment and decent work in Indonesia, it would be important to continue to provide reforms that support the formalization of enterprises while also supporting the continuing operation of formal economy enterprises. In particular, small and medium sized enterprises should be supported as they account for the bulk of job creation in Indonesia.

Analysis of status in employment by age reveals that youth workers (15-24 years) are more likely to be on employee contracts than workers on average and they are also more likely to be unpaid workers than workers on average (see figure below). Most youth workers who are unpaid family workers reside within rural areas and are men working in the agricultural sector. Only a limited number of youth (approximately 5 per cent) are unpaid workers in urban areas. Most youth who are employees reside in urban areas and are likely to work within the manufacturing or services sectors. Youth are also unlikely to be entrepreneurs (self-employed or employers) compared to the average worker. On average approximately 37 per cent of those employed are employers or own-account workers (entrepreneurs), while only 13 per cent of youth employed are entrepreneurs. Most entrepreneurs are aged between 30 and 45 years.

Figure 10:
Workers aged 15-24 years and total workers by status in employment, August 2012

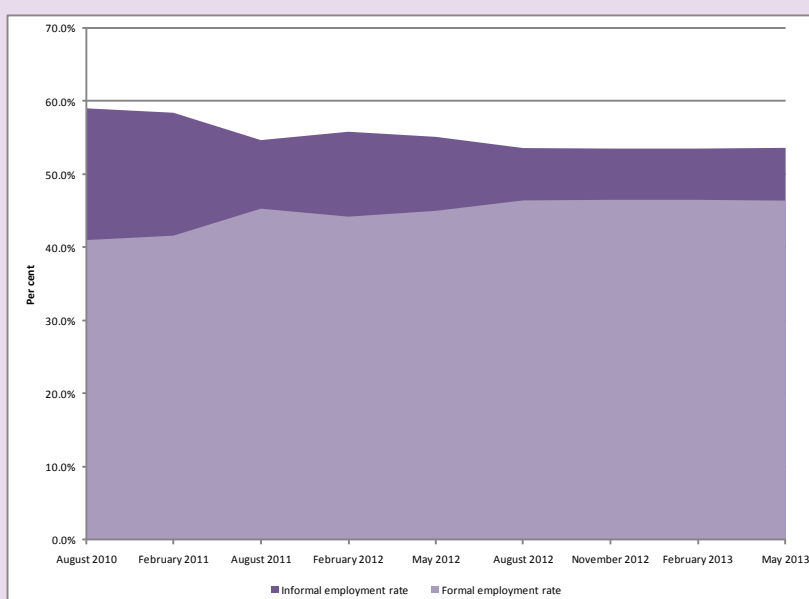


Source: BPS (2012) Labour force situation: August 2012, Badan Pusat Statistik, Jakarta

Employment in the informal economy continues to decline

The share of employment in the formal and informal economies has been shifting in recent years. In August 2010 it was estimated that approximately 59.0 per cent of those employed were working in the informal economy. By May 2013 it was estimated that 53.6 per cent of jobs were in the informal economy and 46.4 per cent of jobs were in the formal economy (see figure below). The pattern of economic growth since 2010 is likely to have played an important role in the shift towards employment in the formal economy, and it will be important to fluctuations in the macroeconomic climate do not reverse gains made in formalization.

Figure 11:
Formal and informal employment between 2010 and 2013, per cent



Source: BPS (2013) Indikator pasar tenaga kerja Indonesia: May 2013, Badan Pusat Statistik, Jakarta

Trends indicate that men and women's access to formal employment has improved over time, but that outcomes on formality are experienced differently across genders. In May 2013 there were 53.2 million workers employed in the formal economy, and of this 35 per cent were women and 65 per cent were men. Similarly, there were 61.4 million workers employed in the informal economy with 41 per cent of these workers were women and 59 per cent were men (see figure below). There have been efforts that have supported women in accessing job opportunities in the formal economy, such as gender quotas in parliament and flexible working hours, however, further efforts are needed to bridge the gender gap and ensure equitable outcomes for both men and women.

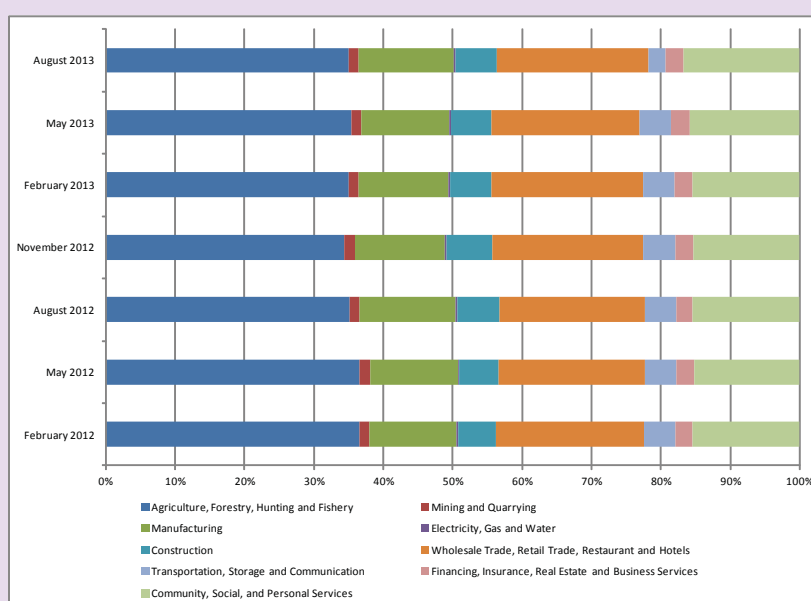
Figure 12:
Formality of workers by gender, May 2013



Source: BPS (2013) Indikator pasar tenaga kerja Indonesia: May 2013, Badan Pusat Statistik, Jakarta.

The agricultural sector is still one of the largest employers in Indonesia, accounting for 35 per cent of employment in May and August 2013. The employment situation in the agriculture sector has remained relatively steady in 2013, rather than increasing as in previous times of economic downturn. In general, structural shifts in the composition of employment in the economy have continued to gradually unfold. However, manufacturing employment has declined from the August 2012 high of 15.37 million people, to 14.88 million people in August 2013. The construction sector has also suffered a decline. Further data on trends are needed to better understand the causes of the decline.

Figure 13:
Employment by economic sector, 2012-2013 (per cent)



Source: BPS (2013) Indikator pasar tenaga kerja Indonesia: August 2013, Badan Pusat Statistik, Jakarta

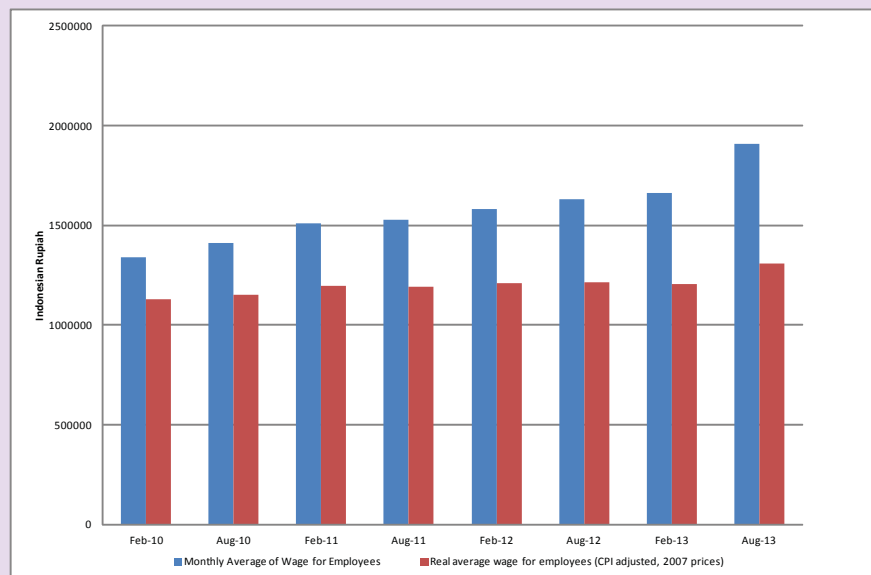
In the labour and social trends report for 2012, it was reported that employment in the manufacturing sector had been growing rapidly, and that it was at its highest in terms of sectoral share and absolute number in over a decade in August 2012. Results from February, May and August 2013 indicate that employment highs from August 2012 have not been maintained, and comparisons of data August 2012 and 2013 indicate that employment in manufacturing has declined by nearly half a million jobs. In August 2012 employment in manufacturing was particularly high for women, who predominantly work in labour intensive manufacturing (textiles, leather, garment and footwear), and the loss of employment in this sector in 2013 is likely to have increased women's vulnerability. It is probable that the sluggish employment growth in manufacturing has been influenced by deteriorating macroeconomic indicators in 2013 and recent increases in minimum wages in provinces with labour intensive manufacturing hubs. These trends have raised concern among investors on the stability of prices for conducting business in Indonesia.

1.3 Wage trends

The average nominal wage for employees in Indonesia increased from IDR 1,630,193 in August 2012 to IDR 1,909,478 in August 2013. This is a substantial increase in the average nominal wage, and a departure from moderate increases in average wages over the last three years (see figure below). Real average wages for employees, which are calculated by adjusting for inflation, have only experienced marginal increases or remained stagnant in recent years. The trend shows that while there have been increases in nominal wages, growth in average real wages has been subdued.

Average wages have increased over time, while real wages have lagged

Figure 14:
Growth of nominal and real average wages for employees, 2010-2013¹¹



Source: BPS (2013) Labourer situation in Indonesia: August 2013, Badan Pusat Statistik, Jakarta.

*Real wages are ILO calculations based on BPS data.

Wage trends, as mentioned above, can be analyzed in both nominal or real terms. In general, in developed economies the growth of real wages has fluctuated within a narrow range of plus/minus one per cent, while in Asia, annual real wage growth has typically been over 5 per cent (driven largely by China).¹² In Indonesia growth in real average wages has been lower than in other developing countries, with nominal wages growing at an average of 8 per cent and real wages growing at an average of 2.5 per cent year on year since 2010. This trend is in contrast to recent growth in minimum wages.

Growth in real average wages has been lower in Indonesia than in other countries in Asia

¹¹ Real wages were calculated using the suggested method of from ILO (2012) Decent work indicators: concepts and definitions: ILO manual (First edition), International Labour Office, Geneva. The formula is "average real earnings = average nominal earnings / CPI * 100.

¹² ILO (2013) Global Wage Report 2012/13: Wages and Equitable Growth, International Labour Office, Geneva.

The highest average nominal wages for employees were found in the mining and quarrying sector, followed by the financing and banking sector. Wages were lowest in the agriculture sector. Between 2012 and 2013, wage increases were higher in the financing and banking sector, and lower in the agriculture sector. This indicates that sectors with higher average nominal wages also have higher annual wage increases, while sectors with lower wages also have lower annual wage increases.

Average nominal wages in the manufacturing sector were estimated at IDR 1,716,855 in August 2013 for employees, a 23.5 per cent increase from the same period last year. Men and women received an average wage of IDR 1,899,128 and IDR 1,399,547 respectively, with women's wages estimated to be 73.7 per cent of men's wages, indicating that a pay inequalities between male and female employees are persisting. Moreover, the gender pay is greater in the manufacturing sector than it is throughout the economy in general, with the average wages of women 78.4 per cent of the wages of men, while in the manufacturing sector the gap is greater. Reasons behind the gender pay gap can be attributed towards differences in working hours, educational attainment, occupation as well as discrimination. For example, male and female employees in manufacturing worked an average of 37 hours and 41 hours per week in August 2013. However, research on discrimination among workers in manufacturing indicates that approximately 31 per cent of the gender pay gap is unexplained and therefore could be attributed to discrimination.¹³

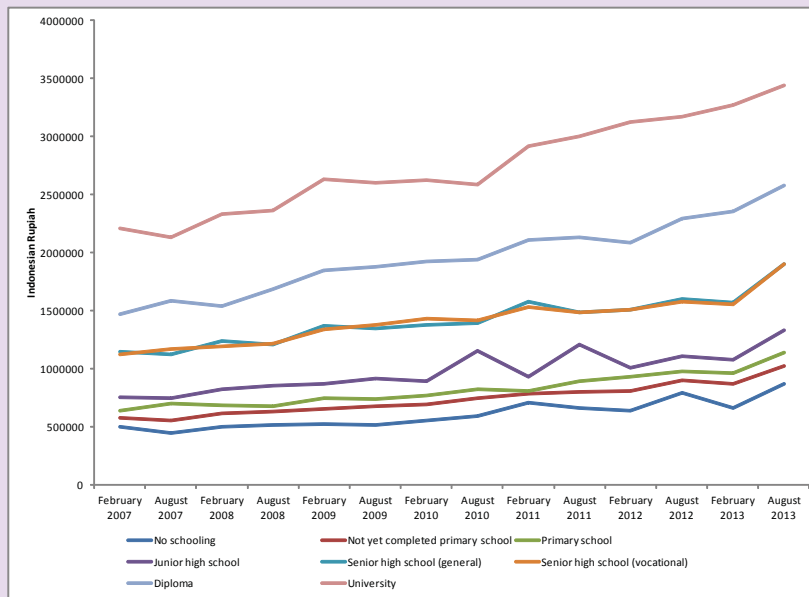
*Gender and regional
disparities in wages
persist*

Recent increases in provincial minimum wages, which were high in Jakarta and Kepulauan Riau, have influenced the average wage growth rates in these provinces in 2013. Similarly, provinces with lower growth rates in minimum wages also had lower growth in average wages. In response to trends in wages growth, there are indications that investors are establishing offices in provinces with lower wages. For example, information from Better Work Indonesia indicates that garment factories with their primary operations in the greater Jakarta area are opening factories in Semarang, taking the total number of garment factories in Semarang from 40 in 2012 to 60 in 2013.

Employees with a university degree were estimated to have the highest average wage, at IDR 3,443,451 in August 2013, with an increase of 8.5 per cent in nominal terms since August 2012. Employees with a diploma also experienced growth in their nominal wages from 2012 to 2013, and continued to earn more than the national average wage.

13 ILO (2013) Labour and social trends in Indonesia 2012: Working for a sustainable and equitable economy, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Figure 15:
Average nominal wages by educational attainment for employees, 2008-2013



Source: BPS (2013) Labourer situation in Indonesia: August 2013, Badan Pusat Statistik, Jakarta.

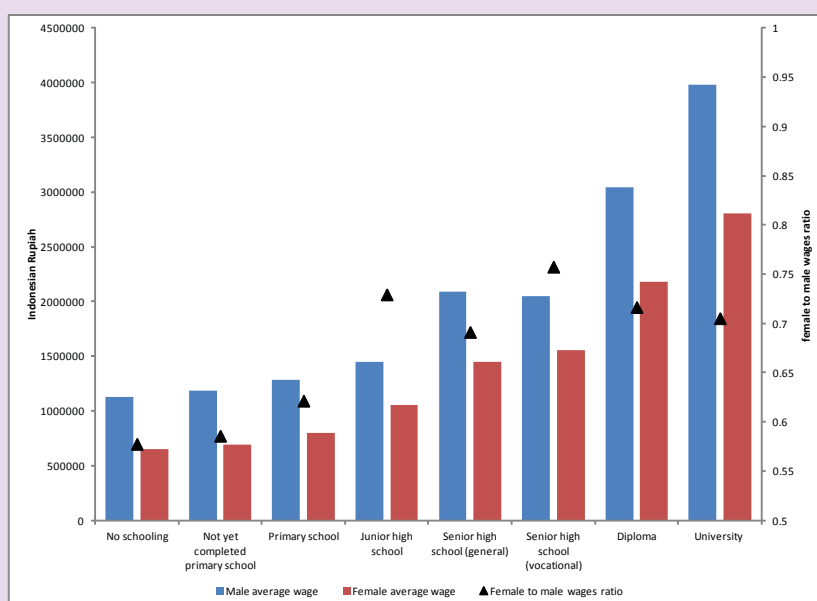
However, workers with a lower level of educational attainment faced a more difficult situation, with wages for those with no schooling, primary schooling, and senior high school growing at slower rates than those with higher educational attainment. This is concerning as it indicates that most of the growth in wages is among employees with higher levels of educational attainment, meaning workers with lower educational attainment (and lower income earnings) are disproportionately facing problems associated with stagnant wage growth. Of particular concern are workers with junior high school education or lower, as their average nominal wage is less than the average national minimum wage.

Workers with higher educational attainment have higher wages and higher wage growth rates than less educated workers

There continues to be a discrepancy between the average nominal wages for men and women across all education levels, with the gender pay gap being especially high among employees with a low education level as well as those with tertiary education (reflected in a low female to male wages ratio). As mentioned earlier, although some of this gap can be explained, a portion remains unexplained and raises a question pertaining to gender discrimination in Indonesia. Further efforts are needed to improve equality in salaries between men and women, with particular focus on low skilled workers and the highly-skilled, tertiary-educated employees. It is likely that strategies are needed to support women to enter non-traditional areas of study in tertiary education, such as medicine, law and engineering, where wages can be higher.

Furthermore, by combining the analysis of trends in educational attainment and wages by gender, it seems that women employees with low education are likely among one of the groups that faces the most pressure on their purchasing power due to weak growth in wages, which does not provide sufficient compensation for increases in the consumer price index.

Figure 16:
Average nominal wages by educational attainment and gender, August 2013



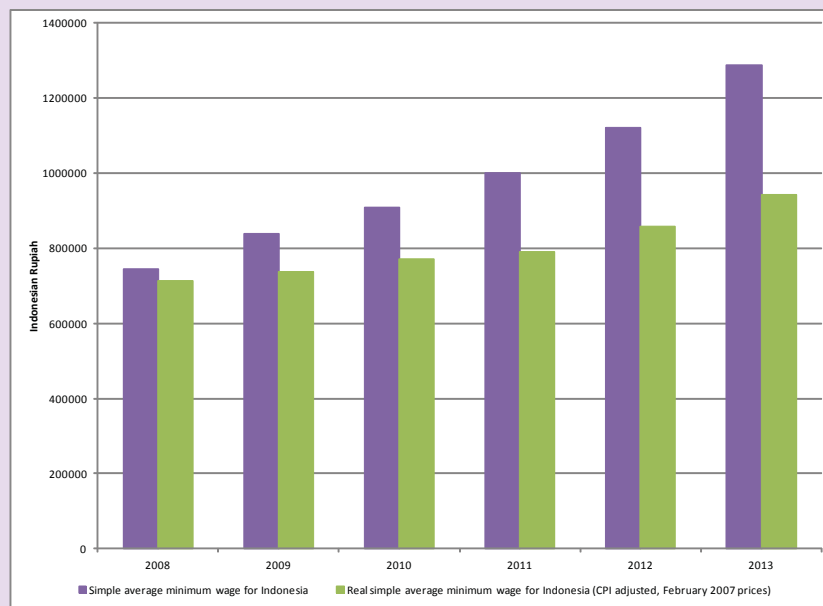
Source: BPS (2013) Labourer situation in Indonesia: August 2013, Badan Pusat Statistik, Jakarta.

High inflation in 2013 has been associated with real losses to minimum wage growth

Wages are particularly important as they are the main source of income for many households. In Indonesia, wage bargaining is often driven by minimum wage setting mechanisms, rather than sectoral and occupational wage structures. The end of 2012 saw significant increases in minimum wages in selected provinces throughout Indonesia. This raised concern among investors on the stability of fixed prices for conducting business in Indonesia and saw some investors considering firm relocation and job shedding options. Employers have indicated that minimum wage increases have been greater than productivity increases, and this may result in a decline in competitiveness and impact on business viability. In response workers have raised the issue of the need for minimum wages to ensure decent minimum living needs.

The simple average nominal minimum wage for Indonesia was estimated at IDR 1,288,242 in 2013, an increase of 14.87 per cent from 2012. However, high inflation in 2013 has been associated with real losses to minimum wage growth. Analysis of the growth rate of the minimum wage indicate that although minimum wages have substantially increased in nominal terms, inflation has eroded a proportion of these gains.

Figure 17:
Minimum wages in nominal and real terms, 2008-2013¹⁴



Source: BPS (2013) Trends of selected socio-economic indicators of Indonesia, Badan Pusat Statistik, Jakarta. *Real wages are ILO calculations based on BPS data.

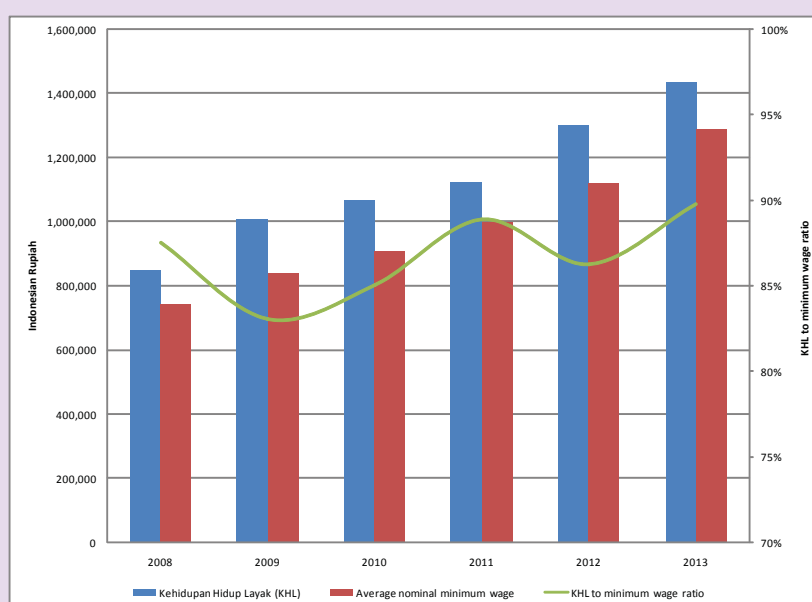
In order to set the provincial minimum wage, each province's wage council, which consists of workers, employers and government, as well as advisors from academia, undertake a survey to determine the wage that is needed to obtain a "minimum decent standard of living" or the "kebutuhan hidup layak" (KHL).¹⁵ The Governor of each province sets the provincial minimum wage, following recommendations from the Provincial Wage Council. Ideally, the minimum wage should be equivalent to the KHL. In spite of this, over time a gap between KHL and minimum wages has emerged (see figure below). However, there appears to be some progress with the gap between the average KHL and average minimum wage narrowing to 89 per cent in 2013. The largest discrepancies between the KHL assessment and the minimum wage were found in South Sumatra, Bali, and in the Maluku Islands in 2013.

There have been moderate rises in wages, but most increases have been around the minimum wage

¹⁴ Real wages were calculated using the suggested method of from ILO (2012) Decent work indicators: concepts and definitions: ILO manual (First edition), International Labour Office, Geneva. The formula is "average real earnings = average nominal earnings / CPI * 100.

¹⁵ The minimum decent standard of living is known in Bahasa Indonesia as the "KHL" (kebutuhan hidup layak).

Figure 18:
Trends in minimum wages and the Kehidupan Hidup Layak (KHL)), 2008-2012¹⁶



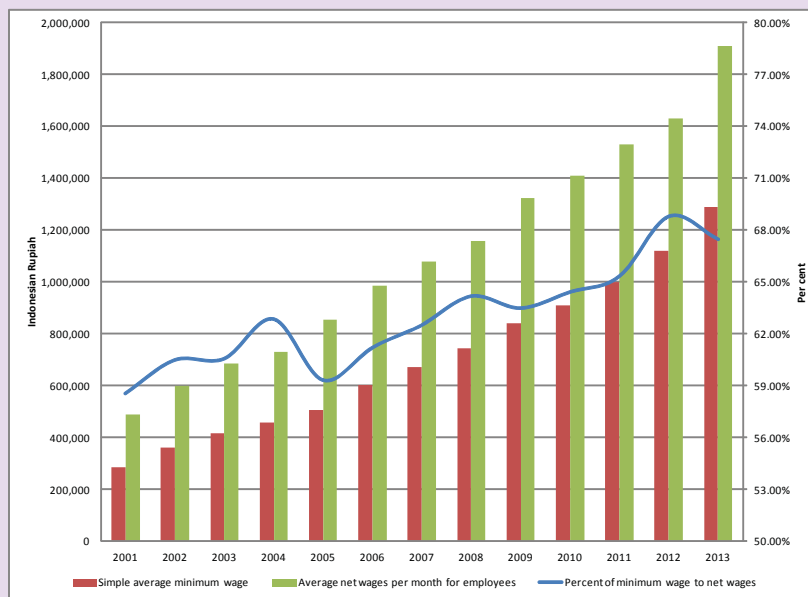
Source: BPS (2013) Trends of selected socio-economic indicators of Indonesia, Badan Pusat Statistik, Jakarta.

President Susilo Bambang Yudhoyono announced the Presidential Instruction (Inpres) No.9/2013 regarding the setting of the minimum wage in 2013. The instruction consists of several key elements, including specifications on developing the minimum wage based upon the KHL assessment, productivity as well as economic growth. The instruction highlights the importance of the KHL assessment in setting the minimum wage, and if the instruction is effective, the gap between the KHL assessment and the minimum wage should continue to close rapidly over time.

While minimum wages have been increasing, growth in average wages has been slower and over time the gap between average minimum wages and average nominal wages has been narrowing. To further illustrate, in 2001 the minimum wage was 58.5 per cent of the average wage. By 2013 this ratio had increased to 67.5 per cent. This trend reflects the focus on minimum wage bargaining and that the minimum wage may have become more binding in recent years, with its adjustments having a greater impact on wage costs and the labour market. This trend also highlights that there is a need for strengthening wage bargaining by sector and occupational structures to promote the growth of average wages.

¹⁶ The figure uses the simple average KHL and simple average minimum wage for Indonesia in order to show national trends, however, it is noted that the KHL and the minimum wage assessments are undertaken only at the province or district levels.

Figure 19:
Trends in minimum and average wages for Indonesia, 2001-2013

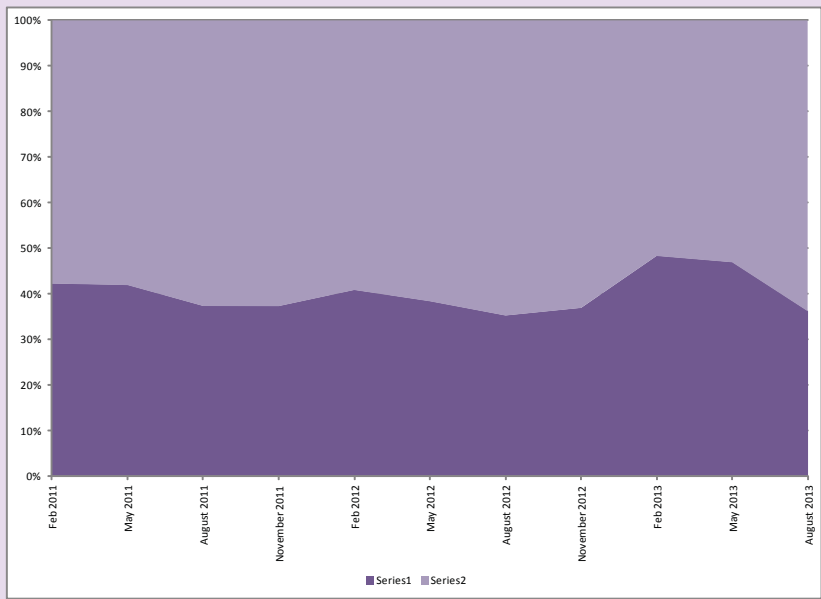


Source: BPS (2013) Labourer situation in Indonesia: August 2013, Badan Pusat Statistik, Jakarta.

* ILO calculations using average wages from August Sakernas.

The minimum wage is the lowest wage that is permissible by law. However, due to the nature of the labour market in Indonesia, with high levels of vulnerable employment and informality as well as the limited capacity for labour inspection, not all employees receive the minimum wage. In August 2013, the percentage of employees earning less than the provincial minimum wage was estimated at 36.2 per cent. Trends in the number of employees receiving a wage that is above or below the minimum wage display a cyclical pattern throughout the year. More workers receive wages above the minimum wage in August than in February, and this may reflect the minimum wage implementation over the course of the year. The following chapter discusses the issue of equitable development and access to protection in more detail.

Figure 20:
Percentage of employees below and above the provincial minimum wage, 2011-2013



Source: BPS (2013) Labourer situation in Indonesia: August 2013, Badan Pusat Statistik, Jakarta.

Reinforcing the role of decent work in equitable growth

Employment plays an essential role in economic growth and social development in society. The importance of employment is recognised within the framework of the Millennium Development Goals at the global level and is reflected in the development strategies of governments throughout the world. In addition to providing income, employment paves the way for broader social and economic advancement, strengthening individuals, their families and communities. Such progress, however, hinges on the decency of work.

Promotion of the decent work agenda at the global level is realized in countries through national “Decent Work Country Programmes” (DWCPs). The DWCP is an ILO constituent-owned document that identifies core priority areas for supporting progress towards decent work for all. Indonesia’s DWCP 2012-15 prioritizes decent work in three areas, namely, employment creation, industrial relations and social protection. This year’s labour and social trends report uses the decent work country programme of Indonesia as a framework for discussing trends. In addition, the discussion of trends focuses on eight areas of critical importance for promoting the decent work agenda that have been identified by ILO at the global level, which include:

- Promoting more and better jobs for inclusive growth;
- Jobs and skills for youth;
- Decent work in the rural economy;
- Productivity and working conditions in SMEs;
- Strengthening workplace compliance through labour inspection;
- Protection of workers from unacceptable forms of work;
- Creating and extending social protection floors;
- Formalization of the informal economy.

Productivity is a key challenge, along with worker vulnerability

*Promoting equitable
growth through
decent work can
provide solutions*

Reoccurring themes throughout section one of this chapter on employment creation relate to the issue of productivity. Trade policies and infrastructure investment have boosted productivity and employment growth. However, at the micro level, gains in labour productivity have been experienced unevenly by firms of differing sizes and there are indications of an increasing skills mismatch. Labour market institutions, particularly active labour market programmes, skills policies and labour market information systems, therefore have an important role to play in reinforcing access to decent work for equitable growth.

Section two of this chapter on industrial relations picks up on the importance of labour market institutions, with particular focus given to the role of labour inspection for improving the employment conditions of vulnerable workers. Section three of this chapter on social protection highlights the issue of workers' protection and discusses domestic workers as a case in point. Both sections two and three raise concerns on vulnerable workers being able to access the protections to which they are entitled. This situation emphasizes the need to promote equitable growth through decent work.

**DWCP 2012-15 Objective 1:
Employment creation for inclusive and sustainable growth**

The first objective of the DWCP focuses on employment creation for inclusive and sustainable growth. Five work areas are identified under this objective, including:

1. Mainstreaming of employment in macroeconomic, labour and social policies through sound labour market analysis and tools.
2. Improved policies and programmes to better equip young women and men entering the world of work.
3. Optimized employment outcomes of public and community investments.
4. Improved policies and programmes on entrepreneurship, business and cooperative development for job creation including financial inclusion.
5. Workers' skills are upgraded through demand-based and competency-based training to better meet the labour market needs.

2.1 Promoting more and better jobs for inclusive growth: Trade and employment

With the steady expansion of economic liberalization globally, greater economic openness has increased the exchange of goods and services between nations. Exposure to international trade has imposed structural changes upon economies and labour markets, and lead to members of civil society demanding that transitions be more just and equitable in delivering their outcomes.

The ILO's Declaration on Social Justice for a Fair Globalization adopted on June 2008 responds to global concerns and acknowledges that trade and financial policy both impact on employment. The Declaration highlights the need to assess the effects of free trade on the labour markets in both developed and developing countries due to the large number of workers that have to change jobs as a result of structural adjustments. It emphasizes that a better understanding of the impact of trade on employment can allow for development of labour market policies that can mitigate the negative effects and optimize the positive effects of free trade.

Indonesia has been reforming trade policies and gradually liberalizing its economy since the late 1960s. Liberalization has progressed since the creation of the ASEAN Free Trade Area (FTA)¹⁷ in early 1992. With the ASEAN FTA (AFTA), Indonesia has liberalized much of its trade with other countries in South-East Asia through the "Common Effective Preferential Tariff for AFTA" scheme. Together with other ASEAN countries, Indonesia has also signed trade agreements with non-ASEAN countries. The ASEAN-China Free Trade Area (ACFTA), ASEAN- Australia-New Zealand Free Trade Agreement (ANZFTA) and ASEAN-India Free Trade Agreement are among the most important of these free trade agreements. The purpose of these agreements is to liberalize trade and investment as well as to strengthen economic cooperation between participating countries through tariff elimination.

The effects of trade on employment in Indonesia are still being understood. However, there is a general agreement among most studies of positive impacts on employment, wages and household income in the long-term. For example, research finds that liberalization policies, along with economic growth, have brought a number of positive effects on the labour market, such as increase in formality, industrialization and real wage growth for employees.¹⁸ This research also indicates that anti-sweatshop

Economic liberalization imposes structural changes upon the labour market

Many studies find that trade liberalization has been positive for the economy and for jobs

17 A Free Trade Agreement is a bilateral or regional treaty in which several countries cooperate to reduce and eliminate tariff barriers for trading goods and services. Trade liberalization aims to ensure that the countries involved will benefit from increase in trade activities.

18 See ILO (2012) Trade and Employment: From Myths to Facts, International Labour Office, Geneva.

campaigns in the 1990s that were associated with substantial wage increases did not undermine employment growth in semi-skilled employment in export sectors.

In order to better understand the effects of trade on employment, the ILO designed a methodology combining the use of Indonesia's social accounting matrix (SAM) with the "SMART Model" (a partial equilibrium trade simulation model).¹⁹ The simulations use the SMART model to reduce tariffs to zero for imports and exports and inject these results into the SAM to determine the employment impact of tariff changes. The table below summarizes the main results from the SAM/SMART simulations of the ACFTA, ANZFTA, and the ASEAN-India FTA, focusing on the employment impact of bilateral tariff elimination.

Table 3:
The employment impact of bilateral import tariff elimination in 2009

Country	Description of the simulation results
Australia	- Trade liberalization in the form of import tariff exemption with Australia is likely to result in a trade deficit for Indonesia of USD 56.8 million in 2009. - There is an increase of Indonesian exports in the following sectors: mining and quarry with a surplus of USD 4.9 million; spinning industry, textile, clothing and leather with a surplus of USD 29.3 million; industrial wood & articles of wood with a surplus of USD 26.4 million as well as chemical fertilizer industry, result of clay, cement registering a surplus of USD 5.4 million. - Free trade between Indonesia and Australia is likely to have a slight negative impact on employment in the short term for Indonesia, estimating the loss of approximately 33,242 full time equivalent jobs. - The sectors that can take advantage of trade liberalization between Australia and Indonesia in term of employment opportunities, including the manufacture of wood and wood productions, spinning industry, textile, clothing and leather and mining and quarrying others. The losing sectors in terms of employment opportunities include the crops sector and plantations sector.
India	- Free trade between Indonesia and India is likely to increase Indonesia's exports to India by USD 1.45 billion in 2009, mostly due to the low prices of various commodities in Indonesia. The main increase is in food, beverages and tobacco, followed by coal mining, metals and oil and finally other crops. - Trade liberalization resulted in an additional output value for exports and imports between Indonesia and India, mostly in the manufacturing of food, beverages and tobacco.

¹⁹ The social accounting matrix describes Indonesia's economic and social conditions and their interconnection.

Country	Description of the simulation results
China	- As a result of increased exports a positive effect can be seen on the labour market, with an overall gain of 965,950 jobs. Imports are expected to lead to the loss of 44,660 jobs, however, overall net gains are still positive. - Free trade between India and Indonesia is likely to have a positive effect on job creation, especially in the agricultural sector.
	- The impact of Indonesia's export performance in the context of free trade records an export value of USD 580 million. - Trade liberalization in the form of import tariff exemption with China is likely to result in benefits for the primary sector, but an overall deficit due to impacts on the secondary and tertiary sectors. - Free trade leads to an increase of Indonesian's exports to China which in turn encourages the expansion of job creation with 235,429 jobs. However, imports are estimated to lead to the loss of 442,064 jobs. - Free trade between Indonesia and China has led to an increase in employment opportunities for three sectors: other crops, industrial sector of wood and articles of wood and coal, mining, metals and oil sector. At the same time, declines in employment are likely to be seen in agriculture, trade, industry, spinning, textile, clothing and leather sector. The overall impact of trade with China is negative for employment, with a loss of approximately 188,635 jobs in 2009.

Source: ILO (2013) Analisis simulasi social accounting matrix (SAM) dan the SMART model, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

On an aggregate level, trade liberalization is perceived to have strengthened job opportunities and increased employment in the formal economy in Indonesia. However, the benefits may not have been realized evenly across sectors, professions and regions, with different factors facing detrimental effects from trade liberalization. It is therefore important to understand who the losers and the winners of trade changes are, as the transition between winning and losing sectors is not automatic, even less so from an employment perspective. For example, female urban worker losing a job in the textile sector is unlikely to become a palm oil farmer in a rural area. Labour mobility depends on, among other things, geographic and occupational mobility. Understanding the employment implications of trade provides space to formulate policies that can mitigate social costs and maximize the potential benefits of trade. Strengthening social protection also plays an important role herein.

Trade liberalization is experienced differently by different workers and sectoral strategies are needed to mitigate outcomes

2.2 Promoting more and better jobs for inclusive growth: Labour market information

The Ministry of Manpower provides a job matching service

The Directorate General of Employment Placement and Development (*Binapenta*) at the Ministry of Manpower and Transmigration is responsible for employment promotion and employment placement. As part of its work, *Binapenta* has a labour market information system for job seekers and job vacancies, and provides online job-matching services through *Bursa Kerja Online*.

The Directorate for the Development of the Labour Market under *Binapenta*, is responsible for labour market development, with four divisions each responsible for labour market information, labour market analysis, occupations analysis and the development and support of an online job-matching platform respectively. The online job-matching platform, *Bursa Kerja Online*, provides a matching service between employers and job seekers. According to Law No. 07 of 1981, all employers are obliged to register job vacancies with the district office that handles labour force issues in the area. These positions are then matched to a database of registered job seekers. From this data, the *Binapenta* then provides statistics on job seekers and job vacancies in the labour market. Despite the fact that the service is obligatory, participation rates on both the supply (employer) and demand (job seeker) are low due to issues arising from decentralization, technological issues as well as employers' and workers' reluctance to utilise the service.

Labour market information (LMI) services are of great interest to government, employers and workers the world over as they provide information on trends relating to skills, occupations and sectoral development. Information on labour shortages or surpluses, skills mismatch, occupational trends, as well as statistics on unemployment rates and labour market participant are important for supporting the realization of job-rich growth.

There are two main types of LMI globally. The first data set is collected by a country's relevant national statistics body. In Indonesia, Statistics Indonesia collects and publishes macro employment indicators through its "labour force survey". The second source of LMI is administrative data, and this is collected from job seekers and employers with vacancies from the ministry responsible for labour. As mentioned, the Ministry of Manpower and Transmigration (MOMT) is responsible for collecting administrative data on the labour market from registered job seekers and employers with vacancies. This data has the potential to provide an interesting running picture of the national job market.

Job seekers can register at entities in each province called "*lembaga penempatan tenaga kerja swasta*". These private institutions have to get

permission from the Government to provide the job matching service. In 2011 there were 97 institutions that were granted permission to provide job-matching services. Of these 24 were in the Riau Islands, 19 were in DKI Jakarta. Interestingly there were 9 in Papua but only 5 in Central Java.

The total number of job seekers registered with employment offices was 1,941,434 in 2011. This is very much smaller than the total estimated number of unemployed people in Indonesia, which was 8,319,779 in August 2011. Furthermore, trends in the data indicate a decline in the number of registered job seekers over time (see table below).

Job seekers register at centres called “lembaga penempatan tenaga kerja swasta”

Table 4:
Registered job seekers by education level for 2009–2011

Education	2009		2010		2011	
	Total	%	Total	%	Total	%
≤Primary school	507,459	8.06	267,181	6.48	41,477	2.14
Junior high school	765,486	12.16	237,373	5.75	189,836	9.78
Senior high school	2,836,995	45.06	2,705,485	65.57	1,045,439	53.85
University/College	2,186,029	34.72	915,808	22.2	664,682	34.24
Total	6,295,969	100	4,125,847	100	1,941,434	100

Source: Dit. PKK Ditjen Binapenta.

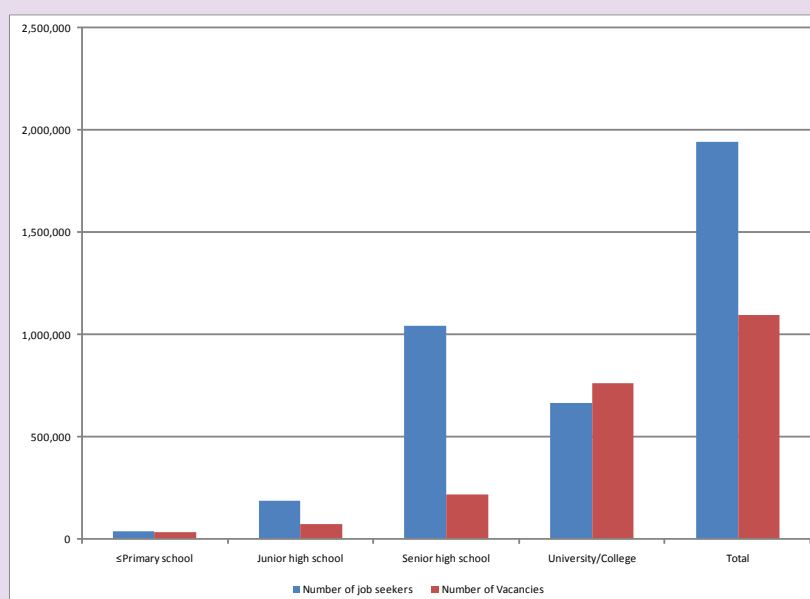
Job seekers with senior high school education dominate the total number of registered job seekers, recording over 50 per cent of the total number of job seekers. The second largest group of job seekers were individuals with tertiary education. In terms of age, the majority of the registered job seekers in 2011 were under 29 years of age, with men tending to be unskilled job seekers and women tending to be skilled job seekers.

Data indicates that there is a skills mismatch between job seekers and job vacancies

In terms of regions, Central Java had approximately 527,521 registered job seekers in 2011, followed by East Java with 464,899 job seekers and West Java with 264,481 job seekers. However, there does not seem to be a positive relationship between the supply and demand of jobs and the number of job service centres, with Riau having 24 centres but only 423 vacancies in 2011, and Central Java having 5 centres but over 384,000 vacancies and 527,521 job seekers in the same period.

The number of registered job vacancies was approximately half that of the number of registered job seekers in 2011. However, the proportion of registered job vacancies for workers with a tertiary education was in surplus when compared to the number of job seekers with a tertiary education. In general, the number of registered job openings for workers with a primary education, junior high school and senior high school has been falling, while vacancies for tertiary education have increased (see figure below). This situation indicates that there is a mismatch between the education level of job seekers and requirements of the respective job vacancies.

Figure 21:
Number of formal job seekers and job vacancies in 2011



Source: Dit. PKK Ditjen Binapenta.

Although most jobs are found independently of the job seeker and vacancy registration systems, analysis of the data indicates that unemployment in Indonesia is in part caused by a skills mismatch between registered job seekers and the vacancies on offer. It is likely that the lack of labour market information and wide spread informal recruitment processes exacerbate the problem of mismatch.

In 2011, the number of successful job placements was 949,030, a decrease of 47.60 per cent on the previous year. The dominant education level represented in the placements was tertiary educated job seekers, representing 48.5 per cent of total placements. Interestingly, successful placements among the tertiary educated group have been increasing, while successful placements for those with lower levels of educational attainment have been decreasing.

Table 5:
Total jobs with filled vacancies for 2009-2011

Education	2009		2010		2011	
	Total	%	Total	%	Total	%
≤Primary school	296,044	11.47	266,372	16.44	29,087	3.43
Junior high school	339,762	13.16	146,709	9.06	60,915	7.17
Senior high school	1,683,805	65.22	873,662	53.93	350,226	41.25
University/College	262,059	10.15	333,379	20.58	408,802	48.15
Total	2,581,670	100	1620122	100	849,030	100

Source: Dit. PKK Ditjen Binapenta.

Women accounted for more successful job placements than men in 2011, with females accounting for 54.55 per cent of job placements. Interestingly, although there were more female job seekers with a university degree than men, there were a higher number of men recruited through the job placement for university positions. In terms of industry, most placements were made in the agriculture, fishing and forestry, manufacturing and social services industries, reflecting the high number of job offers in those industries.

Support is needed to increase jobs seekers and employers use of formal job recruitment methods

As job seeker and vacancy registration systems are currently playing a limited role in getting people into work, it is recommended that the Ministry of Manpower from the national level work with the regional offices to increase jobs seekers and employers use of LMI and formal job recruitment methods by improving access to the system. In addition, the Ministry should provide leadership for and engage in close contact with private providers, to ensure that the services they provide are of a desired quality and that labour statistics are collected and delivered on time to the Ministry. Finally, to build a more enabling environment for employment services in Indonesia, the Ministry may consider undertaking a review of the legal context to ensure that it follows best practice and facilitates the effective functioning of these institutions. The functionality of job seeker and vacancy registration systems within a decentralized system should also be assessed.

2.3 Jobs and skills for youth: Active labour market programmes and youth

In Indonesia, youth employment outcomes have been improving in recent times. The pattern of economic growth between 2006 to 2012 is likely to have played an important role in improving youth employment outcomes. However, these gains are largely associated with economic growth, and may not be maintained in economic downturn. To further illustrate, formal economy employment has been growing in Indonesia over the last number of years and youth have been effective at accessing emerging formal economy employment opportunities. Analysis of status in employment by age reveals that youth workers (15-24 years) are more likely to be on employee contracts than workers on average, with 49.8 per cent of workers aged 15-24 and 36.4 per cent of all workers on wage employment contracts. Indonesia's youth unemployment trends also show a decline in unemployment from approximately 30 per cent in August 2006 to approximately 19 per cent in May 2013. Despite the progress, enhancing the quantity and quality of jobs for youth remains critical in Indonesia.

Youth become particularly vulnerable during economic downturn

The Ministry of Planning has identified five strategies to enhance employment creation for young women and men, namely:

1. Policy coherence for optimizing youth educational attainment;
2. Skills improvement for employability;
3. Improve the quality of apprenticeships;
4. Increase opportunities for youth entrepreneurship; and
5. Improve knowledge sharing, in particular access to LMI.

Active labour market programmes provide support for getting youth into work

These strategies provide a framework for the further development of programmes and policies in this area. Many of these strategies relate to the strengthening of active labour market policies and programmes (ALMPs), which include a range of policies and programmes intended to enhance employability while providing social protection. ALMPs have been used extensively throughout the world, with the relative importance of different types of ALMPs changing frequently in response to the economic cycle and human resource development needs. These programmes have benefits such as facilitating supply-demand matching, supporting labour force participation, increasing productivity, and supporting vulnerable groups' reintegration into the labour market, among others. However, these interventions can be vulnerable to employment gains that would have occurred anyway (deadweight loss), displacement and substitution effects (particularly on wage subsidies). Nevertheless, even if these effects are found, ALMPs are often justifiable on equity grounds.

ALMPs can be broadly divided into five types,²⁰ including job search support, job creation schemes, wage subsidies, investment in human capital and self-employment. The table below discusses some findings from evaluations of ALMPs that have operated across the world, with particular focus given to benefits for youth. In general, factors that impact on the success of ALMPs include the duration of support offered (longer is better), the appropriateness of design for target beneficiaries, and close linkages between the programme and employers. Effective ALMPs understand and respond to contextual deficits in the macroeconomic and microeconomic climate, as well as individual deficits in areas of experience, skills, information and access. In recent times, the most innovative ALMPs have been combining different factors from the five ALMP types into one programme - eg., training with job creation or job search with training.

20 Labour market programmes and policies include "active" and "passive" programmes. Passive programmes include unconditional unemployment assistance / insurance, redundancy compensation, bankruptcy compensation, and early retirement.

Table 6:
Active labour market programmes – summary of evaluations

Active labour market programme	Programme description
1. Job search support, including career counselling, jobs fairs, etc.	Job search is beneficial for certain job seekers, but contingent on favourable labour market conditions. These programmes are often seen to be low cost and no less effective than other options. It is often evaluated to be a cost-effective support strategy for youth.
2. Job creation schemes, which can be temporary / adhoc, for specific time times (eg., 6 months-2 years) or operate in a countercyclical / guarantee manner.	Evaluations find that these programmes can have useful countercyclical effects. Tracer studies reveal mixed outcomes. The design of job creation schemes has improved in recent years due to the incorporation of needs analysis, skills training, job search assistance and more attention to local labour market requirements in the design of job creation schemes. The results of these programmes are contingent on participant groups and economic circumstances. For employability improvements, a longer employment duration (6 months-2 years) has better outcomes than 10 - 30 day programmes.
3. Wage subsidies paid to private or public sector employers - which provide subsidies to enhance the employment prospects of particular groups.	Wage subsidies have been found to be one of the most effective ALMPs, in terms of increasing employment outcomes and earnings, mostly due to the length of duration and placement in enterprises that qualify. However, these programmes have been associated with deadweight ²¹ and substitution effects.
4. Investing in human capital formation to assist with skill formation and increase productivity.	Training programmes are the most widely used and diverse ALMP, incorporating general education and vocational skills training with durations that vary. Diversity in duration and scope of programmes gives mixed results in evaluations. Training programmes are more effective if they are conducted on a small scale, designed to provide specific skills to targeted groups and conducted in close partnership with local employers. In addition, training should be certified and qualifications gained should be recognised in the labour market.
5. Self-employment, including training in business operations, business incubation support and access to finance.	Surveys of self-employment or micro-enterprise development schemes have found positive impacts on employment and earning prospects for a small group of the unemployed, who are usually relatively well educated prime aged adults. ²³ This ALMP can have a high business failure rate within 1 year, but also a lower risk of the beneficiary falling back in to unemployment.

Source: Compilation based on selected publications from the OECD's programme on "Employment policies and data - Active labour market policies and activation strategies".

²¹ Deadweight loss refers to employment gains that would have occurred anyway.

²² Prime age is referred to as the age group between 30 to 44 years of age.

ALMP are most effective when they can support youth immediately after they exit education, training or employment. That is, ALMPs are most effective when they can support the upgrading or maintenance of soft and hard skills. This helps to prevent skill decay, an issue which is associated with idleness and long-term unemployment. The outcomes and effectiveness of ALMPs are also closely linked to private sector involvement in programme design. In addition, it is also important to distinguish between youth that should further their educational attainment (teenagers) and youth that need to build their labour market skills and experience (young adults).

*Greater focus
needs to be given to
building synergies
between ALMPs
and the needs /
demands of the
labour market*

In general, the weaknesses of ALMPs relate to their expense, their effectiveness in reaching the target group, and their potential for deadweight loss, displacement and substitution. Furthermore, a lack of coherence between programme design and the labour market reality are common challenges for ALMPs in Indonesia. This is often due to the short-term nature of government programmes, as well as insufficient dialogue with employers' and workers' organizations. In this regard, discussions concerning a 'training fund' to bring together industries and certified training providers are ongoing.

Currently there are limited linkages and synergies between various ALMPs in Indonesia, and there are also limited linkages between ALMP programmes and the needs / demands of the labour market. The lack of synergy limits the impact of the ALMP interventions. For example, job creation programmes and entrepreneurship training programmes are provided to unemployed, underemployed and vulnerable workers, however, youth are rarely identified as the target beneficiary of these programmes. In addition, these programmes are often short-term, and provided without linking beneficiaries to job search facilities or other further post-training support options, which limits the overall effectiveness of the original intervention.

Reforms that link programmes supporting employability and skills training with registration and usage of labour market information, through creating clear entry conditionality (mutual obligation), may help to ensure that these activation strategies support youth in finding quality jobs more effectively. Additional learning from international best practices should be pooled to support the reform of strategies promoting jobs and skills for youth.

Box 3: Informal economy development through employment promotion

The Ministry of Manpower and Transmigration has a mandate for promoting the expansion of employment and development of the informal economy through programmes that provide social protection and livelihood development. To implement this mandate the Directorate for the Expansion of Employment Opportunities and the Informal Economy Development within the Directorate General for Employment Development and Manpower Placement operates five flagship programmes that support informal economy development through employment promotion programmes that target vulnerable groups - particularly the unemployed, underemployed, and the poor:

- **Padat Karya Infrastructure** - Applies labour based methods to invest in village level infrastructure that strengthen access to socio-economic services and facilities.
- **Padat Karya Productive** - Applies labour based methods to invest in village level productive infrastructure (agriculture, fisheries, livestock, rural industry) to support livelihood development.
- **Teknologi Tepat Guna** - Applies labour based methods to invest in village level appropriate technologies to support community empowerment and microenterprise development.
- **Tenaga Kerja Mandiri** - Provides training and mentoring in entrepreneurship and microenterprise development for business groups and community groups.
- **Tenaga Kerja Sukarela** - Provides assistance to business groups and community groups through supporting volunteers to provide mentoring services.

In 2013 the budget for these programmes totalled IDR 378 billion and created over 120,000 work opportunities for vulnerable households across Indonesia. The Ministry has been actively engaging in reforming these programmes in order to improve their role in the provision of social protection through employment. In this regard, the Ministry of Manpower and Transmigration adopted the ILO's "*local resource-based*" (LRB) approach in 2012 to support improvements in both the quality of assets and the quality of work opportunities generated by the Padat Karya Programme.

23 Local resource-based (LRB) approach focuses on optimising opportunities for local economies to support livelihoods by using local resources. In the context of infrastructure investment, the LRB approach strives to find an optimal balance between the use of local labour, local materials and light equipment in order to develop quality assets for communities while creating local jobs. Other features of the LRB approach include capacity building for local communities through local on-the-job training and application to integrated rural accessibility planning approaches to ensure that infrastructure investments contribute the improvement of the overall transport network.

2.4 Decent work in the rural economy: The impact of infrastructure investment

As of May 2013, the rural economy accounted for 50.5 per cent of the total labour force in Indonesia. For rural populations the quality of the transport network is a key factor associated with accessing employment and livelihood opportunities, as well as accessing or being accessed by socio-economic services. Often accessing markets and social facilities can entail long and slow journeys that involve breaks in subsistence activities and other income generating activities, which may lead to loss of earnings. Improvements in the conditions of roads, trails and bridges can have transformative effects on rural communities. For example, with improved transport systems, agricultural extension workers would be able to better reach farmers to provide them with technical know-how and advice to increase their productivity. Improved transport systems also allow producers and traders better access to markets, which can lead to improvements in income and stimulate local economic development. Better connectivity and improved infrastructure is likely to attract greater investments in rural economies, while poor transport networks are likely to hinder the growth and development of rural areas.

*When rural road
quality improves,
income also
improves*

Research on transport networks in the rural areas of Indonesia²⁴ indicates that when rural road quality improves, income also improves, especially for households that have post-primary educational attainment. More specifically, investments in transport infrastructure can have a positive impact on the household income of all farmers and substantially reduce poverty of smallholder farmers, due to the high dependency of farmers on land transport for crop distribution. Savings that farmers gain from infrastructure investment are associated with a) the reduced cost of transport, b) increased access to markets (increased frequency of market / trader trips), and c) increased volume of goods that can be transported to markets. Conversely, a deterioration in the quality of the transport network - largely due to lack of maintenance or poor quality new infrastructure - is likely to have a negative impact household income.

*Investments in roads
and bridges impacts
on livelihoods
through time and
cost savings, and
through supporting
local market and
service access*

In general, infrastructure investments impact on employment and livelihoods through time and cost savings, increasing transport safety, supporting local market access, and increasing access to social services. These investments lead to productivity increases. The impact of infrastructure investments can be optimized through the use of “integrated rural accessibility planning approaches”, which apply participatory approaches to map existing infrastructure while identifying accessibility problems and priority areas for investment within the transport network in order to

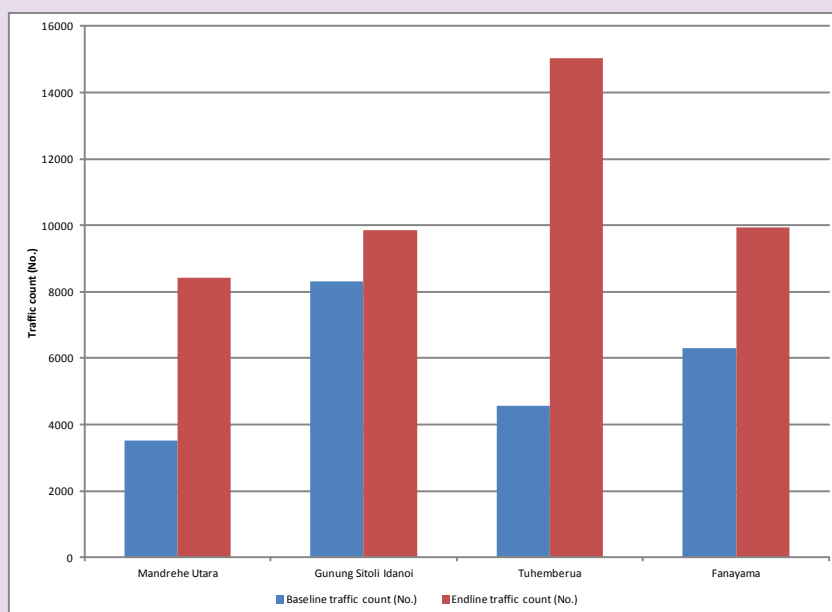
24 Yamauchi, F., Muto, M., Chodhury, S., Dewina, R. and Sumaryanto, S. (2009) *Spatial networks, labour supply and income dynamics – Evidence from Indonesian villages*, IFPRI Discussion Paper 00897, International Food Policy Research Institute, Washington D.C.

promote livelihoods and employment within target areas. Based on this rationale, the ILO implemented a programme on Nias Islands between 2009 and 2013, which supported investment in rural transport networks and the skills of the associated workers.²⁵

Analysis of the programme's baseline and post implementation data finds that the investments reduced travel time, increased traffic volumes, improved route passability, and reduced commodity transport margins. For example, the investments made in rural access improved the speed that one could travel on particular roads and trails by between 310 to 500 per cent, reducing travel time by more than half. Many of the investments made were on routes that were either severely damaged or originally poorly constructed and subsequently these roads and trails were not passable by motorbike before the reconstruction. After the construction works were completed, the roads and trails were passable in all weather conditions by motorbike.

The investments made in rural access also increased the traffic flow on the roads, trails and bridges that were constructed, with a growth in traffic flows ranging from between 18 per cent to 230 per cent (see figure below). The increased transport flows observed between the baseline and post implementation data collection periods indicate that the infrastructure investment has stimulated local activity, which is also likely to stimulate local economic development and generate local employment.

Figure 22:
Results of the traffic count survey for selected locations on Nias Islands

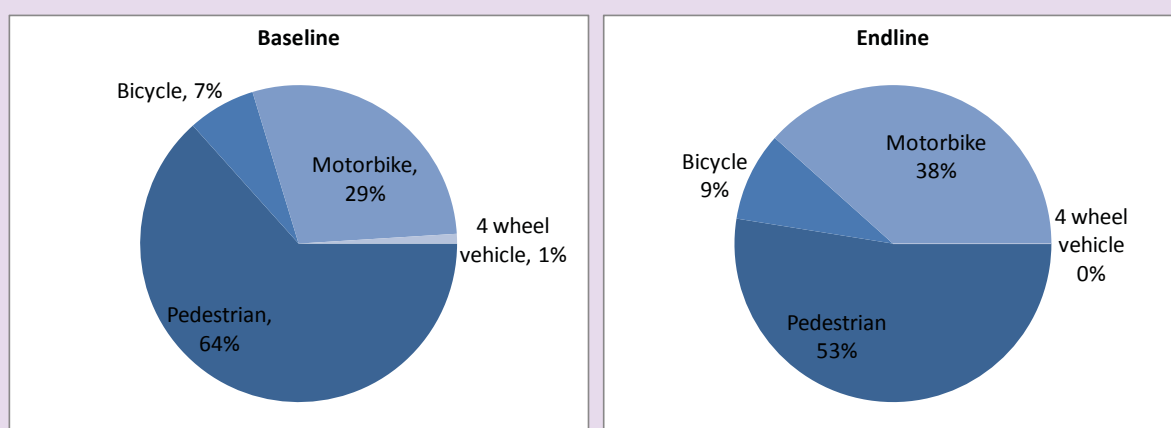


Source: ILO (2013) RACBP Endline study, ILO Country Office for Indonesia and Timor-Leste, Jakarta (Unpublished).

25 Nias Islands are very poor areas in Indonesia with underdeveloped infrastructure. This is in contrast with rural areas in Central Java and Yogyakarta that have more developed transport networks.

As the quality of the roads, trails and bridges improved, more people started to transition from travelling by foot to using a motorbike in the data collection areas. In the baseline study it was found that most people travelled by foot (64 per cent), followed by motorbike (29 per cent). Only a small portion of the sample travelled by bicycle or with a four wheels vehicle (L-300, car, pick-up, truck or tractor). In the post implementation study many people still travelled by foot (51 per cent), while the number of people travelling by motorbike had increased (38 per cent). The trend of increasing use of motorbikes is likely to continue, and also likely to provide valuable time savings for producers, traders and workers.

Figure 23:
Results of the traffic count survey by transport mode



Source: ILO (2013) RACBP Endline study, ILO Country Office for Indonesia and Timor-Leste, Jakarta (Unpublished).

The quality of roads, trails and bridges impacts on access to markets and services. In the case of health care, poor access to health services impacts on the health and wellbeing of individuals through delays that community members make in taking visits to health care facilities if roads are in poor condition. This may subsequently impact on social indicators, such as mortality and maternal health. In addition, many expenses associated with accessing health care services can be thought of both in real and in opportunity cost terms, with transport expenses often comprising the largest financial outlay of health care after expenditure on medicines and workers / producers forgoing earnings to visit health clinics.

Data collected from health clinics during the study indicates that the number of clients accessing their services had increased since the upgrading of infrastructure. In addition the time needed to travel to nearby villages for provision of outreach services had decreased. Subsequently, the frequency of outreach service provision increased. For example, in Tuhemberua outreach services from the local health clinic increased from an average of two visits per week by foot in the baseline study, to daily visits by motorbike in the post implementation study.

Data was also collected from local businesses that provided communities with general household products and groceries. In general the price of commodities remained constant over the data collection period, while the associated transport cost reduced by up to 100 per cent. For example, the fee for transporting a bag of cement to Fanayama was IDR 15,000 in the baseline and IDR 7,500 in the post implementation study.

The benefits of greater ease of access and the associated savings in travel times and transport margins may allow producers and workers to increase their productivity and improve their income in the future. Given the increasing recognition of the linkage between infrastructure investment and the creation of an enabling environment for employment promotion and livelihoods development, it would be beneficial for rural development strategies to use infrastructure investment programmes as a catalyst for stimulating local economic development. Such programmes can also be linked with other investments in human capital, such as enterprise development, skills training and mentoring to provide a more integrated approach to rural development.

Investment programmes act as a catalyst for stimulating local economic development

2.5 Productivity and working conditions in SMEs: Understanding SME challenges

Indonesia has a vibrant community of micro, small and medium sized enterprises (MSMEs), which make significant contributions to economic growth, local development, economic diversity and employment creation. It is estimated that MSMEs account for over 90 per cent of all enterprises in Indonesia and as such they provide employment and livelihoods to many. However, the data on these enterprises is relatively limited.

MSMEs account for over 90 per cent of all enterprises in Indonesia

In general *microenterprises* in Indonesia operate in the informal economy in urban or rural areas.²⁶ They work with both casual workers and unpaid family workers, in order to provide goods and services to local markets. Microenterprises are typically run by entrepreneurs with a lower educational attainment. In comparison, *small enterprises* are found in both the formal and informal economy in urban and rural areas. They tend to work with both casual labourers and unpaid family workers and have access to national markets and business services. Both micro and small enterprises have a high involvement of women entrepreneurs. Small enterprises are also typically run by entrepreneurs with a higher level of educational attainment than those of microenterprises.

26 Tulus, T. (2011) Micro, small and medium-sized enterprises in Indonesia: Their performance and constraints, Centre for Industry, SME and Business Competition Studies, Trisakti University, Jakarta.

Medium enterprises, as well as large enterprises, typically operate in the formal economy and are mostly in urban areas. They typically work with employees (waged labour) and provide goods and services to national and export markets. Large and medium sized enterprises typically hire professional managers, have professional administration systems and work with skilled and semi-skilled workers. Large and medium sized enterprises tend to have a higher involvement of male entrepreneurs.

Based on this information, it is possible to get a better understanding of employment in micro, small, medium and large enterprises through examining data from the labour force survey on employment status. The labour force survey groups employed people into seven categories as outlined in the table below.

Table 7:
Definitions of status in employment

Employment status	Definition
Own account worker	A person who works at her/his own risk without being assisted by a casual worker or unpaid worker include technical job or skill job.
Employer assisted by casual / unpaid workers	A person who works at her/his own risk and assisted by temporary worker/unpaid worker.
Employer	A person who does his/her business at her/his own risk and is assisted by at least one paid permanent worker.
Employee	A person who works permanently for an employer or institution/ office/company for a wage/salary. A worker who does not have a permanent employer is not categorized as an employee but as a casual worker.
Casual worker in agriculture	A person who does not work permanently for an employer in the agricultural sector (home industry or not home industry) and is remunerated using daily or piece rate approaches.
Casual worker not in agriculture	A person who does not work permanently for an employer in who is not in the agricultural sector (home industry or not home industry) and is remunerated using daily or piece rate approaches.
Unpaid worker	A person who works for another person without pay in cash or goods. An unpaid worker could be a family member, from the extended family unit, or outside the family unit.

Source: BPS (2012) Labour force situation in Indonesia: August 2012, Badan Pusat Statistik, Jakarta.

Based on the above definitions, own account workers and employers assisted by casual and unpaid workers are likely to be the operators of micro and small enterprises. In August 2012, approximately 18.8 million or 16.5 per cent of people were working as employers assisted by casual and unpaid workers. An additional 18.4 million or 16.6 per cent of the labour force work as “own account workers”. 29.4 million or 27 per cent of employed persons were working as casual or unpaid workers, most likely for employers in category two. Therefore, based on the information provided, it can be estimated that a minimum of 60.1 per cent of the labour force derive their employment from micro and small enterprises.

Employers in category three (see table above) hire permanent employees in category four and normally these employers are formal economy employers, and can be in small, medium or large sized enterprises. Government employees are also captured in this data. Only 3.5 per cent of those employed fall under the category of “formal economy employers” and they provide permanent employment to 36.4 per cent of “formal economy employees”. Therefore, the remaining 39.9 per cent of people employed in the labour force may work for small, medium, and large enterprises or for the Government.

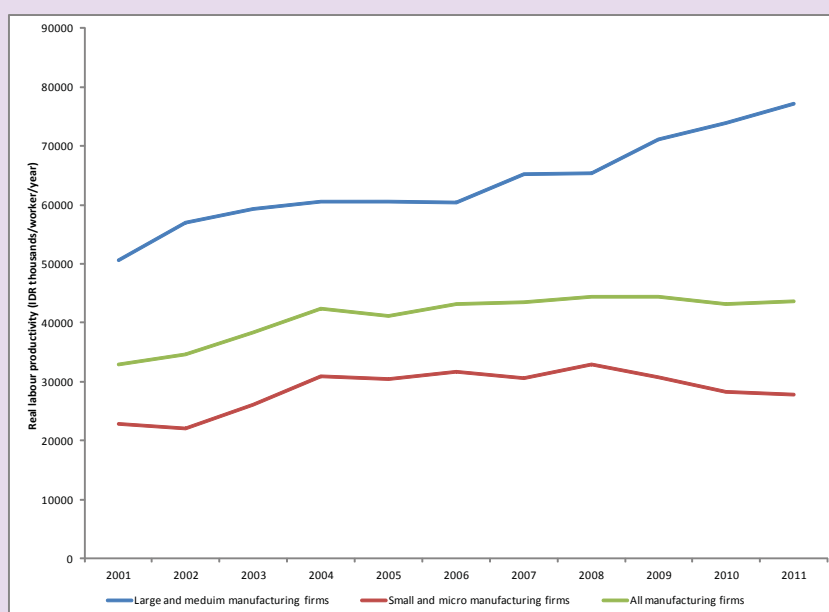
In contrast, data from the Ministry of Cooperatives and Small and Medium Enterprises estimates that over 97 per cent of those employed work in micro, small and medium enterprises.²⁷ They estimate that 90 per cent of workers work in microenterprises, 4 per cent in small enterprises and 3 per cent in medium enterprises. The remaining 3 per cent of those employed work in large enterprises. However these estimate should be read with caution as they are based on sample surveys and assume that all those who are employed are working in enterprises, including government employees.

Despite data uncertainty, it is clear that micro, small and medium enterprises are a vital part of the Indonesia economy, contributing heavily to employment and economic outcomes in Indonesia. However, low productivity within these enterprises has hindered their employment growth and the realization of their contribution to GDP. Analysis indicates that employment growth generated by micro and small enterprises has not been accompanied by a substantial increase in labour productivity (see figure below). In fact, productivity for large firms is over 200 per cent greater than the productivity of small firms, entailing a large productivity gap between MSEs and medium and large firms. This productivity gap is caused by the manual input nature of MSEs, as well as a lack of other important factors, such as limited access to skilled workers, capital and infrastructure as well as a general lack of entrepreneurial skills and know-how.

There are substantial variations in the productivity of micro and small firms and medium and large firms

27 http://www.depkop.go.id/index.php?option=com_phocadownload&view=sections&Itemid=93

Figure 24:
Real labour productivity for the manufacturing sector, 2001-2011



Source: Tadjoeddin, Z. (2013) Wages, productivity and the evolution of inequality in Indonesia: A case study on manufacturing sector, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

To further illustrate, the figure above presents data on real labour productivity for the manufacturing sector between 2001 and 2011 for large and medium firms and small and micro firms. The figure illustrates that the productivity of large and medium firms increased at a much faster rate than the productivity of small and micro firms. In fact, real labour productivity in small and micro firms within the manufacturing sector has been relatively stagnant over the last ten years.

The widening gap in real labour productivity between large firms and small firms represents a challenge for employment growth in Indonesia

The widening gap in real labour productivity between large and medium firms and small and micro firms represents a challenge for economic growth and employment growth in Indonesia. Furthermore, in the coming years the integration of the ASEAN economies, as well as free trade agreements with China and India, are likely to increase domestic competition, putting pressure on MSEs in Indonesia. In order to improve the productivity of existing MSEs, as well as promote the entry of new firms into the market, there are several important steps that need to be taken. Firstly, the Government can help to create an environment that supports the formalization of MSEs. This can be achieved through provision of “one stop shops” that provide access to business registration and related services, investing in infrastructure, and supporting investor confidence through ensuring sound industrial relations. In addition to this, policies strengthening worker protection - through expansion of labour inspection and expansion of social security - may help to bring MSEs in into the formal economy.

The second step needed to increase productivity is through boosting investment in MSEs. The Government should encourage investment by

strengthening property rights in real estate in Indonesia, as well as allowing credit bureaux to share credit histories with other financial institutions. In addition, the further efforts may be directed to the development of financial alternatives to traditional bank loans, such as the developing of venture capital, savings and credit cooperatives, micro-finance and leasing. This would provide these enterprises with greater access to capital and trigger investment in the area, which in turn may increase employment and improve productivity of these enterprises.

Third, and most importantly, the low level of human capital is a major constraint to productivity growth in MSEs and investing in people is just as important as investing in infrastructure for supporting MSE development. Building managerial capacity and strengthening both technical and entrepreneurship skills is highly important for invigorating enterprise development. In this regard, the Ministry of Manpower and Transmigration estimates that approximately 600,000 people required training on entrepreneurship in 2013.²⁸ However, training programmes are limited and training resources are often underutilized. For example, the Directorate for Training and Productivity provides training to approximately 80,000 people every year, while it has capacity to train approximately 240,000 people. However, there are still many people in need to these services that fall through the gap. The quality of training materials, instruction and post-training support services are further challenges that need to be addressed in order to address the productivity challenges that face enterprises today.

DWCP 2012-15 Objective 2: Sound industrial relations for effective employment governance

The second objective of the DWCP focuses on sound industrial relations in the context of effective employment governance. Three work areas are identified under this objective, including:

1. Labour administration provides effective services to improve working conditions and environment.
2. Tripartite constituents effectively engage in social dialogue to apply labour regulations and international labour standards.
3. Strengthened institutional capacity of employers and workers' organizations to contribute to sound industrial relations according to their respective mandates and responsibilities.

28 MOMT (2011) National Manpower Planning 2012-2013, Center of Manpower Planning, Secretariat General, Ministry of Manpower and Transmigration, Jakarta.

2.6 Workplace compliance through labour inspection: Progress on inspection

Labour inspection involves the monitoring and enforcement of minimum employment conditions set out by national legislation. Labour inspectors not only examine how national labour standards are applied in the workplace but also advise employers and workers on how to improve the application of national law in issues such as working time, wages, occupational health and safety, and child labour. In addition to this, labour inspection plays a secondary role in advising the national authorities on loopholes and weakness in the current national law. Labour inspection is essential to workplace stability, and creates equality and fairness through ensuring labour law is applied equally to all employers and workers. Because the international community recognizes the importance of labour inspection, the ILO has made the promotion of the ratification of two labour inspection conventions on governance (Nos. 81 and 129) a priority. As of 2013, 144 countries (over 75 per cent of ILO member States) have ratified the Labour Inspection Convention, 1947 (No. 81), including Indonesia.²⁹

Indonesia has taken major steps to develop its labour inspection system

Labour inspection is a central pillar in the labour administration system in Indonesia, as it plays an integral role in the enforcement of national labour law. In the last three years, Indonesia has taken major steps to develop its labour inspection system. These steps include the establishment of a national tripartite committee on labour inspection, the recruitment of new labour inspectors, the development of a new curriculum for the training of these recruits as well as the adoption of an improved methodology for the collection and analysis of labour inspection data. These developments will help to ensure that working conditions in Indonesia as well as the health and safety of the Indonesian workforce are strengthened, with the subsequent improvement in workers' welfare contributing to national development.

The Directorate General for Labour Inspection (Ditjen Binwasnaker) is the technical unit that is responsible for labour inspection. In 2013, it was planned that Binwasnaker would be supported by 4202 labour inspectors and 267 specialist inspectors who supervise health and safety in the workplace across the national, provincial and district levels of government (see table below).

²⁹ The content was taken from <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/labour-inspection/lang-en/index.htm>

Table 8:
Targets for the expansion of labour inspection in Indonesia, 2009-2013

Labour inspection	2009	2010	2011**	2012**	2013**
Companies reporting	208,737	216,547	224,383	237,846	252,117
Workers covered	13,998,035	15,950,143	16,603,693	17,653,260	18,712,456
Labour inspectors	1,986	2,354	2,255	3,964	4,202
Specialist inspectors	131	162	238	252	267
Child labour reduction		3,000	3,360	10,750	12,367

Source: MOMT (2011) National manpower planning, 2012-2013, Secretariat General, Ministry of Manpower and Transmigration, Jakarta. **Estimation

However, there are challenges to realizing the expansion of labour inspection services in Indonesia and preliminary reports indicate that targets for the expansion of these services have not been realized. Challenges for the realization of expanding labour inspection include the decentralized government structure, lack of resources both in terms of human and financial resources, as well as poor coordination within and between regions. There has been a major underinvestment in labour inspection by many regional governments. A Ministerial Decree was adopted in an effort to address this issues (Ministerial Decree No 02 of 2011 on Labour Inspection Implementation, Supervision, and Coordination), however, its impact has been uncertain. Furthermore, an uneven distribution of labour inspection, weak supervisory structures, and a high turnover of staff impact on the capacity of the labour inspectorate to effectively supervise working conditions in Indonesia.

However, provision of inspection services still faces critical constraints

An underdeveloped labour inspection system has implications for the protection of workers and it also has implications for attracting business from foreign investors into Indonesia. To further illustrate, as the overall number of labour inspectors in Indonesia is limited, the number of firms that can be reached by labour inspection services is also limited. Data from the economic census of 2006 indicates that there were approximately 22.7 million micro and small enterprises and 3.8 million medium and large enterprises in Indonesia. Current labour inspection services can only reach between 200,000 and 250,000 firms per year (see table above). This leaves a large gap in provision of services, with it estimated that less than 1 per cent of enterprises are serviced by labour inspectors each year.³⁰ While it is challenging, extending labour inspection services to all medium and large enterprises should be prioritized as part of a strategy for strengthening economic governance throughout Indonesia.

To support the development of labour inspection in Indonesia there are several recommendations that can be made. First, it would be important to strengthen the role of the central authority to better supervise and

30 MOMT (2011) National manpower planning, 2012-2013, Secretariat General, Ministry of Manpower and Transmigration, Jakarta.

control the labour inspection system throughout the country (in line with Article 4 of C81). Statistical improvements are also an important part of strengthening the system. This may be done through the development of a national database of firms, the standization of inspection forms, the creation of a standardized guides to labour inspection as well as the development of key performance indicators to evaluate supervisory performance. These measures would help to improve the quality and usability of data on labour inspection.

Second, further partnerships are needed between government agencies to improve the inspection system in areas where there are overlapping or complementary mandates (e.g. Jamsostek, BPS, the judiciary, tax authorities. It is also important to improve cooperation with employers and workers organizations. Third, as limited human and financial resources are constraining the capacities of labour inspectorates to implement their mandate, it is recommended that the efficiency of a decentralized approach to labour inspection be reviewed and that other models of labour inspection be explored. The number of labour inspectors compared to the number of companies and workers in Indonesia is still very low, and is a critical constraint to effective service delivery.

Box 4: Strengthening workplace compliance as a strategy for improving competitiveness

Textile and products of textile industry is one of the major contributors to growth in Indonesia as well as the largest employer within the manufacturing sector. At the same time, compared to leading exporter countries (i.e. China, India, Vietnam and Turkey) the Indonesian export growth trend is modest. The contradiction between the importance of textiles for Indonesia's economy and the sluggish growth rate of the sub-sector points to the need for sustainable solutions to increase competitiveness on the market. One strategy would be to focus special attention on labour issues, such as working conditions in order to support productivity growth.

Survey research with workers from Indonesian textile factories cooperating with ILO's Better Work Indonesia finds that improvements are needed in several areas, such as occupational safety and health. For example, of 918 employees interviewed in 42 factories, 73 per cent of workers reported that they experience severe headaches, backache and neck pain, and 59 per cent of workers express concern about dangerous equipment. Training is also a concern for Indonesia, with only 29 per cent of workers being trained in basic skills. 80 per cent of female workers also report a high level of concern, about harassment and abuse.

On the positive side, there are several factors that place Indonesia in a good position. For example only 0.1 per cent of workers experienced discrimination. There is also freedom of association, with 65 per cent

of workers being union members. However, in general it is found that the weave, garment, textiles and apparel sector in Indonesia faces decent work deficits which is reflected by high stress among employees and general health problems that ultimately may reduce firm productivity.

Understanding working conditions and how factors such as occupational health and safety impact on productivity is an important element for accelerating the growth of the sector. Periodic labour inspection can improve the monitoring of working conditions and help to identify the most effective ways to improve the workplace and the quality of life of workers. In the end this can help to increase worker's productivity, to benefit company's efficiency and to improve country's competitiveness.

Source: Wahuni, S. and Boeditomo, P. (2013) Does quality of work life matter? A comparison between Indonesia and Vietnam textile industries, University of Indonesia, Jakarta.

2.7 Protection of workers from unacceptable forms of work: Homeworkers

Economic liberalization and the increasing integration of national economies within global markets has lead to reforms in workplace practices relating to flexible hiring and firing practices and to the rise in non-standard employment relationships. Labour laws and regulations have been revised and adapted the world over to respond to i) the increasing needs of employers to respond to fluctuations in the market and ii) to guarantee minimum protections and working conditions to workers in different types of employment contracts.

Non-standard work, contingent work and work in the informal economy can be grouped into a broader concept of “precarious work”. According to ILO, precarious work is defined as follows:

*‘work by a worker whose contract of employment leads to the classification of the incumbent as belonging to the groups of “casual workers”; “short-term workers” or “seasonal workers”; or workers whose contract of employment will allow the employing enterprise or individual to terminate the contract at short notice and/or at will, the specific circumstances to be determined by national legislation and custom’.*³¹

In Indonesia the concept of non-standard work refers to informal workers, outsourced workers and contract workers

31 ILO (1993) Resolution concerning the International Classification of Status in Employment (ICSE), adopted by the Fifteenth International Conference of Labour Statisticians: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_087562.pdf

In Indonesia the concept of non-standard work is still being defined in statistical and regulatory settings. However, in general, the categories of informal workers, outsourced workers and contract workers can be used to understand the concept of non-standard work in Indonesia.³²

There are many workers who are in non-standard and precarious employment relationships in Indonesia. Homeworkers are one such group of workers. Homeworkers are not recognized or explicitly defined by national laws or regulations as a specific category of work in Indonesia. However, the ILO Convention on Home Work, 1996, (No.177) defines a homemaker to be:

Home work is one type of non-standard work

'a person who carries out work in his or her home or in other premises of his or her choice, other than the workplace of the employer; for remuneration which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used'.³³

This definition of homeworkers embraces the three common elements of an employment relationship under Indonesian labour law - defined work, remuneration and a degree of subordination.³⁴ Therefore, in the absence of explicit legislation governing home work, the existence of these elements of an employment relationship helps to determine the extent of coverage of homeworkers by Indonesian labour laws.

Homeworkers in Indonesia are typically found in industrial or commercial subcontracting arrangements. In commercial subcontracting, often referred to as the 'putting-out' system, the out-contractor does not participate in the actual production process. While in industrial subcontracting, the out-contractor(s) themselves engage in the production process. Both traders and producers can function as out-contractors. Traders specialized in marketing a specific range of products can organize production through subcontracting selected enterprises or individuals, who have to produce a certain product according to the standards and specifications set by the out-contractors. Producers, however, will use subcontractors for executing specific tasks within their overall production process.

The difficulties in regulating home work are exacerbated by informality and lack of legal status

The increasing incidence of homeworkers in Indonesia coincides with the increasing flexibilization of the labour market, externalization of production processes and high rates of underemployment and informal work in Indonesia. The difficulties in regulating home work are exacerbated by the fact that homeworkers are engaged through informal arrangements which are not recorded and for which no appropriate or effective supervision mechanisms currently exist. Unlike most forms of outsourcing and contract work, traditional labour enforcement apparatuses, such as labour inspection, do not extend to the monitoring of home work.³⁵

³² See Annex I.

³³ ILO Convention on Home Work, 1996 (No.177), Article 1.

³⁴ Manpower Act, Law No.13 of 2003, article 1(15).

³⁵ Note, the labour inspectorate has the legal authority to inspect the workplaces (including homes) of homeworkers, however, to date, they have not engaged in any investigations or supervision of home work in Indonesia.

There is a lack of common understanding in Indonesia of homeworkers as ‘workers’ in an employment relationship. The requirement for homeworkers to produce according to the specifications and quality standards of a subcontractor generally constitutes ‘supervision’ or ‘subordination’ as per the definition of the employment relationship in the Manpower Law. However, given the supervision of the work to be performed by homeworkers is of a different nature to the type of supervision offered in a factory, homeworkers are commonly misunderstood to be outside of an employment relationship. Alternatively, some employers present the employment relationship with homeworkers as a commercial relationship. This can involve the selling and repurchasing of finished products from homeworkers. These misconceptions and lack of understanding of the legal status and rights of homeworkers is prevalent among employers, contractors, government and homeworkers themselves.³⁶

Consequently homeworkers are particularly vulnerable to high levels of exploitation. They are largely isolated workers, working in the privacy of their homes, and like outsourced and contract workers, face significant barriers to joining workers’ organizations due the precariousness of their employment contract. Home work is characterized by unpredictable employment (as orders for work fluctuate according to employer demands), very low wages, long hours of work, arbitrary withholding of pay and dismissals, and serious occupational health and safety hazards. Home work also commonly involves unpaid child labour.

The general labour protections afforded to all workers in Indonesia provide a basis for the protection of homeworkers. However, the current regulatory framework does not provide adequate protection for these workers. A lack of consensus on the legal status of homeworkers and the corresponding obligations of employers also acts as a barrier to improving the employment conditions of homeworkers. Consequently employers readily engage in informal arrangements to hire homeworkers. This causes homeworkers to enter precarious employment agreements and makes them among the most vulnerable workers on non-standard contracts in Indonesia.

Home workers are among the most vulnerable workers on non-standard contracts in Indonesia

36 See Miranda Fajerman, Application of labour law to homeworkers in Indonesia- Baseline 2013 (ILO, Jakarta) (forthcoming)

DWCP 2012-15 Objective 3: Social protection for all

The third objective of the DWCP focuses on social protection for all. Five work areas are identified under this objective, including:

1. Government and social partners have greater capacity in designing and implementing social protection policies and programmes.
2. Barriers to employment and decent work are addressed, particularly gender gaps and for persons with disabilities.
3. Effective implementation of the National Action Plan for the Elimination of the Worst Forms of Child Labour.
4. Enhanced policy, institutional framework and programme implementation for empowerment and protection for Indonesian migrant and domestic workers.
5. Integrated HIV policies and programmes for women and men workers.

2.8 Creating social protection floors: Strategies for closing the gap in Indonesia

Social protection floors are nationally defined sets of basic social security guarantees that aim to prevent or alleviate poverty, vulnerability and social exclusion

The “*Social Protection Floor*” (SPF) concept was formally adopted in April 2009 when the United Nations Chief Executives Board endorsed the Social Protection Floor Initiative (SPF-I) as part of the response to the global financial crisis of 2008 (See box below). The continued relevance of social protection, both as a right and as a means to ensure long-term development, has transformed the SPF into a widely accepted policy approach. The SPF-I consists of a coalition of 19 UN bodies, international financial institutions and 14 development partners, including bilateral donors, development banks and international NGOs, that cooperate and coordinate their activities at national, regional and global levels for the promotion of social protection for all.

The ILO has undertaken assessment based national dialogue exercises in several South-East Asian countries - including Cambodia, Indonesia, Thailand and Vietnam - in order to take stock of existing social protection frameworks. These assessment exercises sought to identify what elements of national social protection floors were already in place, identify social protection gaps and propose recommendations for establishing SPFs in the respective countries. Fulfilment of the four guarantees or rights that comprise the SPF require foundational social protection programmes that are long-term, fundamentally non-contributory and funded through public

resources or the government budget. Financing must be appropriately predictable and secure over the long term. In recognition of the need to consider both how initial efforts will be financed and how to sustain these efforts over time, the assessments include a costing exercise to determine available and necessary fiscal space for introducing SPF's.

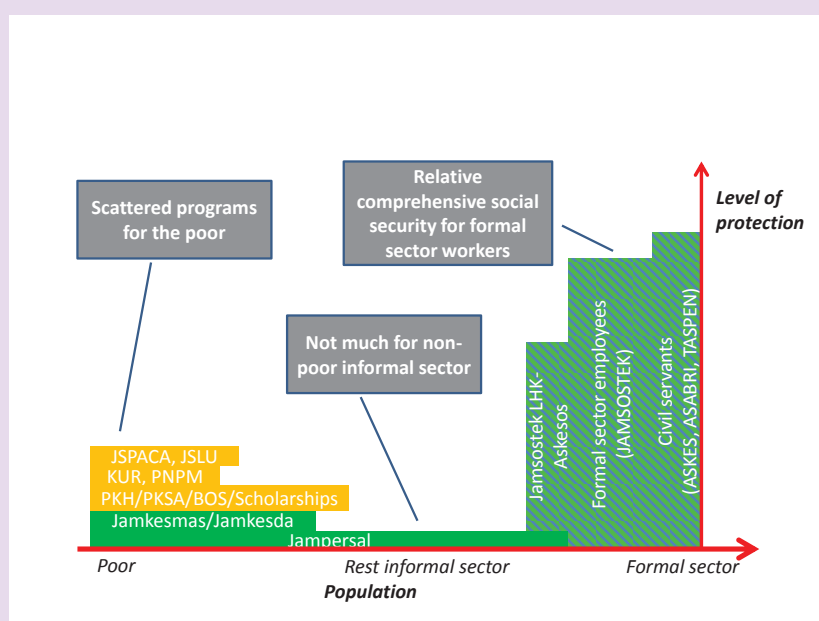
The assessment based national dialogue exercise in Indonesia found that over the last decade Indonesia has taken major steps towards the development of a national SPF. For example, a 2002 amendment of the 1945 Constitution recognizes the right to social security for all and the responsibility of the State in the development of social security policy. In addition, the introduction of Law No. 40/2004 regarding the National Social Security System (Sistem Jaminan Sosial Nasional (SJSN)) and Law No. 24/2011 on Social Security Providers (Badan Penyelenggara Jaminan Sosial (BPJS)), provide legislative foundations for implementing comprehensive social security coverage in Indonesia for workers in both the formal and informal economy.

Current systems largely exclude non-poor workers in the informal economy

The existing social security system in Indonesia³⁷ consists of schemes for public servants and private sector workers in the formal economy. There are also a number of government funded social assistance programmes and subsidies that support poor informal economy workers and their families, and which form part of the Government's broader set of poverty reduction policies. However, the assessment exercise identified significant policy gaps and implementation issues, and highlighted that current systems largely exclude non-poor workers in the informal economy (see figure below). Even within the formal economy, social security coverage is limited due to high levels of contribution evasion. The assessment exercise also found that implementation of government poverty reduction policies is affected by problems including inefficient targeting, lack of coordination and overlapping initiatives.

37 Satriana, S. and Schmitt, V. 2012. *Social protection assessment based national dialogue: Towards a nationally defined social protection floor in Indonesia*. International Labour Organization, Jakarta.

Figure 25:
Social protection floor assessment for Indonesia



Source: Satriana, S. & Schmitt, V. (2012) Social Protection Floor Assessment: concept, process and key findings. PowerPoint presented at the launch of the report “Social Protection Assessment Based National Dialogue: Towards a Nationally Defined Social Protection Floor in Indonesia” on 6 December 2012, Jakarta, Indonesia.

The assessment exercise found that income security for the working age population is limited, particularly for informal economy workers. Social security benefits (health care, employment injury, death and old age benefits) for formal economy workers are currently provided by PT Askes, Jamsostek, Taspen and Asabri. Programmes targeting formal sector private employees are contributory, with contributions paid by the employers for health care, work injury and death and shared by workers and employers for old age benefits. Programmes targeting civil servants are contributory with contributions shared by workers and employers in all cases. As informal workers are not properly registered within public administration, it is currently difficult to enforce or monitor the implementation of social security programmes for this segment of the economy. Support for the elderly is also limited, with close to 90 per cent of all citizens not being covered by an old age benefit scheme. The assessment also found that private sector pension systems that are based on lump-sum payment transfers were often found to provide inadequate protection.

In addition to traditional social security programmes for the working age population, the Government operates a diverse number of job search programmes, employment creation and other community development programmes, wage subsidies, vocational training programmes, and self-employment schemes that provide support to vulnerable groups. These programmes form part of the SPF, but are often insufficiently funded and/or are ad-hoc in nature, and not linked to other social assistance or social security schemes. Therefore the programmes’ role as a social protection

programme and the associated potential impact on an individual's livelihood is often not realized.

Public expenditure on social assistance was estimated at IDR 57 trillion or 4.2 per cent of total expenditure in 2011. In GDP terms, social assistance accounted for approximately 0.7 per cent of GDP in 2011.³⁸ In general, expenditure on social assistance continues to fluctuate, and has slightly declined as an overall share of expenditure since 2005.

The Government's limited fiscal space for increasing expenditure on social assistance and other development spending has been linked to its fuel subsidy policy. Indonesia's fuel subsidy fixes the retail price of subsidized petrol to IDR 6,500 and subsidized diesel to IDR 5,500, with the Government's expenditure covering the gap between the fixed price and international prices. The policy is vulnerable to adjustments in international fuel commodity prices and currency exchange rates. To illustrate, expenditure on the fuel subsidy in 2011 was budgeted to account for 9.8 per cent (IDR 130 trillion) of overall expenditures, but increased to 12.8 per cent (IDR 165 trillion) of overall expenditures due to price fluctuations and rising consumer demand. The ongoing uncertainty in fuel subsidy expenditure has had an effect on the Government's expenditures, particularly the expansion of social protection programmes.

It is generally agreed that fuel subsidies are not optimal models for promoting social equity and income distribution as the non-poor tend to enjoy most of the direct benefits. However if fuel prices increase, direct and indirect effects are felt throughout the economy as trade and transport margins increase and business passes on these costs to consumers. Higher overall prices for commodities decrease purchasing power, particularly for the poor. Therefore reforms on fuel and energy subsidies, such as moving towards fuel price adjustment mechanisms that provide a buffer against fluctuations in prices, should be combined with a deepening and expansion of social protection programmes in Indonesia. The ILO's Rapid Assessment Protocol (RAP) costing tool estimates that in order to provide a SPF for all, expenditure on social programmes should account for approximately 2.45 per cent of GDP. Importantly, increasing the provision of social security and providing a social protection floor does not necessarily entail an overall increase in the Government's expenditures or running a fiscal deficit; it could be achieved through reform on current fiscal expenditures.

Assessments indicate that providing social protection for all is affordable, costing up to 2.45 per cent of GDP

38 World Bank (2013) Indonesia Economic Quarterly: Continuing adjustment - October 2013, World bank, Jakarta.

Box 5: What is a social protection floor?

Social protection floors (SPFs) are nationally defined sets of basic social security guarantees that aim to prevent or alleviate poverty, vulnerability and social exclusion. The SPF adopts a holistic approach to social protection by calling for both demand (transfers) and supply side (services) measures to be included in social security systems and welfare/workfare programmes in accordance with a country's growing economic and fiscal capacities. SPFs should comprise of the following set of goods and services or basic social security guarantees that are defined at the national level:

1. Access to essential health care, including maternity care, at a nationally defined minimum level that meets the criteria of availability, accessibility, acceptability and quality;
2. Basic income security for children at a nationally defined minimum level including access to nutrition, education, care and any other necessary goods and services;
3. Basic income security at a nationally defined minimum level for persons of active age who are unable to earn sufficient income, in particular in the case of sickness, unemployment, maternity and disability; and
4. Basic income security at a nationally defined minimum level for older persons.

The four guarantees provide minimum performance or outcome standards with respect to the access, scope and level of income security and health care, rather than prescribing a specific architecture of social protection systems, programmes and benefits. The four SPF guarantees provide a framework for planning the progressive implementation of holistic social protection systems that emphasise linkages and symbiotic relationships between the different SPF guarantees.

2.9 Formalization of the informal economy: Domestic work in Indonesia

Domestic workers comprise a significant portion of informal employment in Indonesia and are among the most vulnerable group of workers in the labour market. They work for private households, often without clear terms of employment or employment that complies with the labour law. In general, the challenge of improving working conditions is greatest where work is performed outside the scope of legal and institutional frameworks in the informal economy.

Globally, it has been estimated that the number of domestic workers in the world reached 53 million in 2010.³⁹ As a response to the extensive spread of domestic labour and the violation of workers' rights, the ILO's International Labour Conference adopted the Domestic Workers Convention in June 2011 (No. 189). Since 2011, 10 countries have ratified the Convention and 25 more have improved legal protection for domestic workers. Indonesia is not yet among the signatory countries, and progress towards improving work conditions for domestic workers is needed.

In order to promote decent work for domestic workers, there is a need to have a better understanding of who domestic workers and their employers are. The National Labour Force Survey (Sakernas) and the National Socio-Economic Survey (Susenas) can be used to get a better understanding of domestic workers in Indonesia. The data can be used to estimate the number of people working as live-in domestic workers and live-out domestic workers, as well as estimating the number of domestic worker employers. It can also be used to identify a certain proportion of child domestic labourers.

The sakernas survey captures information on domestic workers aged 15 years and over. The susenas survey captures data from workers 10 years and over. The survey can be used to estimate domestic work as it asks questions about the relationship of the individual to the household head. The surveys collect information on domestic workers who live in and outside the employer's household. However, the two surveys do not adequately capture information on child domestic workers, particularly those below 15 who live outside the employer's household.

Data from Sakernas and Susenas aren't specifically designed for capturing information on domestic work, and estimates derived from the surveys should therefore be treated with caution. There are several reasons for this. First, the surveys only partially capture data on child domestic workers. Second, domestic workers may not always be identified as workers

*The Domestic
Workers Convention
(No. 189) was
announced in June
2011*

*Estimates
suggest there
are 2.6 million
domestic workers
in Indonesia*

39 ILO (2013) Domestic Workers Across the World: Global and regional statistics and the extent of legal protection, International Labour Organization, Geneva.

by themselves or their employers. Third, domestic work may not be the primary economic activity of an individual and subsequently the economic activity may not be captured by the survey. Finally, the surveys may have difficulty in capturing data from households in the upper echelon.⁴⁰

Many domestic workers work excessive hours

Despite these caveats, the Sakernas and Susenas surveys can be used to estimate domestic work in Indonesia. Analysis of the survey data finds that the total number of domestic workers in Indonesia was approximately 2.6 million in 2012. This has increased from estimates of 2.2 million in 2008. Most domestic workers were women with lower levels of educational attainment. Most domestic workers also live and work in urban areas. To illustrate, in 2012 there were almost 2.0 million domestic workers in urban areas compared to only 618,000 in rural areas.

Many domestic workers face harsh working conditions. For example, approximately 70 per cent of domestic workers work excessive hours, working across 7 days of the week. The remuneration of domestic workers is low compared to other workers, with 30 per cent of domestic workers receiving less than IDR 300,000 per month.

Estimates suggest there are about 110,000 children aged 15 to 17 y.o. in domestic work in Indonesia

Analysis of Sakernas data from 2012 suggests that the total number of children in domestic work aged 15 to 17 was 111,000. This is a decrease of 60,000 from the 2008 figure of 170,000. Out of 111,000 children aged 15 and 17 years of age in domestic work, using the parameter on number of working hours only⁴¹, 84,000 can be categorised as child labourers as their working hours is more than 40 hours per week. Children in domestic work aged between 15 and 17 years old accounted for 7.6 per cent of all domestic workers above 15 years of age.

The Susenas data set can also be used to analyse children in domestic work for children aged below 15 years, but only to those that live in the employers' houses. Analysis of the data set indicates that the total number of child domestic workers aged between 5 and 11 was less than 1000 in 2012. Estimates of child domestic workers aged between 12 and 14 found that less than 6000 children in this age group were engaging in domestic work in 2012. However, estimates of child domestic work for various years between 2008 and 2012 vary considerably, suggesting that the estimates may not be highly reliable.

Children in domestic workers aged 15 to 17 years old are predominantly females, following the same pattern as for adults domestic workers. Most children in domestic workers work long hours, exceeding 66.5 working hours per week, which leaves no time for school. Subsequently, most children

⁴⁰ For example, data cross checks between susenas on variables such as car ownership with the national registry of car ownership show discrepancies.

⁴¹ Children aged 15 to 17 years old in domestic work are considered child labourers when they work in hazardous conditions and slavery like situations. One parameter of the hazardous conditions is excessive working hours.

in domestic workers do not attend school. In 2008 only 4.5 per cent of children in domestic workers were attending school. By 2012 this number had increased to 16.5 per cent, however, it is still low.

Sakernas indicates that the number of domestic workers that live external to their place of work is far greater than the number of live-in domestic workers. Live-in domestic workers were estimated at 423,000 and live-out domestic workers were estimated at 2.1 million in 2012. The data indicates that since 2008 the number of domestic workers that live external to the employer's household has increased substantially, while the number of live-in domestic workers has been decreasing.

Susenas and Sakernas also provide information on the employers of domestic workers. Analysis of the data indicates that there were approximately 1.15 million employers of domestic workers in 2012. The employers of domestic workers, compared to general population, were more likely to live in households with a larger family size. They were also more likely to receive higher earnings and hold a higher socio-economic status as measured by per capita expenditure. The median monthly earnings for these households was estimated at IDR 6,000,000 in 2008.

The Sakernas and Susenas data sets can be used to provide estimates on the number of domestic workers in Indonesia and on the employment characteristics of these workers. However, further research is needed on domestic labour, particularly children in domestic work, in order to improve the reliability of information so that more efficient solutions for protecting domestic workers can be planned.

Importantly, domestic workers are entitled to protection in the same way as other wage-earners, including remuneration equivalent to the minimum wage. Improving working conditions for domestic workers has been a long-standing concern in Indonesia. Extending the protections that are available to other workers to domestic workers can help to reduce the vulnerability of these workers. The Domestic Workers Convention, 2011 (No. 189) outlines a legal framework for taking the rights of domestic workers forward and its ratification can help to improve the working conditions of these workers.

Over 1 million households employ domestic workers

Ratification of the domestic workers convention can help to improve working conditions for these workers

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, working alone	F	F	F	INF	INF	INF	INF	INF	INF	INF
Own account worker, assisted by temporary worker/unpaid worker	F	F	F	F	F	INF	F	F	F	INF
Employer	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

Source: BPS (2012) Labour force situation in Indonesia: August 2012, Badan Pusat Statistik, Jakarta.

Note: F denotes formal and INF denotes informal

Annex II: Statistical appendix – Labour market indicators by sex 2009–2013

Variable	August 2009	February 2010	August 2010	February 2011	August 2011	February 2012	May 2012	August 2012	November 2012	February 2013	May 2013
Population	231,832,834	238,219,392	238,219,392	239,983,373	241,564,863	243,151,942	243,949,608	244,750,214	245,554,541	246,356,410	247,157,935
• Men	116,050,632	119,852,909	119,852,909	120,821,788	121,625,982	122,433,173	122,838,583	123,246,172	123,655,365	124,063,256	124,471,078
• Women	115,782,202	118,366,483	118,366,483	119,161,585	119,938,881	120,718,769	121,111,025	121,504,042	121,899,176	122,293,154	122,686,857
Population 15 years and over	169,328,208	172,070,339	172,070,339	170,656,139	171,756,077	172,865,970	173,420,739	173,926,703	174,539,295	175,098,712	175,654,083
• Men	84,174,122	85,820,939	85,820,939	85,155,626	85,710,829	86,272,511	86,551,874	86,806,933	87,118,475	87,401,117	87,681,971
• Women	85,154,086	86,249,400	86,249,400	85,500,513	86,045,248	86,593,459	86,868,865	87,119,770	87,420,820	87,697,595	87,972,112
Economically active	113,833,280	116,527,546	116,527,546	119,399,375	117,370,485	120,417,046	120,700,158	118,053,110	120,367,421	121,191,712	121,654,703
• Men	70,409,087	71,881,763	71,881,763	72,259,824	72,251,521	73,907,357	74,372,440	73,284,748	74,325,901	74,398,557	74,802,840
• Women	43,424,193	44,645,783	44,645,783	47,139,551	45,118,964	46,509,689	46,327,718	44,768,362	46,041,520	46,793,155	46,851,863
Not in the labour force	55,494,928	55,542,793	55,542,793	51,256,764	54,385,592	52,448,924	52,720,581	55,873,593	54,171,874	53,907,000	53,999,380
• Men	13,765,035	13,939,176	13,939,176	12,895,802	13,459,308	12,365,154	12,179,434	13,522,185	12,792,574	13,002,560	12,879,131
• Women	41,729,893.0	41,603,617	41,603,617.0	38,360,962.0	40,926,284	40,083,770	40,541,147	42,351,408	41,379,300	40,904,440	41,120,249
Labour force participation rate	67.2%	67.7%	67.7%	70.0%	68.3%	69.66%	69.60%	67.9%	68.96%	69.21%	69.26%
• Men	83.6%	83.8%	83.8%	84.9%	84.3%	85.67%	85.93%	84.4%	85.32%	85.12%	85.31%
• Women	51.0%	51.8%	51.8%	55.1%	52.4%	53.71%	53.33%	51.4%	52.67%	53.36%	53.26%
Employed	104,870,663	108,207,767	108,207,767	111,281,744	109,670,399	112,802,805	113,345,609	110,808,154	113,402,417	114,021,189	114,586,184
• Men	65,122,526	67,462,223	67,462,223	67,623,205	67,989,943	69,479,641	70,046,735	69,068,965	70,519,732	70,206,021	70,696,824
• Women	39,748,137	40,745,544	40,745,544	43,658,539	41,680,456	43,323,164	43,298,874	41,739,189	42,882,685	43,815,168	43,889,360
Employment-to-population ratio	61.9%	62.9%	62.9%	65.2%	63.9%	65.3%	65.4%	63.7%	65.0%	65.1%	65.2%
• Men	77.4%	78.6%	78.6%	79.4%	79.3%	80.5%	80.9%	79.6%	80.9%	80.3%	80.6%
• Women	46.7%	47.2%	47.2%	51.1%	48.4%	50.0%	49.8%	47.9%	49.1%	50.0%	49.9%
Unemployment	8,962,617	8,319,779	8,319,779	8,117,631	77,0086	7,614,241	7,354,549	72,44956	6,965,004	7,170,523	7,068,519
• Men	5,286,561	4,419,540	4,419,540	4,636,619	4,261,578	4,427,716	4,325,705	4,215,783	3,806,169	4,192,536	4,106,016
• Women	3,676,056	3,900,239	3,900,239	3,481,012	3,438,508	3,186,525	3,028,844	4,215,784	3,158,835	2,977,987	2,962,503
Unemployment rate	7.9%	7.1%	7.1%	6.8%	6.6%	6.3%	6.1%	6.1%	5.8%	5.9%	5.8%
• Men 7.5%	6.1%	6.1%	6.4%	5.9%	6.0%	5.8%	5.8%	5.1%	5.6%	5.5%	5.5%
• Women	8.5%	8.7%	8.7%	7.4%	7.6%	6.9%	6.5%	9.4%	6.9%	6.4%	6.3%

Annex II: Statistical appendix – Labour market indicators by sex 2009–2013 (continued)

Variable	August 2009	February 2010	August 2010	February 2011	August 2011	February 2012	May 2012	August 2012	November 2012	February 2013	May 2013
Informal employment as a per cent of total employment	61.6%	NA	59.0%	58.4%	54.7%	55.8%	55.1%	53.6%	53.5%	53.5%	53.6%
• Men	60.1%	NA	57.2%	58.3%	59.8%	59.0%	59.3%	59.6%	60.0%	59.0%	59.2%
• Women	64.0%	NA	61.8%	41.7%	40.3%	41.0%	40.8%	40.4%	40.0%	41.1%	40.1%
Formal employment as a per cent of total employment	38.4%	NA	41.0%	41.6%	45.3%	44.2%	45.0%	46.4%	46.5%	46.5%	46.4%
• Men	39.9%	NA	42.8%	64.3%	64.7%	64.8%	64.9%	65.5%	64.7%	64.6%	64.6%
• Women	36.0%	NA	38.2%	35.7%	35.3%	35.2%	35.1%	34.5%	35.3%	35.4%	35.4%
Vulnerable employment rate ⁴²	69.3%	NA	66.9%	65.8%	62.2%	62.7%	62.1%	60.1%	59.8%	60.0%	59.6%
• Men	67.4%	NA	64.8%	62.8%	59.7%	59.8%	59.2%	57.2%	57.3%	57.1%	56.9%
• Women	72.5%	NA	70.4%	70.3%	66.2%	67.3%	66.7%	65.0%	64.0%	64.7%	64.0%
Employees as a per cent of total employment	27.8%	28.4%	29.6%	31.1%	34.4%	33.8%	34.1%	36.4%	36.5%	36.5%	36.6%
• Men	28.6%	29.6%	31.2%	32.9%	35.9%	35.7%	35.8%	38.2%	37.9%	38.3%	38.3%
• Women	26.4%	26.4%	28.2%	28.2%	32.1%	30.9%	31.2%	33.4%	34.1%	33.6%	34.0%
Part time employment	16,174,364	18,010,583	18,010,583	18,457,786	21,064,033	20,681,547	21,184,597	21,519,289	24,834,911	22,149,018	22,465,084
• Men	6,948,257	7,974,803	7,974,803	7,516,925	9,645,554	8,947,939	9,058,528	10,065,503	10,694,930	9,565,335	9,833,908
• Women	9,226,107	10,035,780	10,035,780	10,940,861	11,418,479	11,733,608	12,126,069	11,453,786	14,139,981	12,583,683	12,631,176
Part time employment rate	15.4%	16.6%	16.6%	16.6%	19.2%	18.3%	18.7%	19.4%	21.9%	19.4%	19.6%
• Men	10.7%	11.8%	11.8%	11.1%	14.2%	12.9%	12.9%	14.6%	15.2%	13.6%	13.9%
• Women	23.2%	24.6%	24.6%	25.1%	27.4%	27.1%	28.0%	27.4%	33.0%	28.7%	28.8%
Underemployment	15,395,570	15,258,755	15,258,755	15,736,478	13,524,054	14,868,987	14,118,645	12,770,521	10,246,005	13,561,206	13,071,618
• Men	8,724,692	8,647,031	8,647,031	8,810,637	7,661,408	8,069,245	7,784,589	7,372,745	6,316,145	7,697,894	7,357,727
• Women	6,670,878	6,611,724	6,611,724	6,925,841	5,862,646	6,799,742	6,334,056	5,397,776	3,929,860	5,863,312	5,713,891
Underemployment rate	14.7%	14.1%	14.1%	14.1%	12.3%	13.2%	12.5%	11.5%	9.0%	11.9%	11.4%
• Men	13.4%	12.8%	12.8%	13.0%	11.3%	11.6%	11.1%	10.7%	9.0%	11.0%	10.4%
• Women	16.8%	16.2%	16.2%	15.9%	14.1%	15.7%	14.6%	12.9%	9.2%	13.4%	13.0%

Source: BPS (2013) Labour force situation in Indonesia: May 2013, Badan Pusat Statistik, Jakarta.

42 Indonesia defines vulnerable employment as the sum of own account, employer assisted by temporary worker/unpaid worker, casual workers and family workers.

Annex III: Statistical appendix - Labour market indicators for youth 2009-2013

Variable	August 2011	February 2012	May 2012	August 2012	November 2012	February 2013	May 2013
Working age population (15-24)							
• Men	41,457,814	41,470,000	41,880,000	42,009,547	42,170,000	42,310,584	42,452,871
• Women	20,849,722	20,990,000	21,060,000	21,127,366	21,210,000	21,280,149	21,352,408
	20,608,092	20,750,000	20,820,000	20,882,181	20,960,000	21,030,435	21,100,463
Not in the labour force (15-24)							
• Men	20,564,495	20,100,000		21,268,284	20,920,000	21,151,426	21,442,621
• Women	8,411,405	7,910,000		8,644,616	8,290,000	8,331,702	8,496,536
	12,153,090	12,450,000		12,623,668	12,630,000	12,819,724	12,946,085
Labour force (15-24)							
• Men	20,893,319	21,370,000		20,741,263	21,250,000	21,159,158	21,010,250
• Women	12,438,317	13,080,000		12,482,750	12,920,000	12,948,447	12,855,872
	8,455,002	8,300,000		8,258,513	8,330,000	8,210,711	8,154,378
Labour force participation rate (15-24)							
• Men	50.4%	51.2%	50.9%	49.4%	50.4%	50.0%	49.5%
• Women	59.7%	62.3%	62.7%	59.1%	60.9%	60.8%	60.2%
	41.0%	40.0%	39.0%	39.5%	39.7%	39.0%	38.6%
Employment (15-24)							
• Men	16,717,575	17,300,000		16,683,372	17,510,000	17,449,313	17,224,753
• Women	10,041,100	10,550,000		10,057,950	10,700,000	10,643,103	10,456,985
	6,676,475	6,750,000		6,625,422	6,810,000	6,806,210	6,767,768
Employment-to-population ratio (15-24)							
• Men	40.3%	41.7%		39.7%	41.5%	41.2%	40.6%
• Women	48.2%	50.3%		47.6%	50.4%	50.0%	49.0%
	32.4%	32.5%		31.7%	32.5%	32.4%	32.1%
Unemployment (15-24)							
• Men	4,175,744			4,057,891		3,709,845	3,785,497
• Women	2,397,217			2,424,800		2,305,344	2,398,887
	1,778,527			1,633,091		1,404,501	1,386,610
Unemployment rate (15-24)							
• Men	20.0%	19.1%	17.9%	19.6%	17.9%	17.5%	18.0%
• Women	19.3%	19.3%	19.1%	19.4%	17.1%	17.8%	18.7%
	21.0%	19.7%	16.0%	19.8%	18.3%	17.1%	17.0%

Source: BPS (2013) Labour force situation in Indonesia: May 2013, Badan Pusat Statistik, Jakarta.

Annex IV: Statistical appendix - Labour market indicators by economic sector 2009-2013

Economic sector	August 2009	February 2010	August 2010	February 2011	August 2011	February 2012	May 2012	Agustus 2012	November 2012	February 2013	May 2013
Agriculture, Forestry, Hunting and Fishery	41,611,840	42,825,807	41,494,941	42,475,329	39,328,915	41,205,030	41,432,463	38,882,134	38,990,810	39,959,073	40,593,165
Mining and Quarrying	1,155,233	1,188,634	1,254,501	1,352,219	1,465,376	1,620,028	1,707,625	1,601,019	1,731,625	1,555,564	1,608,669
Manufacturing	12,839,800	13,052,521	13,824,251	13,696,024	14,542,081	14,211,562	14,372,061	15,367,242	14,681,515	14,784,843	14,508,463
Electricity, Gas and Water	223,054	208,494	234,070	257,270	239,636	297,805	269,334	248,927	249,379	254,528	258,492
Construction	5,486,817	4,844,689	5,592,897	5,591,084	6,339,811	6,103,457	6,365,115	6,791,662	7,462,423	6,885,341	6,706,544
Wholesale Trade, Retail Trade, Restaurant and Hotels	21,947,823	22,212,885	22,492,176	23,239,792	23,396,537	24,020,934	23,956,824	23,155,798	24,713,479	24,804,705	24,525,473
Transportation, Storage and Communication	6,117,985	5,817,680	5,619,022	5,585,124	5,078,822	5,191,771	5,135,206	4,998,260	5,282,754	5,231,775	5,093,278
Financing, Insurance, Real Estate and Business Services	1,486,596	1,639,748	1,739,486	2,058,968	2,633,362	2,779,201	2,907,397	2,662,216	2,915,906	3,012,770	3,086,313
Community, Social, and Personal Services	14,001,515	15,615,114	15,956,423	17,025,934	16,645,859	17,373,017	17,199,584	17,100,896	17,374,526	17,532,590	18,205,787
Total	104,870,663	107,405,572	108,207,767	111,281,744	109,670,399	112,802,805	113,345,609	110,808,154	113,402,417	114,021,189	114,586,184

Source: BPS (2013) Labour force situation in Indonesia: May 2013, Badan Pusat Statistik, Jakarta.

Annex V: Statistical appendix – Labour market indicators by status in employment 2009–2013

Main employment status	August 2009	February 2010	August 2010	February 2011	August 2011	February 2012	Agustus 2012	February 2013	May 2013
Self Employed	21,046,007	20,456,735	21,030,571	21,149,311	19,415,464	19,543,475	18,440,722	19,139,344	19,706,088
Self Employed Assisted by Family Member	21,933,546	21,922,813	21,681,991	21,308,855	19,662,375	20,367,416	18,761,405	19,380,757	18,715,866
Employer with Permanent Workers	3,033,220	3,016,154	3,261,864	3,594,568	3,717,869	3,930,591	3,873,041	4,026,097	4,268,208
Employee	29,114,041	30,724,161	32,521,517	34,513,624	37,771,890	38,135,062	40,291,583	41,561,419	41,977,961
Casual employee in agriculture	5,878,894	6,324,719	5,815,110	5,575,925	5,476,491	5,356,265	5,339,998	5,001,220	5,480,395
Casual employee not in agriculture	5,670,709	5,284,598	5,132,061	5,158,700	5,639,857	5,970,608	6,202,093	6,423,026	6,391,899
Unpaid Worker	18,194,246	19,676,392	18,764,653	19,980,781	17,986,453	19,499,388	17,899,312	18,489,326	18,045,767
Total 104,870,663	107,405,572	108,207,767	111,281,744	109,670,399	112,802,805	110,808,154	114,021,189	114,586,184	

Source: BPS (2013) Labour force situation in Indonesia: May 2013, Badan Pusat Statistik, Jakarta.

Annex VI: Statistical appendix – Wage indicators 2006–2012

Variable	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Simple average minimum wages (nominal)	362,700	414,700	458,500	507,700	602,700	673,300	743,200	839,400	908,800	998,829	1,121,460
Average nominal wages per month for employees (August)	599,769	684,915	729,516	856,088	985,028	1,077,312	1,158,085	1,322,380	1,410,982	1,529,161	1,630,193
Growth in average minimum wages	NA	12.54%	9.55%	9.69%	15.76%	10.49%	9.41%	11.46%	7.64%	9.01%	10.93%
Growth in average net wages for employees / labourers	NA	12.43%	6.11%	14.78%	13.09%	8.57%	6.97%	12.42%	6.28%	7.73%	6.20%
Consumer Price Index (rate)	NA	5.16%	6.40%	17.11%	6.60%	6.59%	11.06%	2.78%	6.96%	3.79%	4.30%

Source: BPS (2013) Labourer situation in Indonesia: May 2013, Badan Pusat Statistik, Jakarta.