



Understanding children's work and youth employment outcomes in Indonesia

Understanding Children's Work (UCW) Programme
Villa Aldobrandini
V. Panisperna 28
00184 Rome

Tel: +39 06.4341.2008
Fax: +39 06.6792.197
Email: info@ucw-project.org

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EXECUTIVE SUMMARY

Overcoming the twin challenges of child labour and youth employment will be critical to Indonesia's progress towards the Millennium Development Goals. Estimates presented in this report indicate that some 2.3 million Indonesian children aged 7-14 years still work in employment. At the same time, almost one in five (19 percent of) Indonesian young people aged 15-24 years in the labour force is unemployed, a rate several times higher than that for adult workers. The effects of child labour and youth unemployment are well-documented: both can lead to social vulnerability and societal marginalisation, and both can permanently impair productive potential and therefore influence lifetime patterns of employment and pay.

The current report examines the related issues of child labour and youth employment in the context of Indonesia. Guided by observed outcomes in terms of schooling, work activities and status in the labour market, the report considers the economic as well as the social determinants of child labour and youth employment. The report was developed jointly by the Government and the three UCW partner agencies. As such, it provides an important common basis for action in addressing child labour and youth employment issues. Part 1 of the report focuses on understanding children's work and Part 2 on understanding youth employment outcomes. Part 3 of the report addresses national responses to child labour and youth employment concerns.

Part 1. Understanding children's work

Part 1 of the report addresses the involvement of children aged 7-14 in work and schooling. It indicates that children's involvement in employment remains an important policy concern in Indonesia. Over 2.3 million children aged 7-14 years, almost seven percent of this age group, were in employment¹ in 2009. Almost all of these children were also in illegal child labour in accordance Indonesian legislation and as many as half were exposed to hazardous conditions in the workplace. Data show an overall decline in children's employment, from 4.9 percent to 3.7 percent, for the narrower, 10-14 year-old, child population during the period from 2007 to 2010.²

There are several important characteristics of children's employment in Indonesia of relevance for policy. First, children's employment is mainly although not exclusively a rural phenomenon. In absolute terms, rural children in employment number almost two million while their counterparts in cities and towns number 386,000. Second, there are substantial regional differences in children's involvement in employment, underscoring the need for the geographic targeting of efforts against child labour. Only one percent of

¹ *Children in employment* is a broad concept covering all market production and certain types of non-market production (principally the production of goods for own use) (see also Box 1). It includes forms of work in both the formal and informal sectors, as well as forms of work both inside and outside family settings.

² The Indonesia National Labour Force Survey did not collect information on children aged less than 10 years. As the survey methodologies differed, caution should be exercised in comparing the results of the National Labour Force Survey and the Child Labour Survey. While data for the Indonesia Child Labour Survey, the primary reference survey used for this report, relate only to 2009, the data from the Indonesia National Labour Force Survey are available for a four-year period, 2007-2010, allowing some insight into children's employment trends for the 10-14 years age group.

children work in employment in Jakarta, for example, against eight and nine percent of children in Sulawesi and Eastern Indonesia, respectively. Third, there are differences in children's work by sex, suggesting that gender considerations play an important role in the assignment of children's work responsibilities in Indonesia.

The agriculture sector accounts for by far the largest share of children's employment in Indonesia. Fifty-eight percent of total employed children aged 7-14 years work in this sector, followed by services (27 percent) and manufacturing (seven percent). These figures are largely consistent with the sectoral composition of the Indonesian labour market as a whole. About one-third of children in the services sector (216,000 children in absolute terms) are in domestic service. The use of child labour in the domestic sector is subject to no regulation and is out of public view. Children, and especially girls, who live as domestic servants behind closed doors of private houses are particularly vulnerable to abuse, and therefore constitute a particular policy priority.

Almost all economically-active children work for their families as unpaid labour. In all, 96 percent of children in employment work within the family. Nonetheless, hazardous conditions are alarmingly common in the workplaces where children are found. In all, 985,000 children aged 5-14 years of age, or 44 percent of total children in employment, are exposed to hazardous conditions such as dangerous objects, dust or steam, cold or extreme heat, fire and gas, chemicals, dangerous heights and dangerous machinery and equipment. Exposure to hazard conditions appears to depend considerably on the sector in which children are working. Exposure is highest among those in agriculture and manufacturing: around one in two children in these sectors are exposed to at least one hazardous condition.

Children's employment is associated with compromised education in Indonesia. Although most (87 percent) of children in employment also attend school, working children nonetheless lag nine percentage points behind their non-working peers in terms of school attendance, underscoring the link between child labour and Education For All. Not surprisingly, attendance is negatively correlated not only with involvement in work but also with the time children spend actually working. Children in employment also lag behind their non-working counterparts in terms of grade progression, presumably at least in part due to poor performance. This latter result points to the difficulty that working children face in keeping up in the classroom with children that are not burdened with work responsibilities.

There are large numbers of out of school children in Indonesia, in part due to the demands of work. Some one million children aged 10-14 years were out of school in 2009 and some reports suggest that their numbers increased further in 2010. Almost two-thirds work in some form of productive activity, i.e., in employment, household chores or both. Learning needs for this group are very significant: about one in four out-of-school children in the 10-14 years age group suffer what UNESCO terms "education poverty", i.e., possess less than four years of education, the minimum amount of school time considered by UNESCO as necessary for acquiring basic literacy skills. These figures underscore the importance of expanding and accelerating efforts in second chance education and in providing other services that enhance children's life options.

Not discussed up to this point is the extent to which children's work in Indonesia constitutes "child labour" for elimination. This question is critical for the purposes of prioritising and targeting policy responses to children's work. Child labour measured on the basis of a benchmark indicator constructed for global comparative purposes is very common in Indonesia. Almost 1.4 million children below the age of 13 years were in employment and an additional

almost 650,000 (13-14 year-old) children were in regular (non-light) employment in the 2008 reference year. A further two million older, 15-17 year-old children were at work in hazardous employment. Summing these three groups yields a total of over four million 5-17 year-old children in child labour.

What are the causes of child labour in Indonesia? Econometric evidence points to some of the factors influencing household decisions to involve their children in work or school:

- *Age.* The analysis shows that the probability of a child working increases with age. The available information is insufficient to provide a precise idea of the relative importance of the two most probable reasons for this, i.e., the rising opportunity cost of schooling as a child grows older, or the lack of access to schooling at the post-primary level.
- *Sex.* Parents' decisions concerning whether to involve their children in school or work also appear influenced by gender considerations in Indonesia. Holding constant household income, parents' education and other relevant factors, boys are more likely to work exclusively and less likely to attend school exclusively, than their female counterparts.
- *Education of household head.* Higher household head education levels make it more likely that a child attends school exclusively and less likely that he or she is in employment exclusively. One possible explanation is that more educated parents might have a better knowledge of the returns to education, and/or are in a better position to help their children exploit the earning potential acquired through education.
- *Household income.* The level of household income also appears to play a role in decisions concerning children's work and schooling. Children from better-off households are more likely to go to school and less likely to participate in employment. The results underscore that children's earnings or productivity can play an important role in household survival strategies among low-income families.
- *Place of residence.* Children's living location has an influence on their time use, highlighting the importance of targeted, area-specific approaches to reducing child labour and raising school attendance. Holding other factors constant, children living in urban areas are less likely to work and more likely to go to school. Region of residence also affects the division of time between work and school; children living in Jakarta face a lower risk of involvement in employment exclusively than children in other regions.

But children's employment is a complex phenomenon and the factors mentioned above clearly represent only a partial list of determinants. Better data and more in-depth analysis are needed for a more complete understanding of why children become involved in work. More information on availability of infrastructure, school quality, access to credit markets, coverage of social protection schemes, is especially needed. Decisions concerning children's work and schooling are driven by both economic and socio-cultural factors, and a better understanding is also needed of the role of the latter.

Part 2. Understanding youth employment outcomes

Part 2 of the report focuses on the labour market situation of young Indonesians aged 15-24 years. It highlights the many challenges faced by young people entering the labour market.

A very large share of Indonesian young people – and especially female young people – is neither in the labour force nor in education. Almost 19 percent of all youth is inactive and out of education, constituting important lost productive

potential and a constraint to growth. Over half of those inactive and out of school has at least a junior secondary level of education and a quarter has at least senior secondary education. This fact underscores the lost productivity represented by the inactive and not in education group.

Both rural and urban youth suffer very high rates of unemployment. In all, almost one in five (19 percent of) young people in the labour force is unemployed, a rate five times higher than that for adult workers. About two-thirds of those looking for work are doing so for the first time, highlighting the particular difficulties that youth face in gaining an initial foothold in the labour market. Unemployment spells are also long for many youth. Over half of all unemployed youth has been unemployed for at least 12 months, rising to almost two-thirds for young people aged 20-24 years. Youth unemployment is not limited to urban locations. While unemployment in urban areas is about one-fourth higher than that in rural areas, the unemployment rate for youth living in the countryside nonetheless exceeds 16 percent. This points to the inability of the agricultural sector to fully absorb the youth labour force in rural areas in the Indonesian context.

Underemployment, defined as working less than 35 hours per week, is also a serious policy concern for youth. Almost one-third of all employed youth are underemployed according to this measure, pointing to the substantial underutilisation of the productive capacity of youth people. Underemployment is particularly pronounced in rural areas (45 percent of employed youth) and in the regions beyond Jakarta and West Java (at least 31 percent of employed youth). The rate of underemployment is by far the highest in the agriculture sector. This underscores the role of the sector in absorbing workers unable to secure better jobs elsewhere.

A large share of youth that succeed in securing jobs are working in insecure, unskilled jobs in the informal sector offering low pay and little in the way of social security or benefits. Fifty-six percent of working youth are found in the informal sector. However, youth nonetheless fare better in this regard than their adult counterparts. Informality is much more common in rural areas and in regions off Java, again underscoring the differences in the rural and urban labour markets and in labour market conditions across regions. Although recent trends have seen an increase in non-farm employment, the largest share of employed youth is still concentrated in the agricultural sector where productivity and returns to employment remain low. Again, this is especially the case off Java and in rural areas.

The balance of evidence points to substantial returns to education for young people in the Indonesian labour market. The employment situation of youth with intermediate or higher levels of education (accounting for about two-thirds of all youth) contrasts starkly with the employment situation of those with limited or no education (accounting for the remaining third). For the former group, education generates a substantial wage premium, and facilitates access to better jobs in the formal sector. Educated youth, however, face a longer transition from school to work and much greater difficulty in securing an initial foothold in the labour market. For the latter group, their lack of education means that they must accept low quality informal sector work, from which evidence from Indonesia shows it is not easy to exit.

A comparison of the results of the national labour force surveys for the 2007 to 2010 period permits a view of the trends underlying the static picture of the youth labour market presented above. These trends in aggregate labour market indicators for youth suggest an improving situation, despite the global economic downturn which occurred during the 2007-2010 period. Education participation has risen steadily and labour participation has fallen steadily over this period, indicating that Indonesian young persons are remaining in school

longer and joining the labour force later, with clear positive consequences for the level of human capital they bring to the labour force when they eventually do join it. At the same time, the share of those in the labour force seeking work has fallen consistently over the 2007-2010 period.

Part 3. Responding to child labour and youth employment concerns

Child labour and youth employment are closely linked, underscoring the importance of addressing the two issues hand in hand, following a lifecycle approach.

Figure 1. An integrated response to child labour and youth employment problems

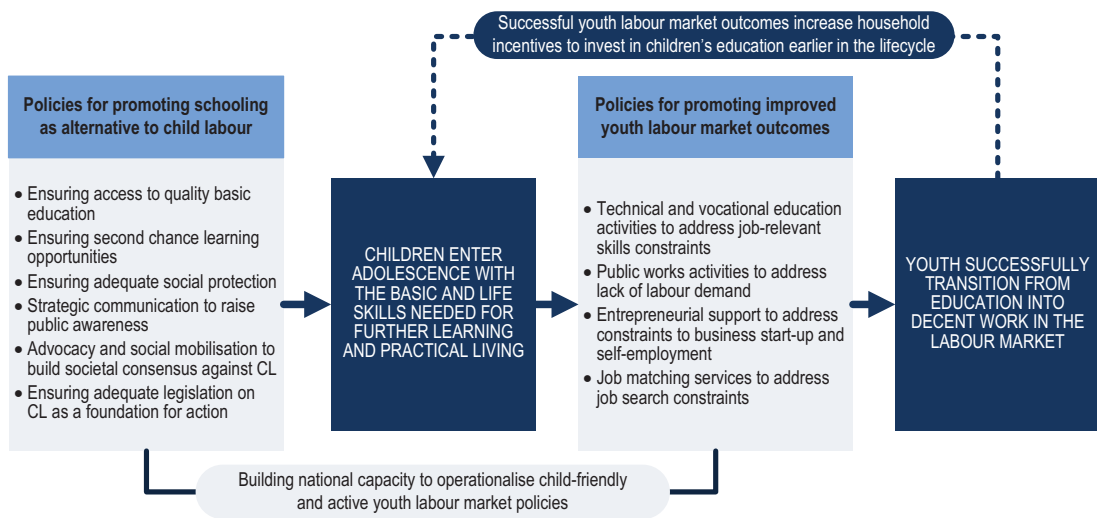


Figure 1 illustrates key components of an integrated response to child labour and youth employment concerns. A set of child-centred policies are needed to promote schooling as an alternative to child labour, and, following from this, to ensure that children enter adolescence with the basic and life skills needed for further learning and practical living. This foundation is turn crucial to the success of active labour market policies for promoting improved youth employment outcomes, and to ensuring that youth successfully transition from education into decent work in the labour market. This causal chain can also work in the opposite direction: successful youth labour market outcomes can increase household incentives to invest in children's education earlier in the lifecycle.

Child labour is a complex phenomenon requiring a policy response that is comprehensive cross-sectoral in nature. Evidence from Indonesia and elsewhere³ suggests five policy pillars are of particular importance as part of an integrated response – basic education, second chance learning, social protection, strategic communication and social mobilisation/advocacy – while improved child labour regulation is needed as a foundation for an integrated policy response.

More accessible and better quality schools are important because they affect the returns from schooling vis-à-vis child labour, making the former more

³ For a complete discussion of evidence relating to policy responses to child labour, see: UCW Programme, *Child labour: trends, challenges and policy responses – Joining Forces Against Child Labour*. Inter-agency report for The Hague Global Child Labour Conference of 2010, May 2010.

attractive as an alternative to the latter. “Second chance” learning opportunities are needed to reach the large numbers of out-of-school children with limited or no education. Adequate social protection helps households avoid having to rely on their children’s work to make ends meet. Strategic communication is important because if households are insufficiently aware of the benefits of schooling (or of the costs of child labour), or if prevailing socio-cultural norms favour child labour, they are less likely to choose the classroom over the workplace for their children. Advocacy and social mobilisation are needed in order to build broad-based consensus for action against child labour. Finally, strengthening child labour legislation is important as a foundation and guide for action.

The results presented in Part 2 of this report highlighted the challenges faced by young people entering the labour market. Both rural and urban youth suffer very high rates of unemployment, and unemployment spells are long in duration for many. Educated youth experience particular difficulties in securing work. Underemployment is also a serious issue, as many youth, unable to afford unemployment, are forced to accept occasional work, typically in the agricultural sector. A large share of youth, and especially of female youth, is outside the labour force and also not in education. A large share of youth that succeed in securing jobs are working in insecure, unskilled jobs in the informal sector offering low pay and little in the way of social security or benefits. This is particularly the case for female youth, rural youth and youth from regions off Java.

This discussion points to the need for active labour market policies aimed at promoting improved youth labour market outcomes, building on the knowledge foundation acquired during childhood through improved basic education and preventing child labour. Active labour market policies are designed to improve labour market outcomes for young people within existing institutional and macro-economic constraints; the broader structural economic reforms needed to reduce youth unemployment in the long run are beyond the scope of this report. Active labour market policies addressing both supply-side and demand-side constraints to employment are relevant to improving youth labour market outcomes.

Supply-side policies should be calibrated to the unique needs of youth with different education levels. For better educated youth, there is a need to ensure that the right skills are acquired, that skills mismatches within the labour market are reduced, and that labour market mechanisms are in place to facilitate matches between job seekers and employers. For less educated youth, second chance education in its various dimensions is necessary, in order to equip them with the life and job skills needed to exit from low quality and low productively informal sector work. Relevant demand-side policies include promoting youth entrepreneurship as part of a broader effort to address low labour demand and limited business opportunities for young workers. The employment outcomes for female youth are particularly poor and they therefore require special policy measures aimed at providing them equal opportunities in the labour market.

CHAPTER 1.

INTRODUCTION

1. Overcoming the twin challenges of child labour and youth employment will be critical to Indonesia's progress towards the Millennium Development Goals. Estimates presented in this report indicate that some 2.3 million Indonesian children aged 7-14 years still work in employment. At the same time, almost one in five (19 percent of) Indonesian young people aged 15-24 years in the labour force is unemployed, a rate several times higher than that for adult workers. The effects of child labour and youth unemployment are well-documented: both can lead to social vulnerability and societal marginalisation, and both can permanently impair productive potential and therefore influence lifetime patterns of employment and pay.

2. The issues of child labour and youth employment are closely linked, pointing to the need for common policy approaches to addressing them. Employment outcomes are typically worst for former child labourers and other early school-leavers, groups with least opportunity to accumulate the human capital needed for gainful employment. Indeed, today's jobless or inadequately employed youth are often yesterday's child labourers. The link between child labour and labour market outcomes can also operate in the other direction: poor future labour market prospects can reduce the incentive of households to invest in children's human capital.

3. The current report examines the related issues of child labour and youth employment in the context of Indonesia. Guided by observed outcomes in terms of schooling, work activities and status in the labour market, the report considers the economic as well as the social determinants of child labour and youth employment. The research is informed by the variety of existing research reports on child labour and youth employment in Indonesia. In particular, it builds on the 2009 report *working children in Indonesia* produced by Statistics Indonesia and ILO.⁴ The *Indonesia Child Labour Survey (2009)* and the *Indonesia National Labour Force Survey (Sakernas) (August 2010)* are the primary data sources for the report.

4. The report was developed jointly by the Government and the three UCW partner agencies. As such, it provides an important common basis for action in addressing child labour and youth employment issues. Four related objectives are served by the report: (1) improve the information base on child labour and youth employment, in order to inform policy and programmatic responses; (2) promote policy dialogue on child labour and the lack of opportunities for decent and productive work for youth; (3) analyse the relationship between early school leaving, child labour and future status in the labour market; and (4) build national capacity for regular collection and analysis of data relating to child labour and youth employment.

5. The remainder of the report is structured as follows. Chapter 2 briefly describes the national context, including socio-economic trends and key human development challenges facing the country. Following this background, Part 1 of the report focuses on understanding children's work. Chapters 3 and 4

⁴ Statistics Indonesia and ILO, *Working Children in Indonesia 2009*.

present descriptive data relating to the extent and nature of children's work, and to how children divide their time between work and school. Chapter 5 assesses the impact of children's work on their health and educational status. Chapter 6 employs econometric tools to assess key determinants of children's work and schooling and their implications for policy. Chapter 7 assesses the extent of child labour in accordance with national legislation.

6. Part 2 of the report focuses on understanding youth employment outcomes. Chapter 8 presents an initial descriptive overview of the activity status of young Indonesians, their situation in the labour market, and of how both have changed in recent years. Chapters 9 and 10 then look at indicators of the success of youth in the labour market. Chapter 9 addresses the issues of inactivity, unemployment and underemployment, while chapter 10 looks at job quality. Chapter 11 assesses links between human capital levels and youth employment outcomes, as part of a broader discussion on how child labour can affect employment outcomes during youth. Chapter 12 assesses the position of young Indonesians in the labour market vis-à-vis their adult counterparts.

7. Part 3 of the report addresses national responses to child labour and youth employment concerns. Chapter 13 reviews current policies and programmes relating to child labour and youth employment. Chapter 14 discusses future policy priorities for accelerating action in the areas of child labour and youth employment.

Panel 1. Understanding Children's Work (UCW) programme

The inter-agency research programme, Understanding Children's Work (UCW), was initiated by the International Labour Organisation (ILO), UNICEF and the World Bank to help inform efforts towards eliminating child labour.

The programme is guided by the Roadmap adopted at The Hague Global Child Labour Conference 2010, which laid out the priorities for the international community in the fight against child labour.

The Roadmap calls for effective partnership across the UN system to address child labour, and for mainstreaming child labour into policy and development frameworks. The Roadmap also calls for improved knowledge sharing and for developing

further methodologies and capacity to conduct research on child labour.

Research on the work and the vulnerability of children constitutes the main component of the UCW programme. Through close collaboration with stakeholders in partner countries, the programme produces research allowing a better understanding of child labour in its various dimensions.

The results of this research support the development of intervention strategies designed to remove children from the world of work and prevent others from entering it. As UCW research is conducted within an inter-agency framework, it promotes a shared understanding of child labour and provides a common platform for addressing it.

CHAPTER 2.

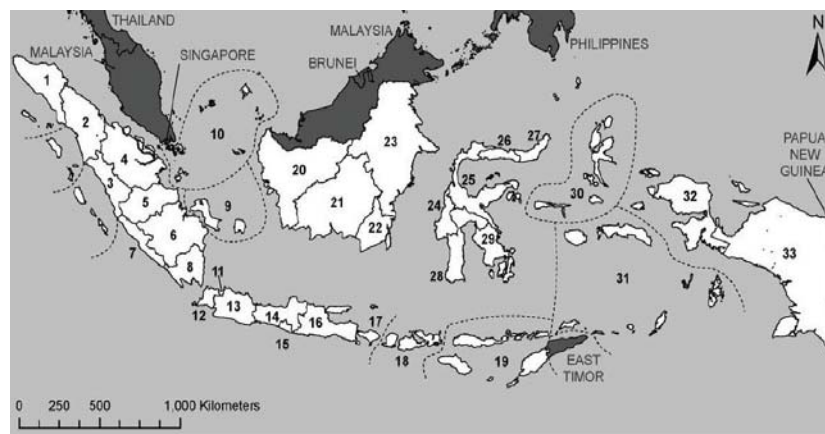
NATIONAL CONTEXT

Summary

- Many of the development challenges facing Indonesia have an important bearing on child labour and youth employment prospects.
- High levels of poverty and limited social protection coverage in particular often leave families dependent on their children's work.
- Challenges associated with school access and quality also play an important role.

8. Indonesia is Southeast Asia's largest country with a population of over 220 million. Administratively, Indonesia is divided into 33 provinces (Figure 2). Each province is subdivided into districts and municipalities. Altogether, there are 370 districts and 96 municipalities in the country. An important characteristic of Indonesia is the uneven distribution of the population among the islands and provinces. For instance, more than 50 percent of the country's population live in Java Island (which covers only seven percent of the area of Indonesia), while only 10 percent live in Maluku and Papua (Statistics Indonesia, 2010).

Figure 2. Provinces of Indonesia



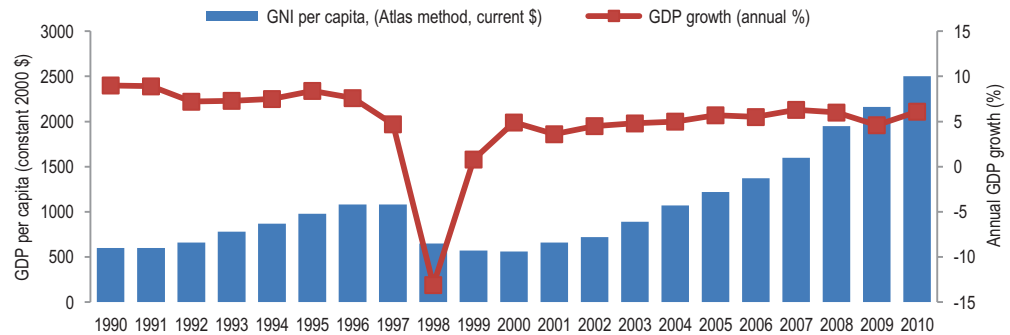
1 Nanggroe Aceh Darussalam	12 Banten	23 East Kalimantan
2 North Sumatera	13 West Java	24 West Sulawesi
3 West Sumatera	14 Central Java	25 Central Sulawesi
4 Riau	15 DI Yogyakarta	26 Gorontalo
5 Jambi	16 East Java	27 North Sulawesi
6 South Sumatera	17 Bali	28 South Sulawesi
7 Bengkulu	18 West Nusa Tenggara	29 Southeast Sulawesi
8 Lampung	19 East Nusa Tenggara	30 North Maluku
9 Bangka Belitung	20 West Kalimantan	31 Maluku
10 Riau Islands	21 Central Kalimantan	32 West Papua
11 DKI Jakarta	22 South Kalimantan	33 Papua

Source: Statistics Indonesia (BPS) and Macro International, 2008

9. Until the Asian financial crisis in 1997, Indonesia was considered to be one of the best-performing East Asian economies, with a growth rate of 7.1 percent between 1985 and 1995. The financial crisis in 1997 led to a slowdown in GDP growth, but since then the country has been recuperating and economic growth is once again strong. GDP growth has been around 5 percent per year since 2002. The Indonesia economy has also proved to be remarkably resilient to the

recent global economic turmoil, with GDP growing at 6.1 percent in 2010 thanks to strong domestic demand and less dependence on trade (Figure 3). Indonesia's growth is expected to accelerate to 6.4 percent in 2011 and to 6.7 percent in 2012, reflecting a pickup in private investment (IMF, 2010 and World Bank, 2010a).

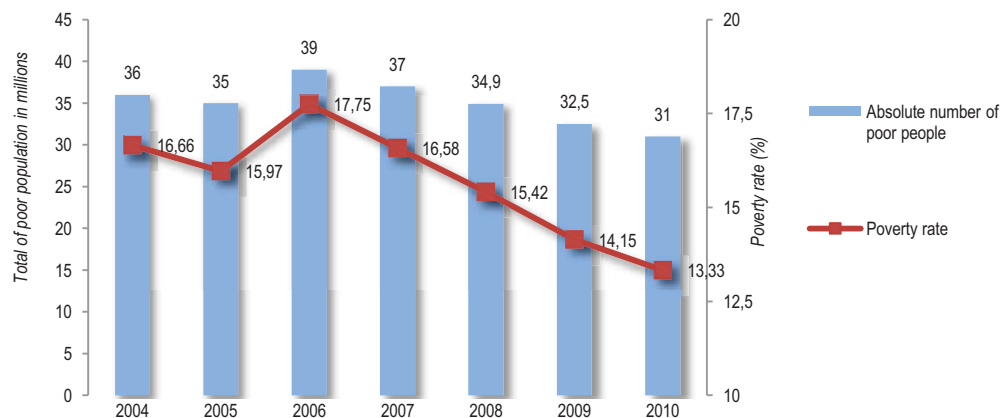
Figure 3. GNI per capita^(a) and annual GDP growth, 1990-2010



Notes: (a) Atlas method (current US\$). GNI per capita (formerly GNP per capita) is the gross national income, converted to US dollars using the World Bank Atlas method, divided by the mid-year population.
Source: [World Bank World Development Indicators](#)

10. Economic development has contributed to a reduction in the proportion of people living below the national poverty line. Poverty rates have fallen from 17.4 percent of population in 2004 to 14.2 percent in 2009 and to 13.3 in 2010 (Figure 4). However, the challenge of reducing poverty remains one of the most pressing issues in the country. Indeed, 31 million Indonesians currently live below the poverty line.⁵ Moreover, even if the level of measured poverty is falling, income inequalities across Indonesia is increasing. The Gini Coefficient, a measure of consumption inequality, has increased from 31.7 in 1999 to approximately 35 in 2009. The government has laid out a comprehensive medium-term strategy for reducing poverty in its National Medium Term Development Plan (RPJMN) in an effort to meet its Millennium Development Goal (MDG) in the area of poverty reduction.

Figure 4. Poverty in Indonesia



Source: RPJMN 2010-2014, Ministry of National Development Planning, National Development Planning Agency (Bappenas) and [Badan Pusat Statistik \(BPS\)](#)

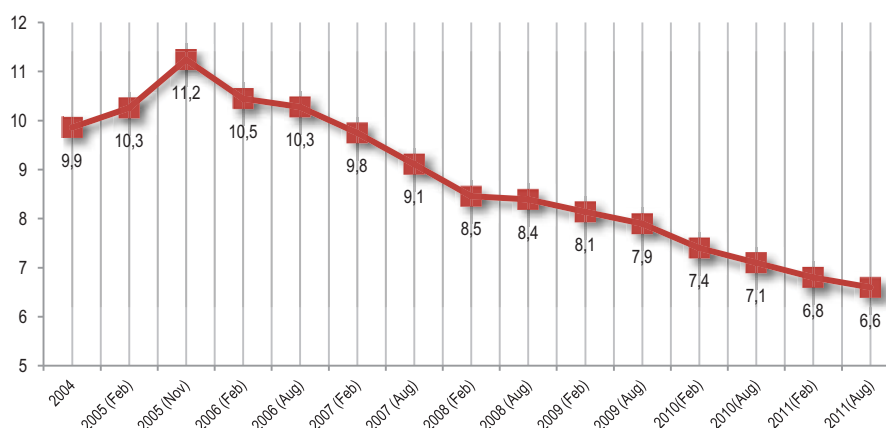
⁵ To measure poverty, Statistics Indonesia (BPS) has used the concept of basic needs approach in which poverty is viewed as economic inability to fulfil food and non-food basic needs measured by consumption expenditure. The method has been applied by BPS since 1984.

11. The challenge remains also to ensure that the benefits of economic growth are broad based and contribute to increased poverty reduction rates and rising living standards, especially in rural areas. Indeed, in Indonesia, poverty has been consistently higher in rural areas than in the urban areas. In 2009 poverty in rural areas is 17 percent compared with 10 percent in urban areas. Given the vast size and different conditions in Indonesia, regional disparities are also important, eastern Indonesia lagging behind the other parts of the country. Some provinces have much higher poverty rates than others (Bappenas, 2009). For instance, in 2009, the poverty rate is over 20 percent in West Nusatenggara Province (22.8 percent) and in East Nusatenggara Province (23.3 percent) compared with poverty rates of around 5 percent in DKI Jakarta Province (3.6 percent), in Bali Province (5.1 percent) and in Banten Province (7.6 percent).

12. Another salient feature of poverty in Indonesia is the many Indonesians living just above the poverty line. There is a large group of “near-poor” people – variously estimated at between one-third and one-half of the population – who are vulnerable to aggregate and idiosyncratic shocks such as food price increases or health shocks. According to the World Bank (2006a), there is little that distinguishes the poor from the near-poor: while only 16.7 percent of Indonesians surveyed were poor in 2004, more than 59 percent had been poor at some time during the year preceding the survey. These vulnerable households could easily fall below the poverty line at any point (World Bank, 2009a).

13. Despite strong economic growth Indonesia has suffered from slow job creation, pervasive informality and persistently high unemployment since the 1997-1998 census. The rebound in economic growth since 2004 has failed to deliver an improvement in labour market performance (OECD, 2008). The official unemployment rate which was 9.9 percent in 2004, rose further to 11.2 percent in 2005 before falling to 7.9 percent in 2009 (Figure 5). This trend is mostly driven by young people aged 15 to 24, who make up over half of the unemployed. Youth are much more likely than adults to be unemployed (International Labour Organisation, 2009) and have currently have an unemployment rate of almost 22 percent. Unemployment is especially high among people under the age of 25 with senior secondary school degrees (Suryadarma, Suryahadi and Sumarto, 2007).

Figure 5. Unemployment rate in Indonesia (2004-2011)

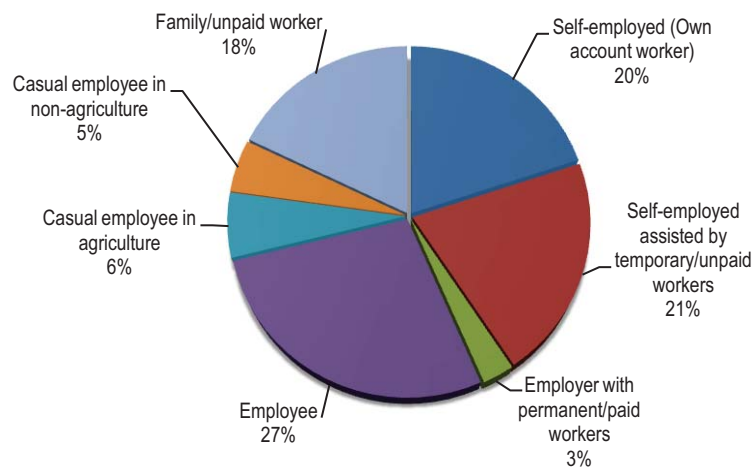


Source: Badan Pusat Statistik Republik Indonesia – Statistics Indonesia (BPS), 2011

14. The continued fall in unemployment rates even in the global turmoil is an important achievement and highlights the underlying strength of the Indonesian economy (The Economic Intelligence Unit, 2010). However, in 2009, 69 percent of the employed workforce in Indonesia is working in the informal

sector (Figure 6).⁶ Despite several years of economic growth in the country, there is only a very weak trend toward increasing formality in the workforce. The level of formality has barely changed in the past two decades in Indonesia. Most informal workers are employed in agriculture in rural areas. Over 60 percent of these rural informal workers are poor or near-poor and more than 70 percent have only elementary education or less. Urban informal workers are more skilled and likely to be employed in sales, transportation, domestic service and as construction labourers. Although better off than rural informal workers, they face a larger wage gap compared with formal workers. Informal workers are more likely to be female and living in eastern Indonesia (World Bank, forthcoming).

Figure 6. Distribution of main employment status of working population (15 years and over)



Source: Badan Pusat Statistik Republik Indonesia – Statistics Indonesia (BPS), 2009

15. Given the important role played by human resources in maintaining growth and stability, the Government has been allocating additional resources in public service provision to address poor human development outcomes. The progress in a number of education and health outcomes is mirrored by the progress of Indonesian Human Development Index (HDI). The HDI indicates that social welfare has been improving in Indonesia since 1980s. In 2007, Indonesia scored 0.734, ranking 111th of the 182 countries listed in the index.

16. Child health and nutrition outcomes have improved. Infant mortality rates declined from 79 deaths per 1,000 live births in the 1980s to 34 in 2009. The prevalence of child malnutrition (based on weight for age in children under 5) has also declined slowly but steadily from 38 percent in 1989 to 18 in 2009. Life expectancy at birth (years) has also shown an upward trend and is 70.5 years as of 2008.

17. In particular, expanding and improving education is a major aim of Governmental medium-term development planning. The Government has made a concerted effort to invest in education, doubling education spending between 2000 and 2006. In 2009, spending on education was estimated to be greater than any other sector, reaching an equivalent of US\$20.9 billion (World Bank 2010b), or approximately 20 percent of total government expenditure.

⁶ Formal and informal sector can roughly be approached with employment status. From seven main employment status category, formal workers include employers and employees. Informality is then proxied by the sum of own-account workers and family workers (Badan Pusat Statistik Republik Indonesia – Statistics Indonesia, 2009).

18. Since the 1970s, enrolment rates have increased significantly. The net enrolment rate (NER) for primary education increased from 72 percent in 1978 to almost universal coverage by 1995 and remained high even through the 1997 financial crisis (World Bank, 2007). Table 1 indicates that in 2009, the NER for primary education stands at 94 percent (while the gross rate is around 110 percent).⁷ The NER for junior secondary education has been also consistently rising, starting from a low level of 18 in the 1970s. The NER for junior secondary is only 67 percent in 2008 (with a gross enrolment rate of 81 percent). The important overall educational expansion has also reduced the education gap by gender. Gender parity at almost all education level is achieved since boys and girls are enrolled in equal proportion at the primary level while at the junior secondary level, girls' GER outstands that of boys (UIS, 2010).

Table 1. Gross and Net Enrolment rates in Indonesia, by sex and education level (2000-2010)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross enrolment rate											
Primary	107,7	107,2	106,0	105,8	107,1	106,6	110,0	110,4	109,4	110,4	111,6
Junior secondary	77,6	78,1	79,8	81,1	82,2	82,1	81,9	82,0	81,4	81,1	80,3
Senior secondary	50,2	46,5	48,0	50,9	54,4	55,2	56,7	56,7	57,4	62,4	62,5
Tertiary	10,3	10,4	10,5	10,8	10,7	11,1	12,2	13,3	14,4	14,6	16,3
Net enrolment rate											
Primary	92,3	92,9	92,7	92,6	93,0	93,3	93,5	93,8	94,0	94,4	94,7
Junior secondary	60,3	60,5	61,6	63,5	65,2	65,4	66,5	66,6	67,0	67,4	67,6
Senior secondary	39,3	37,1	38,1	40,6	43,0	43,5	43,8	44,6	44,8	45,1	45,5
Tertiary	8,0	8,0	8,1	8,6	8,6	8,7	8,9	9,6	10,1	10,3	11,0

Source: Badan Pusat Statistik Republik Indonesia – Statistics Indonesia (BPS)

19. Beyond basic education⁸, enrolment rates are still low in Indonesia. Although the NER for senior secondary enrolment rate has expanded steadily, it reaches only 45 percent in 2009. The tertiary NER remains around 10 percent. Key constraints to enrolment in senior secondary and tertiary level education include high costs, particularly for the poor, the perceived low quality of schooling and lack of benefit from attaining higher degrees. A lack of schools, particularly in secondary system, also remains a major problem (World Bank, 2006a). To address this issue, the Government of Indonesia implements a major school construction programme to increase the number of places available in the existing schools (*one-roof* school programme). The one-roof school programme is particularly focused on remote areas where they are existing primary schools but not enough junior secondary school to accommodate all graduates from primary schools.

20. Relatively favourable enrolment figures for basic education mask some discrepancies. Indonesian children's opportunities to participate in the education system differ significantly between the richest and the poorest children. Disparities in education between the lowest and highest income groups remain important, especially in the advanced levels of education (junior

⁷ The NERs are significantly different from the GERs, indicating a high percentage of under-age (under seven years of age) and over-age pupils (over 12 years of age). According to UNESCO Institute for Statistics, in 2008, 12.8 and 3.8 percent of primary school students are under-age and over-age respectively.

⁸ Indonesia defines basic education as nine years: six years of primary education (ages 7 to 12 years) and three years of junior secondary education (ages 13 to 15 years).

and senior secondary education). In 2006, net primary school enrollment across quintiles ranged from 92 to 94.5 percent. The gap between income groups appears more striking at the junior secondary school level: a child coming from a poor family is 20 percent less likely to be enrolled in junior secondary school than a non-poor child (World Bank, 2006a).

21. The gap in educational participation between provinces is still quite large (Statistics Indonesia, 2010). In 2008, Papua lags behind significantly for primary education, while other provinces have similar performance in terms of net primary enrolments. The differences among provinces in net enrolment ratios become wider at higher levels of education. For instance, at the junior secondary level, a higher number of provinces lag, most notably Papua (48.6 percent), East Nusatenggara (49.6 percent), West Sulawesi (51 percent).

22. Moreover, the success in increasing school attendance in both primary and secondary education has not yet been accompanied by satisfactory graduation rates. Only 80 percent of children enrolled in primary school reach the final grade of primary school in 2008 (UIS, 2010). This can result from high dropout rates and the large number of students who have to repeat classes.

23. Although access to basic education has improved in recent decades, education quality remains an important challenge. The Indonesian educational system has not consistently produced graduates with high-quality knowledge and skills (World Bank, 2008a). Indonesia still ranks low in international standardized tests. For instance, according to the results of the Third International Mathematics and Science Study (TIMSS), the performance of Indonesian eighth-grade students' in both fields is quite poor. In terms of performance in mathematics, Indonesian students ranked 36 out of 49 countries surveyed in 2007. In science, Indonesian students were ranked 35 out of 49 countries surveyed in 2007. The poor performance of Indonesian students was also highlighted by the 2006 Programme for International Student Assessment (PISA). PISA assesses the performance of 15-year old students in science, reading and mathematics. From 57 countries surveyed, Indonesia ranked 52 for science, 48 for reading and 51 for mathematics. Even after taking family socioeconomic status into account, student outcomes in Indonesia were lower than those of neighboring countries, which suggests that there are deficiencies in the classroom experiences that teachers are providing for their students (Jalal et al., 2009).









24. Teachers are one of the most important factors in education quality. In Indonesia, teacher education levels tend to be low. At the primary and junior secondary levels, only 18 percent and 67 percent of the teachers respectively have the four-year degree qualification. These figures are particularly significant, given the passage of the Teacher Law in December 2005, which requires that all teachers have a qualification of a bachelor's degree or four year diploma. Teachers in remote areas tend to have the lowest education levels, while those in urban areas tend to have the highest levels (World Bank, 2006b).

25. Student-teacher ratios (STR) are often used to measure the quality and efficiency of an educational system.⁹ Indonesia's STRs at both the primary and secondary levels appear to be surprisingly low by international and regional standards. The average STR in Indonesia's primary education is 17:1. At the secondary school level, the result is even more striking. Indonesia's STR is 11:1

⁹ A high STR can be an indicator of poor quality because students are not given as much individual attention. A low STR, on the other hand, can be an indicator of inefficiency and low marginal returns and can result in a significant burden on an education system, given that teacher salaries typically comprise a high proportion of an overall education budget.

(UIS, 2010). Such a low STR might be a strong indicator of systematic inefficiency. In the Indonesian context, the oversupply can be encouraged by the method of determining teacher supply requirements. Under the current system, the schools and districts tend to claim undersupply and request additional resources (World Bank, 2008a). High teacher absenteeism (teacher absence in primary school is 19 percent) may in part explain why many schools feel they are undersupplied (World Bank, 2007a). There is also a need to consider Indonesia's large percentage of part-time teachers. It is also worth mentioning that despite the teacher oversupply at an aggregated level, some schools in remote areas have serious teacher shortages. For instance 68 percent of urban schools and 52 percent of rural schools have a teacher oversupply while two-thirds of schools in remote areas have few teachers.

Table 2. Status of Millennium Development Goals in Indonesia

	<p>1 Goal 1: Eradicate Extreme Poverty and Hunger MDG 1 – The proportion of people having per capita income of less than US\$1 a day has declined from 20.6 percent in 1990 to 5.9 percent in 2008.</p> <p>MDG 1 - The prevalence of underweight children under-five years of age decreased almost 50 percent from 31 percent in 1989 to 18.4 percent in 2007. The target of 15.5 percent by 2015 is estimated can be achieved.</p> <p>MDG 1 - Indonesia has raised the targets for poverty reduction and is committed to give special attention to reducing poverty levels as measured against the national poverty line from the level of 13.33 percent in 2010 to 8 to 10 percent in 2014.</p>
	<p>2 Goal 2: Achieve Universal Primary Education MDG 2 - The net enrollment rate for primary education has almost reached 100 percent and the literacy rate of the population reached 99.47 percent in 2009.</p>
	<p>3 Goal 3: Promote Gender Equality and Empower Women MDG 3 - Gender equality in all types and levels of education have almost been achieved as indicated by the net enrollment ratios (APM) of girls to boys in SD/MI/Paket A and SMP/MTs/Paket B of 99.73 and 101.99 respectively, and the literacy rate of women to men among 15-24 year olds of 99.85 in 2009.</p> <p>MDG 3 - The net enrollment ratios (NER) of girls to boys in secondary education (SMA/MA/Package C) and higher education in 2009 were recorded to be 96.16 and 102.95 respectively. Thus, it is expected that the 2015 target of 100 can be achieved.</p>
	<p>4 Goal 4: Reduce Child Mortality MDG 4 - The mortality rate of children under-five years of age decreased from 97 per 1,000 live births in 1991 to 44 per 1,000 live births in 2007 and is expected to reach the target of 32 per 1,000 live births in 2015.</p>
	<p>5 Goal 5: Improve Maternal Health MDG 5 - The maternal mortality rate has fallen from 390 in 1991 to 228 per 100,000 live births in 2007. Hard work is needed to achieve the 2015 target of 102 per 100,000 live births.</p>
	<p>6 Goal 6: Combat HIV/AIDS, Malaria and other diseases MDG 6 - The prevalence of tuberculosis decreased from 443 cases in 1990 to 244 cases per 100,000 populations in the year of 2009.</p> <p>MDG 6 - The proportion of people with HIV/AIDS has increased, particularly among high risk groups such as injecting drug users and sex workers.</p>
	<p>7 Goal 7: Ensure Environmental Sustainability MDG 7 - Indonesia has a high level of greenhouse gas emissions, but the country remains committed to increase forest cover, eliminate illegal logging and implement a policy framework to reduce carbon dioxide emissions by at least 26 percent over the next 20 years. Moreover, currently only 47.73 percent of households have sustainable access to improved drinking water, and 51.19 percent of households have access to basic sanitation. Special attention is required to achieve the MDGs targets for Goal 7 by 2015.</p>
	<p>8 Goal 8: Develop a Global partnership for Development MDG 8 - Indonesia has managed to develop open, rule-based, predictable, non-discriminatory trading and financial systems – as indicated by the positive trends in indicators related to trade and the national banking system. At the same time, significant progress has been made in reducing the ratio of foreign debt to GDP from 24.6 percent in 1996 to 10.9 percent in 2009. The Debt Service Ratio has also been reduced from 51 percent in 1996 to 22 percent in 2009.</p>

Source: Republic of Indonesia, *Report on the achievement of the Millennium Development Goals 2010*. Ministry of National Development Planning, National Development Planning Agency (BAPPENAS).

26. Much effort is still required to ensure that Indonesia meets all MDG targets (Table 2). In particular, a number of critical challenges remain in terms of reducing the proportion of the population without access to safe water and adequate basic sanitation facilities. The coverage of sanitation services in Indonesia is low, with less than one percent of all Indonesians accessing piped sewerage systems. An estimated 50 million rural poor are not connected to piped water. In urban areas, levels of access to utility supply are lower in the poorest quintile, but the district water utilities (PDAM) service to all households is also limited. In practice, the urban poor obtain their water from many sources, primarily non-network water and self-supply. Survey data show that 80 percent of the rural poor and 59 percent of the urban poor have no access to adequate sanitation. Access of households in urban areas to piped drinking water has been consistently higher compared to the access of households in rural areas.