

Labour and Social Trends in Indonesia 2014 - 2015

Strengthening competitiveness and
productivity through decent work

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Foreword

The ILO's Jakarta Office's seventh issue of the *Labour and Social Trends in Indonesia* focuses on strengthening competitiveness and productivity through decent work. In 2014 the Office has engaged in a dialogue with constituents on growing productivity and strengthening competitiveness while promoting decent work. This reports builds on this dialogue and aims to support constituents in taking this discussion further. We also hope that the issues discussed may be useful for supporting medium term planning and employment policy development for the new Government.

Last year's report focused on reinforcing the role of decent work in equitable growth, in order to share a message about the importance of maintaining the gains that have been made while continuing to strive towards the goal of growth with equity. With the coming of the ASEAN Economic Community in 2015, the structural changes that are currently unfolding within the Indonesian economy are likely to be accelerated. Structural change will entail both shifts in demand for skills and require innovation to strengthen productivity. Labour market institutions, together with social partners, will need to play a responsive role, in order to mitigate costs and boost productivity. Sound industrial dialogue will be a key ingredient to success for workers, employers and society at large. Indeed, our work at ILO shows that sound industrial relations can strengthening the overall competitiveness and productivity of a nation's economy. Therefore, this year we would like to emphasize that decent work plays an important role in strengthening the competitiveness and productivity of a nation. The Government, workers and employers need to work together to ensure that Indonesia can build prosperity for all.

This report was prepared by Emma Allen, labour market economist for the ILO Office in Jakarta, with contributions from Kazutoshi Chatani, Simon Field, Ratnawati Muyanto, Lusiani Julia, Gah Yunirwan, and Zulfan Tadjoeddin. The report also benefited from valuable comments provided by colleagues from the ILO Regional Office for Asia and the Pacific, Decent Work Team, technical departments in headquarters and ILO Jakarta Office. In particular, I am grateful for the support received from Sukti Dasgupta, Malte Luebker, John Ritchotte, Kee Beom Kim, Phu Huynh, Bob Kyloh and Aya Matsuura. Special thanks to Dyah Retno Sudarto, Gita Lingga and Christina Limurti for assisting the production of this report.

It is my wish that the report generates a productive dialogue among ILO Constituents on strategies for strengthening competitiveness and productivity through decent work approaches and strategies. We look forward to working with the Government, employers and workers in a policy advisory capacity, through sharing knowledge and supporting the institutional capacity development of Indonesian organisations as part of our joint country programme.

Michiko Miyamoto
Officer in Charge
ILO Country Office for Indonesia and Timor-Leste

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List of abbreviations and terms

APINDO	Asosiasi Pengusaha Indonesia (The employers' association of Indonesia)
ASEAN	Association of Southeast Asian Nations
BPJS	Social Security Providers (Badan Penyelenggara Jaminan Sosial)
BPS	Badan Pusat Statistik (Statistics Indonesia)
DWCP	Decent Work Country Programme
E-KTP	Kartu Tanda Penduduk Elektronik (Electronic Identity Card)
G20	Group of Twenty
GDP	Gross Domestic Product
IDR	Indonesian Rupiah
IFC	International Finance Corporation
ILO	International Labour Organization
KHL	Kebutuhan Hidup Layak (minimum decent standard of living)
KPS	Kartu Perlindungan Sosial (Social Assistance Card)
LKSB	Lembaga Kerja Sama Bipartit (Bipartite Cooperation Institution)
LM	Large and medium
MS	Micro and Small
MOM	Ministry of Manpower
PCI	Private Compliance Initiative
PKL	Internship
RPJMN	Mid-Term Development Plan
SMEs	Small and Medium Enterprises
SMK	Vocational high school
Sakernas	Survei Angkatan Kerja Nasional (National Labour Force Survey)
SPF	Social Protection Floor
SRS	Single Referral System
Susenas	Survei Sosial Ekonomi Nasional (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

Strong household consumption coupled with investment were the key factors underpinning Indonesia's economic performance in 2014. Growth in 2014 was accompanied by solid gains in the labour market, with evidence of employment expanding and conditions of work improving. However, economic performance during the first quarter of 2015 slowed to 4.71 per cent (yoy), largely attributed to a weakening of government consumption, the slowing of investment in the construction sector and deteriorating commodity prices. In 2015 it is expected that GDP growth will remain close to 5.0 per cent. This slower growth represents new challenges and highlights a need for focus on strengthening competitiveness and productivity through decent work.

2014 maintained economic performance, however, trends in 2015 point to a slowing economy

Indonesia is shifting away from an economy dominated by the agricultural sectors that are based in rural areas, towards an economy with a greater share of activities within the industrial and services sectors in urban areas. This trend is driving rapid urbanization. To further illustrate, trends in both economic growth and employment growth in the manufacturing and the construction sectors, which provide important information on investment and trade trends, have shown strong performance in 2014 and 2015. The challenge is now to consolidate these efforts and channel support into strategies that can drive gains in competitiveness and productivity in the context of a slowing economy.

Employment has expanded and poverty has declined, while inequality remains persistent

Poverty has been steadily decreasing in Indonesia, largely due to the expansion of government programmes that have targeted poor people, as well as gains in wages for unskilled and low-skilled labourers, and reductions in the volatility of food prices. The livelihoods of households below the poverty line are largely dominated by activities within the agricultural sectors, while non-poor households tend to have a more diverse income base. This highlights the important role of access to more diverse labour market opportunities as well as the importance of economic diversification for further reducing poverty in Indonesia. However, as the economy becomes more diverse, there is also a likelihood that inequality will grow. For example, higher levels of inequality in urban areas in Indonesia are linked to the greater

Support is needed to promote the functioning of labour markets..

range of occupations and activities across economic sectors in urban areas. Therefore, particular efforts are needed to support the fair functioning of urban labour markets, in order to open access and give opportunities for workers and employers to use their resources productively. Collective bargaining and stronger labour market institutions will play an important role herein.

Indonesia's labour market has continued to expand in 2014 and 2015, with employment growing and unemployment declining. While trends are largely positive, it is important to note that employment outcomes have continued to fluctuate from quarter-to-quarter, pointing to seasonal factors and labour market churning. Fluctuations in employment tend to be linked to inactivity more than unemployment, with outflows from employment to inactivity higher than outflows from employment to unemployment. This trend points towards a structural issue within the Indonesian labour market, and highlights a need for labour market policies and programmes to facilitate labour market attachment through provision of employment services and related benefits for unemployed workers.

Unemployment has been trending downwards in recent years, and was below 6 per cent in 2014. This indicates that the target of reducing unemployment to between 5 and 6 per cent, as set out in the medium term development plan for 2010-2014, has been met. However, unemployment remains a challenge, particularly for youth, especially within the context of a slowing economy. Supporting youth to optimize their educational attainment will be a key factor for improving outcomes in this regard.

Disparities in outcomes for men and women can be seen in occupational segregation, labour market churning and labour force participation

Unequal outcomes persist for men and women. For example, within the labour market, occupational segregation is pronounced for men and women, with many women working in jobs with lower levels of remuneration and more limited prospects in terms of career progression. The labour force participation rates of women are also extremely low, with many women reporting to be fully engaged with housekeeping responsibilities. However, throughout the course of the year, many women transition from being economically inactive to participating in the labour force as unpaid family workers. Many of these women are likely to be "homeworkers", who are linked to global supply chains, and are conducting factory work in home based settings, earning either no pay or low pay. Strengthening the position of these workers within global supply chains through improving their working conditions will be a key factor for unleashing the productive potential of women for supporting the growth and competitiveness of the Indonesian economy in the future.

Evidence of skills mismatch persist, with many positions in Indonesia filled by underqualified workers

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, especially as highly educated workers can enjoy higher wages and better job opportunities. This is particularly important, as there is evidence

that the Indonesian economy is currently experiencing the existence of both a shortage of skilled workers and a labour surplus.

There is evidence that demand for labour with tertiary qualifications is outstripping the supply of such labour. In addition, there is an oversupply of labour with junior high school and senior high school as their highest level of educational attainment. This has led to a situation where many positions in Indonesia are filled by underqualified workers. Reducing the incidence of skills mismatch is important for strengthening the competitiveness and productivity of the Indonesian economy. In particular, as the economy continues to modernize, the demand for highly educated workers will continue to grow, underscoring the importance of appropriate education and skills investment now. Strengthening vocational training institutions, as well as apprenticeship systems, will be essential for closing the skills gap. Ensuring that policies and programmes facilitate placement is also important for optimizing the utilization of human resources.

Labour productivity has been improving slowly over time, with productivity in the manufacturing sectors more than double the productivity of the overall economy. The manufacturing sector is highly diverse, with significant differences in productivity between large and medium firms and micro and small firms. For example, between 2008 and 2012 productivity for large and medium firm grew at an average rate of 4.1 per cent, while productivity growth for the manufacturing sector on the whole was relatively steady. Wages for workers within large firms have grown, however, employment growth within these firms has been lagging. The critical challenge is therefore supporting the expansion of large manufacturing firms, as this will strengthen the overall productivity of the economy.

It is important that gains in labour productivity are shared between workers and employers. These gains can be shared with workers through higher wages, improving working conditions, shorter working hours and investment in human capital. For employers, linking real wage growth to productivity gains implies stable real unit labour costs and profit growth in line with productivity. Sharing gains can also provide benefits for economic growth as higher wages can improve purchasing power and subsequently strengthen household consumption.

Growth in minimum wages has been outpacing growth in average wages. This trend reflects the strong reliance on minimum wage fixing and highlights the need to strengthen collective bargaining in order to promote the growth of average wages. In addition to understanding trends in minimum and average wages, it is important to understand wage distribution through examination of the median wage. There is a considerable discrepancy between the average and median wage in Indonesia, with the average wage for regular employees estimated at IDR 1,952,589 in August 2014 and the median wage for regular employees estimated at IDR 1,425,000 in the same period. The discrepancy between the two figures indicates that

Productivity has been improving slowly, with gains concentrated in large manufacturing firms

Further focus on collective bargaining is needed in order to promote average wages growth

Specific interventions are needed to address the high incidence of low wage work, including the strengthening of compliance

the distribution of regular employees by wage level is highly skewed, with a high incidence of regular employees earning low pay.

Further analysis indicates that one in three regular employees (33.6 per cent) in Indonesia receive a low wage (two-thirds of the median wage). Specific policies are needed to address the high incidence of low wage work in Indonesia. Reducing the incidence of low pay is important for strengthening the productivity and competitiveness of the Indonesian labour force, as low wages can be associated with the deterioration of workers' skills and can also signal to employers that such workers have low productivity.

In addition, the high incidence of low pay may be related broader issues associated with low levels of minimum wage compliance. Improving compliance is important for strengthening competitiveness and productivity. Research on compliance from ILO's Betterwork programme in Indonesia underscores this point. Findings indicate that improved implementation and compliance with labour regulations can lead to improvements in reliability within supply chains. In particular, analysis indicates that factories complying with labour regulations increasingly become the preferred manufacturer of buyers. In line with this, factories also report gains in human resource management that are associated with improved dialogue between workers and employers. This illustrates that improving industrial relations, through stronger collective bargaining systems and better dispute settlement mechanisms, strengthens the performance of firms.

Trends in the economy and the labour market

1.1 Economic trends

The Indonesian economy continued to grow in 2014, however, the slowing global economy meant that growth was not as robust as in previous years. The Indonesian economy grew at a rate of 5.02 per cent in 2014. In the first quarter of 2015, the economy slowed further, with quarterly growth estimated at 4.7 per cent. This is a change from performance in previous years, where the economy was able to achieve growth rates of over 6 per cent. Key factors that are linked to the slowing growth are the decline of global commodity prices and slowing exports.

Two vital factors that are sustaining economic performance are domestic demand and investment. Household consumption expenditure has been supported by recent investments in poverty reduction programmes and increases in minimum wages, which have bolstered household incomes and stimulating aggregate demand. Household consumption expenditure accounted for 56.1 per cent of GDP in 2014. With Indonesia's population projected to grow to 271 million people by 2020 and 306 million people by 2035,¹ it is likely that strong private consumption will continue to be a driver of growth for the Indonesian economy.

The second factor that is driving Indonesia's economic growth momentum relates to investment. Figure 1 provides an overview of trends in GDP growth and gross fixed capital formation² for Indonesia and lower middle income countries. In comparative terms, gross fixed capital formation has been relatively stagnant in low-middle income countries, hovering at an average of 26 per cent of GDP over the last 10 years.

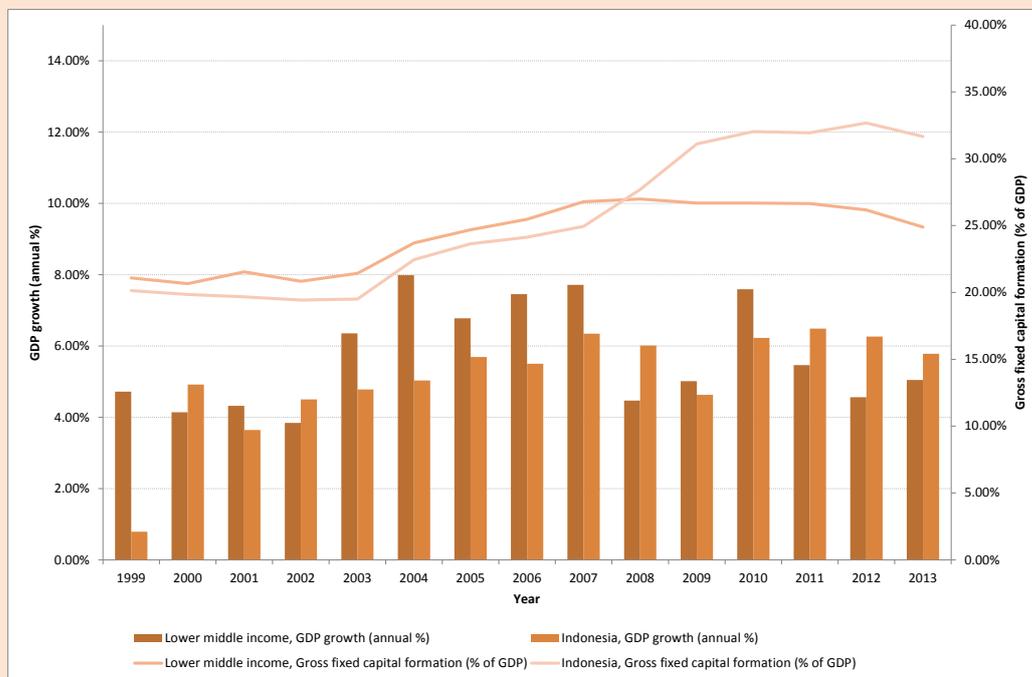
The Indonesian economy grew at a rate of 5.02 per cent in 2014

1 BPS (2014) Indonesia population projection: 2010-2035, Badan Pusat Statistik, Jakarta.

2 Gross fixed capital formation is expenditure for capital goods which have an effective life of more than one year and which do not represent commodities for consumption. Gross fixed capital formation includes residential and non residential buildings and other constructions such as roads and airports as well as machinery. Items classified as fixed capital formation include: dwelling and non-dwelling buildings; roads, bridges and similar constructions; machinery and equipment; motor vehicles; major repairs and alterations to the above mentioned durable goods which significantly extend their lifetime or productivity; and outlays on the reclamation and improvement of land and the development of plantations. The World Bank calculates gross fixed capital formation as a per cent of GDP expenditure based on current market prices.

However, in Indonesia gross fixed capital formation as a share of GDP has climbed steadily since 2003, rising from 19.5 per cent in that year to 32.6 per cent in 2014.

Figure 1:
GDP and gross fixed capital formation growth for Indonesia and lower-middle income countries³



Source: World Bank (2014) World development indicators, World Bank, Washington D.C.

...Increased investment expenditure should pave the way for the continuation of growth trends....

The trend observed in Figure 1 indicates that Indonesia is shifting towards a growth model that is more focused on investment, with the expansion of infrastructure playing an increasingly important role in the acceleration of economic growth. Over the coming decade, maintaining high levels of investment will play an important role in avoiding the middle income trap for Indonesia.

Trends in expenditure in the area of gross fixed capital formation are in part related to the process of urbanization and the demand of the urban population for infrastructure investment. Indonesia is leading the world in terms of the expansion of urbanization and it is expected that as much as 68 per cent of the population may residing in urban areas by 2025.⁴ A rapidly urbanizing economy demands investment in roads, bridges and

3 For the 2015 fiscal year, the World Bank defines lower-middle-income economies as economies where GNI per capita falls between US\$ 1,046 to US\$4,125. GNI per capita for Indonesia was estimated at an average of US\$ 3,580 between 2009 and 2013. There are 50 economies that fall into the category of lower-middle-income economies, including Indonesia, Lao PDR, Philippines, Vietnam within ASEAN, as well as countries such as India and Timor-Leste. Myanmar and Cambodia are considered to be low-income economies (US\$ 1,045 or less), Thailand and Malaysia are considered to be upper-middle-income economies (\$4,126 to \$12,745), and Singapore and Brunei Darussalam are considered to be high-income economies (\$12,746 or more). Further information is available at: http://data.worldbank.org/about/country-and-lending-groups#Lower_middle_income

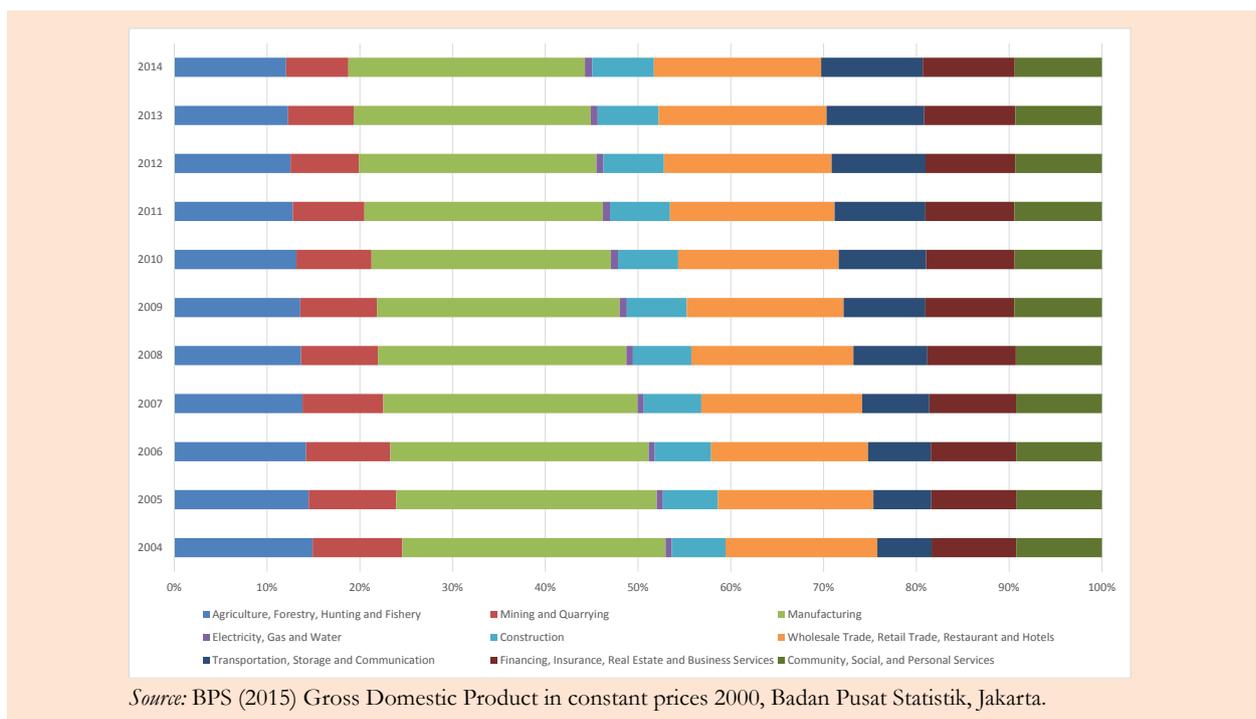
4 World Bank (2014) Indonesia Economic Quarterly, March 2014: Investment in flux, World Bank Country Office for Indonesia, Jakarta.

related assets as well as in housing and a range of commercial buildings. Ensuring the sustainability and durability of assets through quality assurance mechanisms, as well as through selecting investments with high economic and employment multipliers, are key issues for realizing the benefits of increasing investment.

The trend towards urbanization is also associated with structural changes in the composition of the Indonesian economy. Analysis of trends indicate that Indonesia is shifting away from an economy dominated by the agricultural sectors that are based in rural areas, towards an economy with a greater share of economic activities within the services sectors in urban areas. Figure 2 illustrates that in 2004 the primary sectors accounted for 24.6 per cent of GDP, the secondary sectors for 34.8 per cent, and the tertiary sectors for 40.6 per cent. By 2014, the primary sectors accounted for 18.8 per cent of GDP, the secondary sectors for 32.9 per cent, and the tertiary sectors for 48.3 per cent.

...Rapid urbanization in Indonesia will reinforce structural shifts...

Figure 2:
GDP sectoral composition for 2004–2014 in per cent



Growth in 2014 was supported by the manufacturing sector. However, in general policy makers have faced challenges in further supporting the manufacturing sector. While the sector has been growing in real terms, further efforts to expand the sector's share of GDP will play an important role in raising aggregate labour productivity, living standards and improving labour market outcomes for Indonesia. There are a number of external factors that have hindered outcomes in this area, including volatility in financial markets and falling demand for exports (see box below). While domestic factors such as the quality of infrastructure and slow growth in productivity, as well as the modification of trade policies and fiscal uncertainty have also hindered growth.

Box 1:
What do slowing commodity prices mean for employment?

Indonesia is rich in natural resources, including coal, oil and natural gas, tin, copper, nickel and aluminium, gold, silver and platinum, as well as a range of agricultural commodities. Strong global commodity prices have seen the natural resources sector contributing to economic growth, exports and investment over the last decade. However, since 2013 GDP growth has slowed down, as the prices of Indonesia's main export commodities declined.

The resource intensive sectors tend to be capital intensive, with the mining and quarrying sector only accounting for 1.3 per cent of total employment in 2014, compared with a contribution of 9.8 percent of GDP. In addition, the sector's production linkages with other sectors of the economy are relatively weak. However, slowing economic growth and the loss of revenue and investment associated with the end of the commodity boom creates challenges for driving forward the development objectives of Indonesia.

New engines of economic growth and employment creation are needed. Accelerating investment in infrastructure, the manufacturing sector and human resources provide potential pathways forward. Options are currently being debated as to whether to focus growth on labour intensive manufacturing sectors such as clothing and textiles, or whether to pursue a more diversified manufacturing industry, including sectors that are more capital and skill intensive.

Price stability has improved over time...

It is also important to understand trends in price stability and inflation, as such trends have important implications for wage indexation, project escalation, inflation targeting, the cost of living and interest rates, among others. The annual inflation rate for 2014 was estimated at 8.4 per cent, however, the first months of 2015 have seen inflation drop to between 6 and 7 per cent (y-o-y). Estimations for inflation are derived through surveys that investigate the price of goods and services across seven categories, including food, utilities, health and education, among others. In Indonesia food inflation has traditionally been high, which has a significant negative impact for the working poor, as food expenditure comprises a larger portion of their overall expenditure. In 2014 inflation for food stuff was higher than the national average rate of inflation and was estimated at 10.6 per cent (year-on-year). In this context it is important that growth in wages and incomes for the working poor keeps pace with fluctuations in food prices in order to ensure that the purchasing power of wages is not reduced.

5 Bank Indonesia (2015) Inflation Report (Consumer Price Index), Bank Indonesia, Jakarta.

While food inflation is still a challenge in Indonesia, it is worth highlighting that volatility in food prices has improved substantially. For example, in the Labour and Social Trends Report for 2011, it was reported that food prices charted two-digit inflation rates between 2006 and 2010 (with the exception of 2009).⁶ More specifically, in 2010 the year-on-year food price inflation rate was 15.6 per cent and this saw 51.4 per cent of monthly average per capita expenditure spent on food. With food inflation lower in 2014, the share of monthly average per capita expenditure on food has decreased to 50.0 per cent, indicating that people are able to spend a greater share of their income on non-food expenditure.

... however, food price volatility continues to be a concern for the working poor

Box 2: The role of decent work in promoting food security

Food security is part of a complex framework that concerns the food system from production to consumption. This system operates through value chains that incorporate many processes and different actors from various economic sectors. Failure in one part of the food chain can jeopardize the entire system, thus increasing the potential for food insecurity. Therefore, the challenges of food security must be addressed in an integrated manner. An integrated approach to food security and rural development, which incorporates the decent work agenda, is based on three main goals:

- Increasing the voice of rural people through organization of communities and promotion of rights, standards and social dialogue;
- Promoting an employment-based rural development model through diversified livelihoods, sustainable enterprises and better integration in value chains; and
- Providing social protection floors which guarantee minimum income and access to basic services in rural economies which are often vulnerable to external shocks.

Smallholder farmers and rural workers are at the heart of the food production system, but they are disadvantaged in many respects. They are among the most socially vulnerable and the least likely to be organized into trade unions, farmers' and other employers' organizations. They are likely to lack access to social protection and are likely to work in conditions with poor health and safety. Therefore, ensuring productive and decent work for farmers and rural workers is crucial if they are to escape poverty and retain the means to produce or purchase adequate and nutritious food. However, efforts to reduce poverty and hunger by raising both on-farm and off-farm incomes, and

⁶ ILO (2011) Labour and social trends in Indonesia 2011: Promoting job-rich growth in provinces, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

diversifying livelihoods, can be hindered by more flexible and casual forms of employment, in which the interests of other stakeholders in the value chain can be detrimental to those that are more vulnerable.

Rural development through decent work approaches means providing skills and opportunities for productive work that deliver a fair income, workplace security, social protection, equal opportunities for women and men, freedom of expression, freedom of participation in active decision-making, and freedom of association to enable a dialogue to attain a fairer share in the value chain.

Source: <http://www.ilo.org/sector/activities/topics/food-security/lang-en/index.htm>

Poverty has steadily decreased in line with social protection expansion and wage gains for workers

Welfare can be understood through a range of measures, including poverty lines, as well as analysis of data on consumption and expenditure through comparative measures and other thresholds. To illustrate, in March 2014 the poverty line was set at IDR 302,735 per month and it was estimated that 28.3 million people or 11.3 per cent of the population fell below this line.⁷ Poverty has been steadily decreasing in Indonesia, largely attributed to the expansion of government programmes that have targeted poor people, as well as gains in wages for unskilled and low-skilled labourers and reductions in the volatility of food prices.

Households below the poverty line in Indonesia are more likely to derive their income from engaging in activities in the agricultural sector than non-poor households.⁸ Similarly, non-poor households have a more diverse income base than poor households. In addition, the head of poor households is likely to have an average of 5 years of schooling, while non-poor household heads are likely to have 8 years of schooling. These trends highlight that access to off-farm employment opportunities and educational attainment are important determinants of household poverty in Indonesia.

Access to off-farm work and educational attainment are important factors in poverty

Welfare can also be understood through analysis of expenditure patterns, particularly through examination of per capita expenditure on food consumption, which tends to decrease as a share of total consumption as income increases. The table below presents data on average monthly per capita expenditure for urban and rural areas for food and non-food expenditure, indicating that those residing in urban and rural areas exhaust approximately 44.9 per cent and 58.8 per cent of their expenditure on food respectively. Therefore, the urban population tend to spend more on non-food needs than rural dwellers. Closer examination of non-food expenditure indicates that spending on insurance and taxes has been increasing gradually over time. For example, between March 2013 and March 2014, non-food expenditure on insurance and taxes increased by 17.7 per cent (year-on-year), underscoring government efforts to expand the tax base.⁹

7 BPS (2014) BPS Strategic data, Badan Pusat Statistik, Jakarta.

8 BPS (2014) Statistik Indonesia 2014, Badan Pusat Statistik, Jakarta.

9 BPS (2014) March 2014 National Socio-Economic Survey, Badan Pusat Statistik, Jakarta.

Table 1:
Average monthly per capita expenditure, March 2014

Type of expenditure	Urban	Rural	Total
Food	IDR 439,769	IDR 336,739	IDR 338,350
Non-food	IDR 538,948	IDR 235,847	IDR 387,682
Total	IDR 978,718	IDR 572,586	IDR 776,032

Source: BPS (2014) March 2014 National Socio-Economic Survey, Badan Pusat Statistik, Jakarta.

Analysis of calorie and protein intake can also be used to indicate the overall level of welfare within a given population. Indonesia has defined the standard for calorie and protein consumption per capita per day at 2,150 calories and 57 grams of protein.¹⁰ However, average levels of calorie and protein consumption are yet to surpass these national standards. To highlight, in March 2014 it was estimated that the national average daily per capita consumption of calories was 1,859 and for protein was 53.9 grams, indicating that the average condition is characterised by an inadequate intake of calories and protein. While this trend holds true for rural and urban areas in Indonesia, the consumption pattern differs somewhat. For example, rural areas tend to have higher calorie consumption due to greater intake of cereals and tubers, while urban areas have lower calorie intake but higher protein consumption.

While welfare may be comparatively higher in urban areas, the trend is the reverse for measures of inequality. As the table below illustrates, people in urban and rural areas experience expenditure inequality differently, with the distribution of per capita expenditure more evenly distributed in rural areas than urban areas. Higher levels of inequality in urban areas are likely linked to the greater range of occupations and activities across economic sectors in urban areas, from high-income occupations to low quality jobs in the informal economy that are typically taken up by unskilled rural migrant workers when they relocate to urban areas. National estimates for the Gini index remain at 0.41 in 2014 and have not changed since 2011. Inequality was most pronounced in Papua Barat and DKI Jakarta and was least pronounced in Kepulauan Bangka Belitung.

The Gini index remains at 0.41 in 2014 and has not changed since 2011

Table 2:
Distribution of per capita expenditure and the Gini index, March 2014

Location	Bottom 40 per cent	Middle 40 per cent	Top 20 per cent	Gini Index
Urban	15.6	34.9	44.5	0.43
Rural	20.9	38.4	40.7	0.32
National	17.1	34.6	48.3	0.41

Source: BPS (2014) March 2014 National Socio-Economic Survey, Badan Pusat Statistik, Jakarta.

10 BPS (2014) March 2014 National Socio-Economic Survey, Badan Pusat Statistik, Jakarta.

...Economic diversification is a priority for rural areas...

..while improving the functioning of labour market is a priority for urban areas...

Employment has continued to grow in 2014 and 2015....

... Fluctuations in aggregate employment tend to be linked to inactivity more than unemployment

Policy responses are needed to support inclusive growth outcomes both within and across urban and rural areas. In particular, rural areas need strategies to improve productivity and incomes in both agricultural and non-agricultural activities. Investments rural access, economic diversification, the organization of farmers and other rural workers, and the extension of social protection systems will be crucial herein. In urban areas, strategies need to focus more on factors that are driving inequality and supporting the functioning of labour market, in order to create more equitable access to labour market information and employment opportunities. In particular, reaching out to businesses and workers in the informal economy through organizations of employers and of workers may be an effective strategy for promoting transitions to formality. Investing in employment services may also help to reduce rigidities and create more equitable access to employment opportunities for workers.

1.2 Employment trends

Indonesia's labour market has continued to expand in 2014 and 2015, with evidence of employment growing and unemployment remaining low. In August 2014 it was estimated that the population of Indonesia consisted of 252.7 million people, with 121.9 million people part of the labour force (see table below). Employment grew at a rate of 1.7 per cent between August 2013 and August 2014, while the labour force grew at a rate of 1.4 per cent during the same period. This trend has seen the incidence of unemployment reduce as a percentage of the labour force population.

While trends are largely positive, it is important to note that employment outcomes have continued to fluctuate from quarter-to-quarter, pointing to seasonal factors and labour market churning. To illustrate, the number of employed workers was estimated at 118.2 million in February 2014 and this declined to 114.6 million in August 2014 (see table below). Fluctuations in employment tend to be linked to inactivity more than unemployment, with outflow from employment to inactivity higher than outflows from employment to unemployment. In particular, the decline in employment between February and August is due to a reduction in the number of people on regular employee contracts, as well as the exiting of unpaid family workers from the economically active population. The fluctuations in labour force participation seen in August may in part be a reflection of the slower economic growth rates observed in the first semester of 2014 and may also have been influenced by the Idul Fitri holiday period as well as seasonal factors. However, it is worth noting that this trend points towards a structural issue within the Indonesian labour market, which is associated with the limited capacity of labour market institutions to facilitate labour market attachment through provision of employment services and related benefits for unemployed workers.

Table 3:
Key labour market indicators

Variable	Feb 2013	May 2013	Aug 2013	Nov 2013	Feb 2014	May 2014	Aug 2014	Feb 2015
Key variables (millions)								
Population 15 years and over	178.8	179.4	180.0	180.6	181.2	181.8	183.0	184.6
Labour force	123.6	124.1	120.2	124.7	125.3	126.0	121.9	128.3
- Employed	116.4	117.0	112.8	117.7	118.2	118.9	114.6	120.8
- Unemployed	7.2	7.1	7.4	7.1	7.2	7.2	7.2	7.5
Not in the labour force	55.1	55.3	59.8	55.8	55.9	55.7	61.1	56.3
- Attending school	15.2	15.4	14.6	15.5	15.9	16.1	16.8	16.5
- House keeping	32.8	32.7	36.0	33.4	32.9	33.4	34.0	32.5
- Other activity	7.1	7.2	9.1	6.9	7.1	6.2	8.3	7.3
Key indicators								
Labour force participation rate	69.2	69.2	66.8	69.1	69.2	69.3	66.6	69.5
Inactivity rate	30.8	30.8	33.2	30.9	30.8	30.7	33.4	30.5
Unemployment rate	5.8	5.7	6.2	5.8	5.7	5.7	5.9	5.8
Employment-to- population ratio	65.2	65.2	62.7	65.2	65.2	65.4	62.6	65.5

Source: BPS (2015) Labour force situation: February 2015, Badan Pusat Statistik, Jakarta.

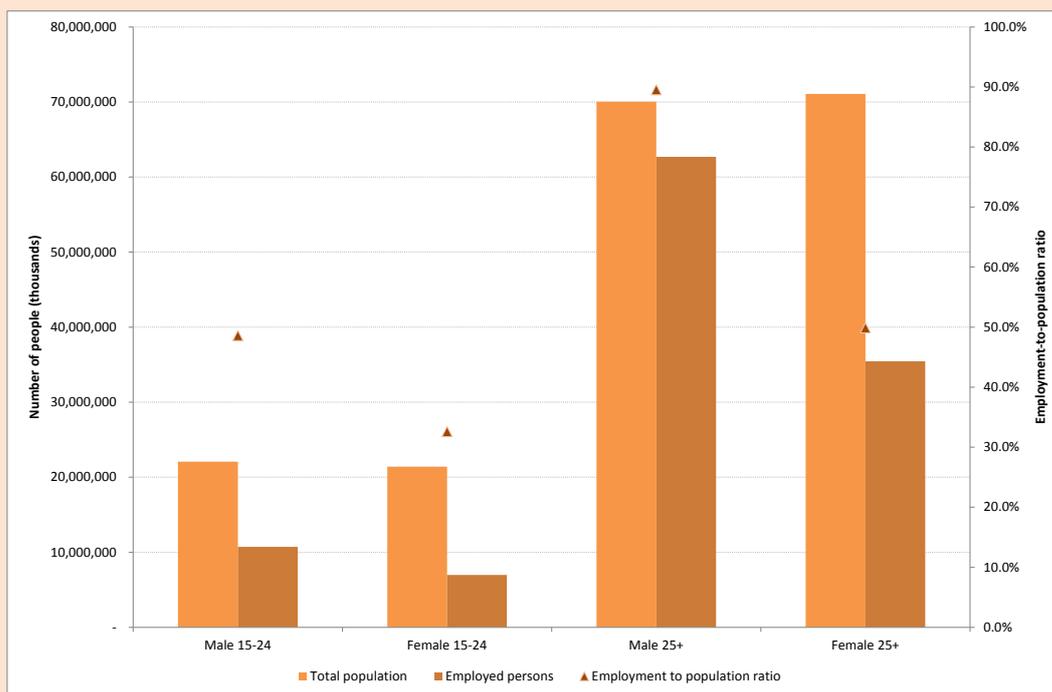
The unemployment rate in August 2014 and February 2015 was estimated at 5.9 per cent and 5.8 per cent respectively. The achievement of an unemployment rate below 6.0 per cent indicates that the target of reducing the unemployment rate to between 5 and 6 per cent by 2014 that was set in the 2010-2014 medium term development plan has been met by the Bambang Susilo Yudhoyono Government. While this is a success, unemployment is still an issue for particular groups. For example, in Indonesia unemployment is an issue for youth, with the unemployment rate for people aged between 15 and 24 years estimated at 22.2 per cent in August 2014 and 18.3 per cent in February 2015.

Over the last number of years, the employment-to-population ratio in Indonesia has been higher than global averages, due in part to the high percentage of the population that are of working age and limited income support options outside the world of work. There are significant differences in the employment-to-population ratio between men and women, as well as between the 15 to 24 and the 25 and over age groups. For example, men aged 25 years and over had the highest employment-to-population ratio, estimated at 89.5 per cent in February 2015. In comparison, young women had the lowest employment-to-population ratio, estimated at 32.6 per cent in same period (see figure below). The comparatively low employment-to-population ratio for youth is due to the participation of

*Targets on
unemployment rate
reduction have been
met*

youth in education and training institutions, a trend which should help to strengthen the competitiveness and productivity of the labour force in the coming years. Trends in gender outcomes have shown little improvement over time, with women having significantly lower labour force participation than men. While the increasing educational attainment of the young female population should help to improve women’s participation in employment in the future, the persistence of this trend indicates a need for more active policies and programmes to support women to enter the labour force and engage in work that is external to the household unit.

Figure 3:
Employment-to-population ratio by gender and age, February 2015



Source: BPS (2015) Pasar Tenaga Kerja Indonesia February 2015, Badan Pusat Statistik, Jakarta.

Unequal outcomes for men and women have manifestations in the choices that are made in education, training, career development and labour force participation, which are influenced by a set of social norms and stereotypes that prevail within society. Analysing occupational segregation by gender can shed light on the extent to which women and men can take advantage of different opportunities within the world of work.

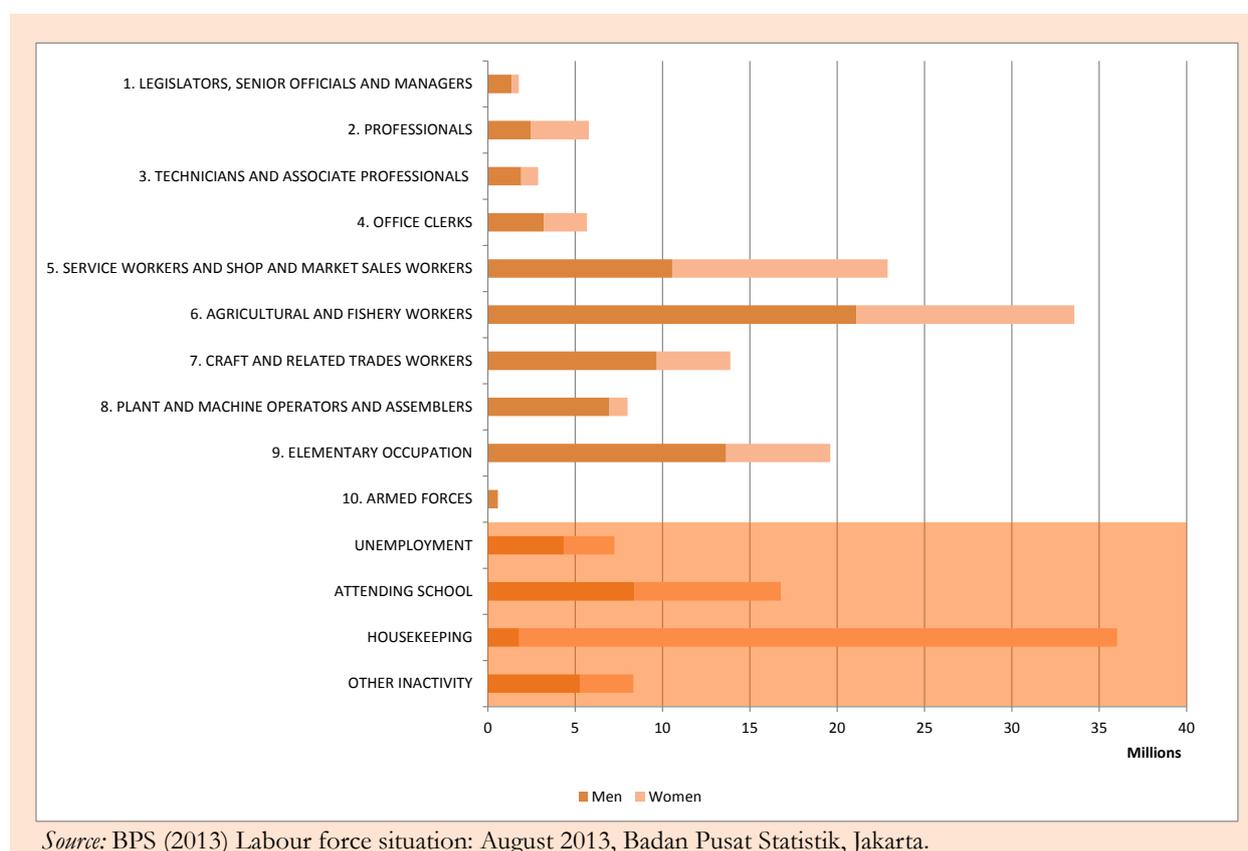
Occupational segregation by gender has implications for earnings, with many women working in jobs with lower levels of remuneration

As a proportion of employed persons by occupation, women were most predominant in professional occupations and in service and sales occupations, representing 57.2 per cent and 53.9 per cent of employment in these occupations in August 2014. The high proportion of women in professional occupations is linked with women working as teachers and nurses, which are occupations that have traditionally been female dominated and are also occupations with more limited prospects in terms of career progression and remuneration. In terms of absolute numbers, agricultural and fishery workers account for the largest (12.5 million), followed by

service and sales occupations (12.3 million) provide the highest number of employment opportunities for women (see figure below). These are the occupations with the lowest levels of average remuneration in Indonesia.

Men were most predominant in the “Plant and machine operators and assemblers” occupational grouping (87.1 per cent) and in “Legislators, senior officials and managers” occupations (77.3 per cent), indicating that both these occupational groupings are male dominated.¹¹ In terms of absolute numbers, men are found most in agricultural labouring. Wages in Indonesia are highest for those in managerial occupations and lowest for those working as production labourers and agricultural labourers, indicating that men are most prevalent in occupations with the both the highest and lowest wages. However, it is important to note that across all occupations, women tend to be paid less than men.

Figure 4:
Gender segregation in the Indonesia, August 2013 (millions of persons)¹²



11 A group in which the female share of employment is high (for example, more than 80 per cent), may be considered as “female dominated”. If the female share is low (for example, less than 20 per cent), it may be taken as “male dominated”.

12 Occupations are classified on the basis of Indonesian Standard Occupational Codes (KBJI) 2002, which is linked to ISCO-88.

...Policies are needed to address occupational segregation and support the labour force participation of women...

The outlook on gender segregation becomes more concerning when labour force participation is taken into consideration, as analysis of employed people only takes a small proportion of women of working age into consideration. In Indonesia the labour force participation rate of women is quite low, ranging between 50 and 55 per cent over the last five years. This leaves a substantial proportion of women outside the world of work. The high incidence of non participation in the labour force among women is largely attributed towards the domestic responsibilities, with many women reporting to be fully engaged in housekeeping activities (see figure above). This situation highlights gender disparities in the division of household responsibilities and it is likely that increasing women's participation in the labour force could change the nature of gender inequality in Indonesia.

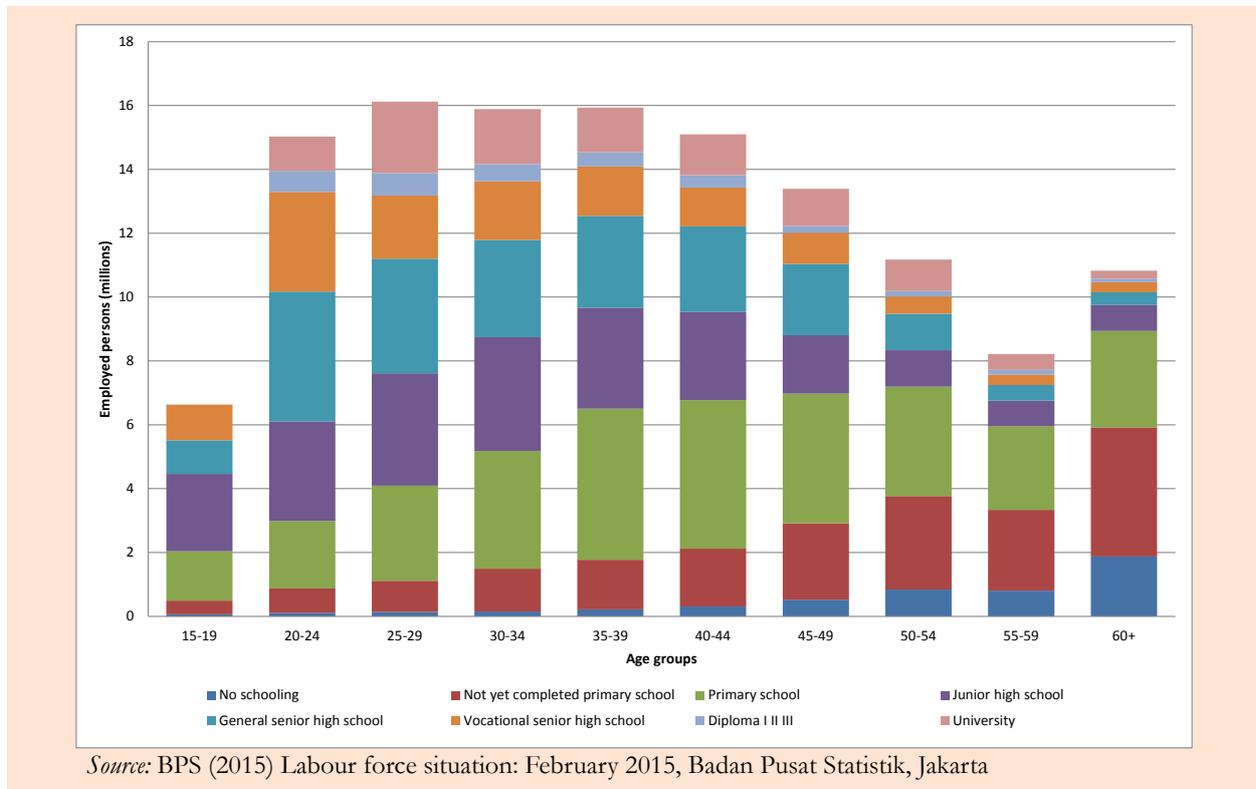
Analysis of trends over time reveals the troubling trend of women shifting between being not-in-the-labour-force due to "housekeeping duties" and entering the labour force as "unpaid family workers" in the agricultural or trade sector throughout the course of the year. This trend indicates that women are highly vulnerable and have a comparatively weak labour market attachment, due to the gendered division of tasks within households and difficulties in transitioning from work within the household to the world of work beyond the household. Policies that support women to maintain labour market attachment, through provision of maternity leave, child care and flexible work time arrangements, as well as programmes to support women to increase their qualifications and access off-farm employment, are therefore needed to address structural issues associated with the labour market outcomes of women in Indonesia. Progress in this area will be a key factor for unleashing the productive potential of the Indonesian labour force in the future.

... Substantial gains have been made in educational outcomes, however strategies are needed to support the mature age to retrain...

Gains in productivity and competitiveness can only be realized through a combination of factors, including infrastructure investment, technology adaptation, business innovation, effective industrial relations and investment in education and skills training, among others. In regard to education and skills training, it is important that institutions equip the working-age population, as well as future generations, with appropriate education and skills training for supporting access to productive jobs that have upward earning potential. Figure 5 examines educational attainment of the labour force by age group for February 2015. It highlights that educational attainment is a structural issue and that it takes considerable time to transform the educational profile of a nation. The figure highlights that majority of people aged 45 years and over have primary education or below as their highest level of educational attainment. There is evidence of changes in education outcomes for the prime working age population (30-44 years), with a greater proportion of this population reporting to have completed junior and senior high school. The population aged between 15 and 29 have the highest rates of senior high school completion and many persons from this age group also report to have completed tertiary education. Overall trends are positive for the young people, while those aged 30 years and over may benefit from policies and programmes that open access for

mature age students to further their skills and retrain into different sectors and occupations.

Figure 5:
Educational attainment of the labour force by age groups, February 2015



Trends reported in the Labour and Social Trends Report for 2013 highlighted the simultaneous existence of both a shortage of skilled-workers and a labour surplus in Indonesia. In particular, data captured by the Ministry of Manpower's Employment Service Centres indicates that unemployment in Indonesia is in part caused by a skills mismatch that is observed between registered job seekers and registered job vacancies. More specifically, analysis of this data indicates that the demand for labour with tertiary education outstrips the supply of such labour. There is also an oversupply of labour with junior high school and senior high school as their highest level of educational attainment in comparison to the number of job vacancies requiring such levels of educational attainment. This scenario indicates a situation of skills mismatch between the supply of labour and demand for labour.

Unemployment in Indonesia is in part caused by a skills mismatch...

Reducing the incidence of skills mismatch is important for strengthening the competitiveness and the productivity of the Indonesian economy.¹³ Various forms of skills mismatch are always present in the labour market and addressing the issue of mismatch is complex due to the many factors that influence supply and demand. Developing responsive education and training systems is key to addressing this issue. This requires strong engagement from the key stakeholders of the economy, including workers, employers and

13 ILO (2014) Key Indicators of the Labour Market, Eight edition, International Labour Office, Geneva

government, in the development of skills systems, accompanied by effective labour market information systems and employment placement services.

Many positions in Indonesia are filled by underqualified workers

While there is no agreed method for measuring skills mismatch, skills mismatch can be understood through indicators that provide information on educational attainment and occupations. Table 4 presents analysis on the share of employed persons that are overqualified, underqualified and well-matched according to their occupation and educational attainment for August 2014. In this table, skills mismatch is interpreted to be equivalent to employed persons having more education or less education than is required for the particular occupation. Occupations including managers, professionals and associated professionals are defined to be high-skilled jobs that require tertiary education and many of these posts are currently filled by underqualified people. Occupations including clerks, service and sales workers, skilled agricultural workers, tradespersons and production labourers require secondary education. Most of these jobs are also filled by underqualified workers, except for clerks, many of who tend to be university educated and are therefore likely to be overqualified for such occupations. Finally elementary occupations are considered low-skilled and require primary education or less. Approximately 22 per cent people employed in elementary occupations are considered to be overqualified.

Table 4:
Skills mismatch by occupation and educational attainment, August 2015 (per cent)¹⁴

Occupation	Underqualified	Well-matched	Overqualified
Legislators, senior officials and managers	49.0%	51.0%	NA
Professionals	22.7%	77.3%	NA
Technicians and associate professionals	52.5%	47.5%	NA
Office clerks	6.5%	54.3%	39.1%
Service workers and market and sales workers	58.7%	35.7%	5.5%
Skilled agricultural and fishery workers	88.9%	10.3%	0.8%
Craft and related trade workers	72.4%	25.9%	1.6%
Plant and machine operators and assemblers	55.5%	42.0%	2.5%
Elementary occupations	NA	78.0%	22.0%
Total	56.0%	37.0%	7.0%

Source: BPS (2014) Labour force situation: August 2014, Badan Pusat Statistik, Jakarta.

* ILO staff calculations based on revised population estimates. ** Excludes armed forces occupations.

¹⁴ Skills mismatch in the sense of over-education or under-education means that workers have either more education or less education than is required. Measurement of this type of skills mismatch are based on the International Standard Classification of Occupations (ISCO). This measure of mismatch starts from a division of major occupational groups (first-digit ISCO levels) into four broad groups and assigns a level of education to each occupational group in accordance with the International Standard Classification of Education (ISCED). Workers in a particular group who have the assigned level of education are considered well matched. Those who have a higher (lower) level of education are considered overeducated (undereducated). For instance, a university graduate working as a clerk (a low-skilled non-manual occupation) is overeducated, while a secondary school graduate working as an engineer (a high-skilled non-manual occupation) is undereducated

In addition to examining skills mismatch through occupations and skill level, it is important to take age groupings into consideration, particularly as youth unemployment is a longstanding concern in Indonesia. Unemployment for youth (15-24 years) is high in Indonesia, particularly for youth with secondary education (see table below). Youth account for over 50 per cent of the unemployed population and most unemployed youth have never worked before.

Educated youth in Indonesia face a higher chance of being unemployed compared to less educated youth. However, youth with higher levels of educational attainment also tend to be actively seeking work, which may be linked to a higher likelihood of meeting the job vacancy criteria of employers in the future. In comparison, in February 2015 approximately 17.9 per cent of unemployed youth indicated that they had given up hope of finding work and were therefore discouraged job seekers. Most discouraged unemployed persons had an educational attainment of junior high school or lower, which highlights the important role that education plays in the prospects of unemployed people. In general, the situation underlines the importance of delaying labour market entry for youth and supporting the continuation of their participation in education and training that is responsive to the needs of the labour market. Such policy preferences should also bring gains in productivity over time.

Education plays an important role in the prospects of unemployed people

Table 5:
Unemployment by educational attainment and age groups, February 2015 (millions)

Educational attainment	Number of unemployed		Unemployment rate	
	15-24	25+	15-24	25+
No schooling	23,601	100,702	13.5%	2.1%
Not yet completed primary school	217,953	385,241	18.3%	2.2%
Primary school	608,794	711,598	16.6%	2.4%
Junior high school	819,091	831,296	14.8%	4.7%
General senior high school	1,032,599	729,812	20.2%	4.4%
Vocational senior high school	842,909	331,457	19.9%	3.8%
Diploma I II III	143,517	110,795	21.5%	4.1%
University	272,419	292,983	25.4%	3.1%
Total	3,960,883	3,493,884	18.3%	3.3%

Source: BPS (2015) Labour force situation: February 2015, Badan Pusat Statistik, Jakarta.

Trends concerning the number of people reporting Diploma I/II/III as their highest level of educational attainment have been relatively stagnant over time. In February 2015 3.4 million people, or 2.6 per cent of the total labour force reported Diploma I/II/III as their highest level of educational attainment. This trend combined with skills mismatch and high unemployment among educated youth points towards a need for enhancing the relevance of education and vocational training institutions in order to better meet the needs of the employers, as well as investment in employment

Investment in vocational training institutions is needed to narrow the skills gap

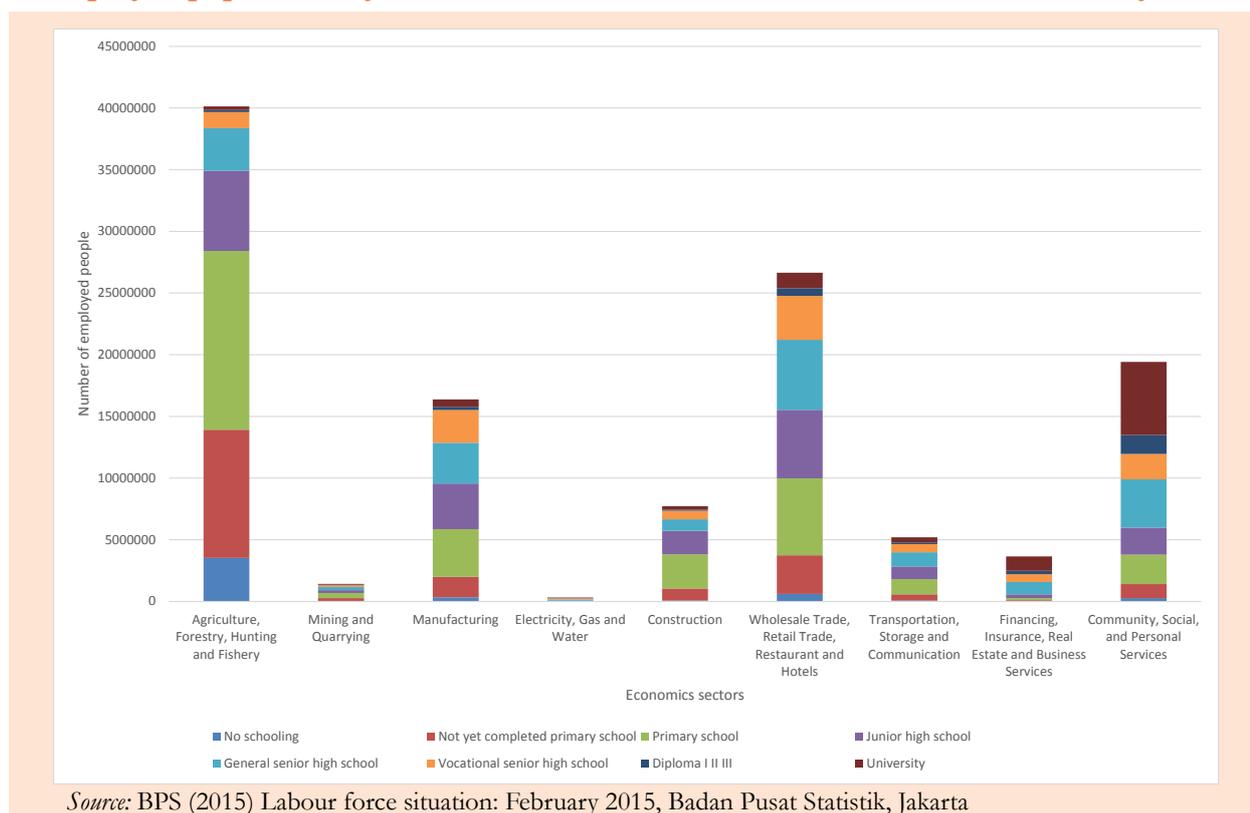
services that can facilitate the functioning of the labour market through matching services. The reinvigoration of vocational training institutions and the linking of these institutions with a renewed apprenticeship training system could also support the narrowing of skills mismatches.

Structural changes have altered demand for skills

Trends in unemployment for high school graduates are therefore likely to in part be a reflection of the degree to which the various programmes and curriculum within educational institutions is aligned with the needs and requirements of employers. Employers and workers should be actively engaged with skills training institutions, as they have information about the skills that businesses need. However, sustaining dialogue and ensuring the quality of dialogue on skills anticipation and linking training institutions to the needs of the employers is a considerable challenge. Nevertheless, dialogue can be fostered through the involvement of employers and workers in the design of occupational standards and training systems.

The changes in sectoral composition of the economy and the labour force have altered demand for skills. With the growth of the service sector, workers with higher levels of educational attainment are increasingly in demand. To further illustrate, the figure below shows that the agricultural sector employs workers that have lower levels of educational attainment, while the services industries hire more university graduates than the other sectors. If the current trend of structural transformation towards an economy focused on investment and the services sector continues, it follows that more educated workers will be in demand. It is therefore important that

Figure 6:
Employed population by economic sector and educational attainment, February 2015



policy makers continue to provide support for the working age population, particularly youth, to continue their education, in turn reducing the number of low-educated workers in the labour force in the future. Labour market policies and programmes, particularly employment services and active labour market programmes, will also need to be strengthened so that they can support job seekers to find work and transition from school-to-work successfully.

While processes to support structural transformation are in process, the agricultural sector is still the largest absorber of employment in Indonesia, employing 40.1 million people, followed by the trade sector (26.6 million) and the social and government services sector (19.4 million) in February 2015. The manufacturing sector employed 16.4 million people or 13.6 per cent of total employment in same period. Employment in manufacturing has been growing rapidly in recent years and is now higher (in terms of sectoral share and absolute numbers) than its pre-1998 status, when it was a driver of economic and job growth in Indonesia. Similarly, the construction sector is now experiencing strong job growth, with employment in the sector at its highest ever. The construction sector employed 7.7 million people or 6.4 per cent of total employment in February 2015. The combination of growth trends in manufacturing and construction provide important information on investment and growth for Indonesia. These trends also provide an important signal to policy makers, regarding the need for reflection on the quality of labour supply to support the future demands of the economy.

Changes in the sectoral composition of the economy will demand investment in two core areas, including investment in access and productive infrastructure, as well as investment in labour market institutions that can support human resource development. Investment in labour market institutions for supporting gains in labour productivity is lagging and deserves greater attention. In particular, investment in vocational training institutions and wage setting institutions will be a key factor for the benefits of growth to be accessed by the Indonesian people.

While investment in education and skills are important for strengthening the overall condition of the economy and labour market, there are many other strategies that can support gains in productivity. For example, the number of hours worked has an impact on the health and productivity of the employed population. Therefore, understanding trends in work time, particularly excessive hours, is important for monitoring working conditions and improving productivity.

It is common to work both long hours and excessive hours in Indonesia. According to the Manpower Act No. 13/2003, long work hours are considered to be more than 40 hours per week, while the ILO conventions on the hours of work (No. 1, 1919 and No. 30, 1930) specifies that more than 48 hours of work per week is excessive. Excessive working hours are associated with particular occupations and sectors. For example, in August 2014 55.7 per cent of people employed as plant and machine operators and

Growth trends in manufacturing and construction provide important information on investment and growth for Indonesia

Excessive working hours are common in Indonesia

Efforts to improve work time arrangements may reduce excessive working hours and improve productivity

assemblers worked 48 hours or more per week. In addition, many service and sales workers within the trade, restaurants and hotels sector also work excessive hours.

Excessive working time is associated with the point at which long working hours become visible across areas such as workplace injury and absenteeism. Therefore, excessive working hours have implications for productivity. Over the last 5 years an average of 32 per cent of employed persons in Indonesia worked excessive hours. The box below further outlines how work hours impact on productivity and how work time arrangements can be optimized to improve worker and enterprise outcomes.

Box 3: Work time arrangements and labour productivity

Managing working time and implementing effective work time arrangements can provide enterprises with mechanisms for promoting improvements in labour productivity and overall firm performance. Work time arrangements are important for enhancing productivity, with research indicating that gains in manufacturing productivity are not linked to long working hours. Indeed, in many industries it appears that shorter hours are associated with higher output rates per hour.

Improving work time arrangements can offer firms many benefits. For example, both flexi-time arrangements and compressed work-weeks tend to have positive effects on productivity and employee job satisfaction. Permitting flexi-time arrangements can have a strong positive impact on absenteeism. Ensuring that employees have breaks can reduce fatigue, leading to decrease faults, reduced worker injuries and reduced time per task. There is also substantial evidence that employers who offer work schedule flexibility are likely to improve the recruitment of new staff and the retention of existing staff. Improving work time arrangements can also offer reductions in direct wage costs from savings in overtime, as well as reductions in operational costs and less wear on company assets.

The ILO has identified five guiding principles for optimizing work time arrangements, including promoting a “healthy” working time that allows for appropriate respite, ensuring a family-friendly” working time, promoting gender equality through working time, optimizing productivity through working time, and involving workers in developing work time arrangements. More effective work time arrangements can improve social and economic outcomes for firms, leading to improvements in sustainability and “win-win” solutions that benefit workers and employers.

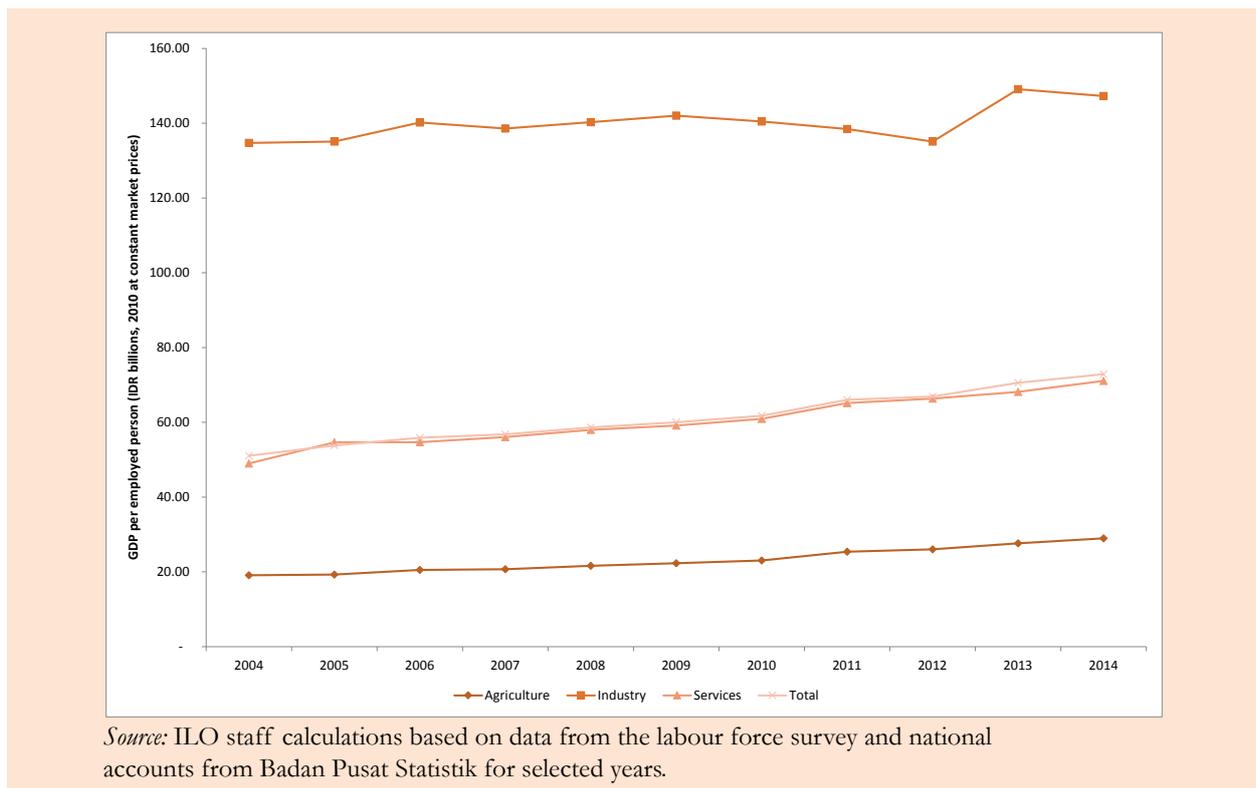
Source: Golden, L. (2012) The effects of working time on productivity and firm performance: a research synthesis paper, International Labour Office, Geneva

1.3 Wage trends

Gains in labour productivity are essential for the economy as a whole to maintain global competitiveness. With the majority of those employed in Indonesia working long hours in jobs with low wages, improving productivity is an essential ingredient for moving towards a more competitive and prosperous economy. Labour productivity, defined as GDP per employed person, has been increasing gradually over time in Indonesia, with productivity in the industrial sectors nearly double that of the services sector and quadruple that of the agricultural sectors (see figure below).¹⁵ For example, between 2005 and 2009 productivity expanded at an average annual rate of 3.3 per cent. Between 2010 and 2013 productivity expanded by average annual rate of 5.1 per cent. This trend has been supported in part through investments in infrastructure, as well as structural changes that have seen the expansion of employment in the higher value-added industrial and services sectors and the contraction of employment in lower value-added agricultural sectors.

Labour productivity has been increasing consistently over time

Figure 7:
GDP per employed person 2004–2014¹⁶



15 Labour productivity defined as GDP per employed person is not an ideal measure. It is preferable to use economic data on value added and compensation of workers, however this is only available for selected years. The latter measure provides a more robust assessment as it takes into consideration factors such as unpaid family workers, which comprise 16 per cent of employed persons in Indonesia.

16 Defined as GDP (constant prices 2010) per employed person. Agriculture includes the Agriculture, Forestry, Hunting and Fishery sector. Industry includes i) Mining and Quarrying, ii) Manufacturing, iii) Electricity, Gas and Water, and iv) Construction. Services includes i) Wholesale Trade, Retail Trade, Restaurant and Hotels, ii) Transportation, Storage and Communication, iii) Financing, Insurance, Real Estate and Business Services, and iv) Community, Social, and Personal Services.

Increases in labour productivity can be shared with workers through a variety of mechanisms

It is important that gains in labour productivity are shared between workers and employers. These gains can be shared with workers through higher wages, improving working conditions, shorter working hours and/or investment in human resources. For employers, linking real wage growth to productivity gains implies stable real unit labour costs (and profit growth in line with productivity). Sharing these gains can also provide benefits for economic growth, as higher wages for workers can improve in their purchasing power, and subsequently strengthen domestic consumption and lead to increases in living standards. Moreover, continuing high levels of inequality in Indonesia calls for attention from policy makers. As mentioned in section 1.1, inequality, as measured through the Gini coefficient,¹⁷ was estimated at 0.41 in 2011, and has not declined since. This situation highlights the need for policy makers in Indonesia to sit together with representatives from employers' and workers' organizations to engage in a dialogue on gains sharing and supporting the expansion of quality jobs (see box below). The dual goals of reducing inequality and linking wages to productivity require strong wage setting institutions that can support both collective bargaining and minimum wage setting.

Box 4: Productivity gains sharing

In 2014 the Ministry of Manpower, together with the Coordinating Ministry for Economic Affairs, APINDO and trade unions, have been engaging in consultations and piloting the application of the concept of "Productivity Gains Sharing" in nine small and medium companies in various sectors throughout Indonesia. The purpose of the exercise was to pilot the application of productivity improvement and provide recommendations on productivity gains sharing as an alternative wage system. The concept of productivity gains sharing refers to an approach that compensates workers on the basis of improvements in the company's productivity and that wages should move in line with prices plus productivity.

The analysis from the nine companies shows that productivity gains sharing supports the creation of good industrial relations and strengthens partnerships between workers and management at the company level. There should be clear performance indicators and measurement of productivity gains-sharing, which are adjusted to the needs and characteristics of the particular company. Further, for productivity gains sharing to be effective, commitment and transparency from both management and workers based on mutual trust and good faith is needed, as well as integrated information technology systems for monitoring. It is recommended that the Government provide policy and guidance (through standards for

¹⁷ The Gini coefficient estimates income inequality on a scale of zero to one, where zero corresponds to perfect income equality and one corresponds to perfect income inequality.

sectoral measurement or training modules with simulation and factual cases) on the implementation of the productivity gains sharing concept, so it can be used more widely, especially by small and medium enterprises in Indonesia. Productivity gains sharing also requires effective bipartite institutions at the enterprise level, as they provide the forum for consultation. Productivity gains sharing should also be included in collective bargaining agreements.

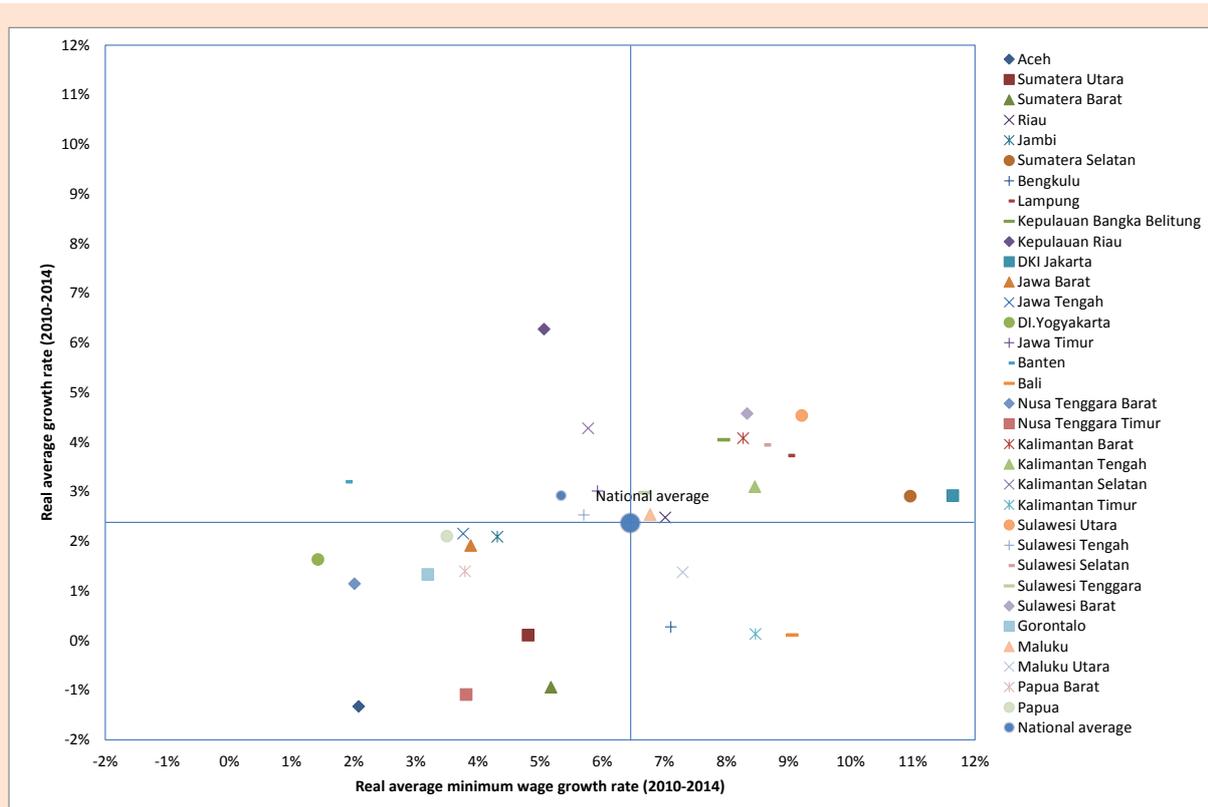
Source: "Productivity Gain Sharing, Practice in 9 Companies – As the solution of wages system in Indonesia", Directorate General of Training and Productivity, Ministry of Manpower, November 2014.

Indonesia has sustained over a decade of economic growth, which has been accompanied by increases in labour productivity, but growth in wages remains a point of concern. The minimum wage fixing mechanism is the most predominant mechanism through which wage increases are achieved in Indonesia. While minimum wages have been increasing, growth in average wages has been slower and over time the gap between average minimum wages and average wages has narrowed. For example, in 2001 the simple average minimum wage for Indonesia was 58.5 per cent of the national average wage and by August 2014 this ratio had increased to 76.5 per cent.

Moreover, between 2010 and 2014 the minimum wage has grown at an average rate of 6.5 per cent in real terms nationally, while average wages have grown at an average rate of 2.4 per cent in real terms (see figure below). Gains in provincial minimum wages have been most evident in Jakarta Province, and been most restrained in the provinces surrounding Jakarta on Java Island. Kepulauan Riau Province has lead increases in average wages, while growth rates in Aceh Province have lagged. Most provinces have had higher growth rates in minimum wages than growth rates of average wages. This trend reflects the strong reliance on minimum wage fixing and highlights the need to strengthen collective wage bargaining in order to promote the growth of average wages.

Growth in minimum wages has been outpacing growth in average wages

Figure 8:
Trends in real growth rates for provincial minimum and average wages, 2010-2014¹⁸



Source: BPS (2014) Labourer situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta.

* ILO staff calculations using average wages from August Sakernas.

In addition to understanding trends in minimum and average wages, it is important to understand wage distribution. To further illustrate, in August 2014 the average wage for regular employees was IDR 1,952,589, and 66.4 per cent of regular employees earned below this wage. The median wage for regular employees was IDR 1,425,000 in August 2014, which is substantially lower than the average wage. The discrepancy between the two figures indicates that the distribution of regular employees by wage level is highly skewed, with a high incidence of regular employees earning low pay.

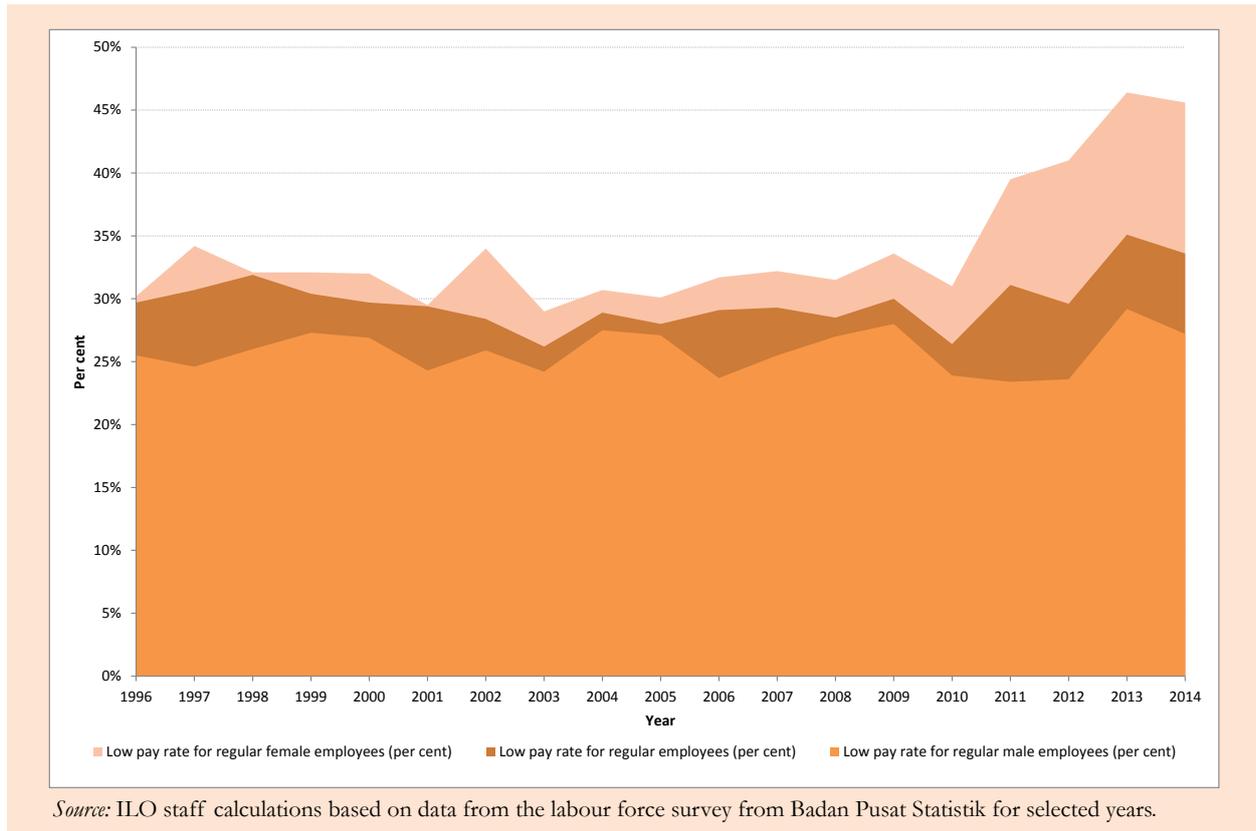
One in three regular employees in Indonesia receives a low wage

Low pay is defined as the proportion of regular employees whose wage equals less than two-thirds of the median wage of regular employees. It is a measure that can help to gauge growth in income gaps. Two-thirds of the median wage, the benchmark for estimating low pay, was IDR 950,000 in August 2014. Analysis indicates that one in three regular employees (33.6 per cent) in Indonesia receive a low wage, with low wage employment accelerating in recent years (see figure below). Low-wage workers also tend to be disproportionately female.

18 Based on compound annual growth rate (CAGR).

19 That is, half of the workers earned below this level

Figure 9:
Percentage of regular employees with low pay, 1996–2014



The high incidence of low pay in Indonesia is a concern as low pay increases the risk of vulnerability. In many countries low wage employment often acts as a stepping stone to entering into higher paying work, however for many Indonesia workers low wage employment is the norm rather than a springboard. Analysis of low pay in Indonesia points to a situation where wage growth has been lagging, rather than a situation where minimum wage growth has been too high. In a situation where a large proportion of workers are receiving low pay, with little prospect of catching up to those in work with higher levels of remuneration, there is a greater risk of industrial conflict.

Specific policies are needed to address the high incidence of low wage work in Indonesia, as higher rates of economic growth do not alone guarantee progress in this area. Reducing the incidence of low pay is also important for strengthening the competitiveness and productivity of the Indonesian labour force, as low wage work can be associated with the deterioration of workers' skill and can also signal to employers that such workers have low productivity. Both of these factors reduce the likelihood that low wage workers will gain access to higher wage employment.

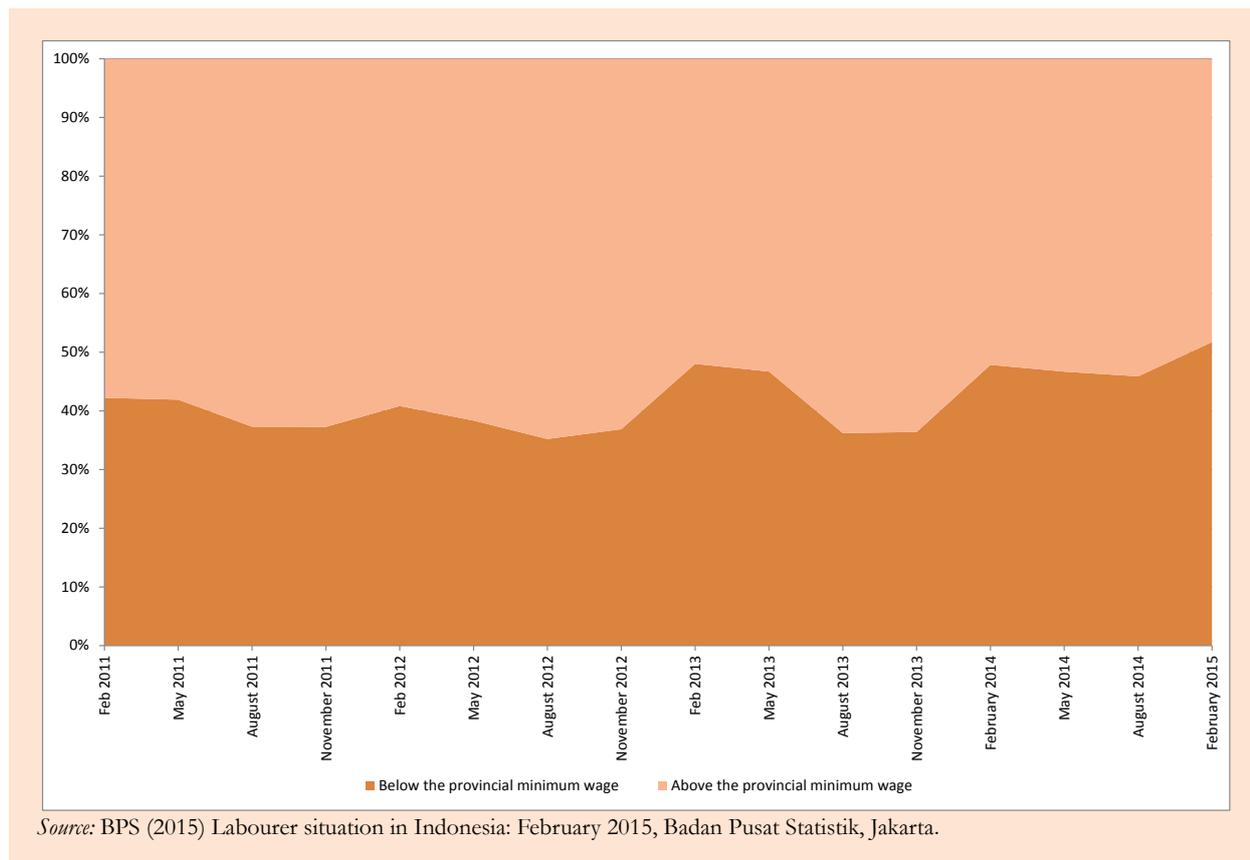
In addition, the high incidence of low pay in Indonesia may be related to the issue of minimum wage compliance, with 51.7 per cent of regular wage employees receiving wages below the lowest wage that is permissible by law in February 2015 (see figure below). Wage compliance displays

Specific policies are needed to address the high incidence of low wage work...

...particularly as low levels of minimum wage compliance may be linked to low pay

a cyclical pattern throughout the year, with compliance at its lowest in February and highest in August, suggesting a lag time in the application of adjustments to wages within enterprises. Policies to address the issue of low pay and minimum wage compliance include strengthening labour market institutions, particularly labour inspection, to ensure the employers are complying with minimum wage levels, as well as providing opportunities for workers to engage in life-long-learning through further education and training programmes.

Figure 10:
Percentage of employees below and above the provincial minimum wage, 2011-2015



Source: BPS (2015) Labourer situation in Indonesia: February 2015, Badan Pusat Statistik, Jakarta.

Gains in wages are not translating for all workers

Due to the nature of the labour market in Indonesia, which is characterised by a high incidence of low pay,²⁰ high levels of vulnerable employment and informality, as well as a limited capacity for labour inspection, the minimum wage falls short of fulfilling its role as a safety net wage. This means that the benefits of economic growth and formal wage setting systems do not necessarily trickle down to the working poor, who often work in the informal economy in rural areas where it is difficult to enforce labour regulations.

20 For example, only 15 per cent of employees in the Philippines earn low pay. See ILO (2010) Global Wage Report 2010/11: Wage policies in times of crisis, International Labour Office, Geneva.

Box 5: Trends in average wages across ASEAN

Wages are important as they are the main source of income for many households. Within ASEAN wages are the main source of income for 116.9 million workers and their families. As more and more people depend on wages for their livelihoods, wages and their purchasing power assume greater significance – for workers as a source of income, and in turn for economies across the region as a source of demand. Analysis of trends globally tells us that lower wages or slow growth in wages tends to limit household consumption, thereby depressing aggregate demand, unless that negative effect is offset by substantial gains in investment or net exports. Therefore trends in wage growth, particularly growth in average wages, should be closely monitored.

In ASEAN average wages have been growing, however, large discrepancies across wage levels remain. For example, in 2013 Lao People’s Democratic Republic had the region’s lowest average wages, at only US\$ 119, while the average employee in Singapore earned US\$ 3,547 per month. Between these two extremes lie Cambodia (US\$ 121), Indonesia (US\$ 174), Viet Nam (US\$ 181), Philippines (US\$ 206), Thailand (US\$ 357) and Malaysia (US\$ 609). Large differences in average wages between ASEAN Member States partly reflect substantial differences in labour productivity – the value added per worker, or per hour worked - as well as the strength of wage setting institutions for supporting collective bargaining.

Source: ILO and ADB (2014) ASEAN community 2015: Managing integration for better jobs and shared prosperity, International Labour Organization and Asian Development Bank: Bangkok.

Minimum wages in Indonesia are determined through an annual process led by decentralized wage boards that consist of workers, employers and government, which estimate the amount needed for workers to achieve a “minimum decent standard of living” or the “*kebutuhan hidup layak*” (KHL) for a particular province or district. The important role that the KHL and minimum wage plays in Indonesia creates a tense environment for industrial relations throughout the process of its determination. Workers and employers often have varying views in regard to the number of items,²¹ and the prices of the items, that should be included in the assessment of minimum decent living standards. However, the decision on the minimum wage level is political and made by the Governor or Mayor of the province or district. Over time discrepancies between the KHL and minimum wages have emerged. Presidential Instruction No. 09/2013 Regarding the Setting of the Minimum Wage specifies that provincial minimum wages should

Further coordination may be warranted in minimum wage setting...

²¹ The number of items included in the assessment for decent minimum living standards increased from 45 to 60 items in 2012.

be equivalent to provincial KHL assessments in order to close this gap. However, further coordination would improve coherence across minimum wage setting.

... to allow the minimum wage to fulfil its function as a safety net wage, rather than a default wage

As the regulatory environment for minimum wage setting in Indonesia is decentralized and allows for the establishment of minimum wages by province and district, as well as minimum wages for sectors and occupations within districts or provinces, discrepancies have emerged. For example, there is considerable disparity in the level of minimum wages across Indonesia, with Central Java having the lowest minimum wage (IDR 910,000) and DKI Jakarta having the highest minimum wage (IDR 2,441,301) in 2014 - 2.7 times higher even though the provinces are only 300km apart in distance. Cost differences play a major role, as does the extent of informal economy and other supply side factors. Other countries, such as Australia, have a mechanism at the national level that establishes a national safety net wage upon which all other minimum wages should be equivalent or higher. Such as coordination mechanism may be useful for addressing the inequality that is growing between provinces in Indonesia.

The focus on minimum wage setting has also seen some exceptional cases emerge. To illustrate, in selected districts within West Java province a minimum wage has been set for the manufacturing of zippers within the textile and garment industry. In this situation, it may have been more efficient for workers and the employer to directly negotiate over wages, rather than to use the minimum wage fixing machinery. However, limited experience in wage bargaining means that the more familiar and legal binding tool of minimum wage setting is preferred. This leads to a situation where a multitude of minimum wages may exist for specific contexts where it may be more efficient to develop collective bargaining agreements. Hence the importance of encouraging wage bargaining between workers and employers, in order to allow the minimum wage to fulfilled its function as a safety net wage.

Strengthening competitiveness and productivity through decent work

Continuing trends related to the integration of national markets within regional and global systems underscores the need for stakeholders within the world of work to implement strategies for strengthening the competitiveness and productivity of their economies. The realization of the ASEAN Economic Community by 2015 further emphasizes this point. For Indonesia this means that the structural changes that are currently unfolding within the economy are likely to be accelerated. Structural changes will entail both shifts in demand for skills and require innovation to strengthen productivity.

In this context it is important that labour market institutions, together with employers and workers, become more responsive so that the costs of adjustment can be mitigated and the benefits of productivity gains can be realized. Sound industrial dialogue is a key ingredient herein, as is progress toward a comprehensive social protection system and the upgrading to vocational training institutions.

Building on these core themes, chapter two of this year's Labour and Social Trends Report uses Indonesia's "Decent Work Country Programmes" (DWCP) 2012-15²² as a framework for discussing the need to strengthening competitiveness and productivity through decent work. Issues related to employment creation, industrial relations and social protection are in focus.

The integration of national markets within regional and global systems underscores the need to strengthen competitiveness and productivity

22 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.

Gains have been experienced unevenly...

... a range of interventions are needed to stimulate outcomes and promote equitable growth

At the micro level, gains in productivity have been experienced unevenly by firms of differing sizes and there are indications of a widening skills gap. Therefore, section one of this chapter highlights the importance of large manufacturing firms for the Indonesian economy, while also drawing attention to the importance of strengthening micro, small and medium firms through a range of labour market interventions. In particular, investing in apprenticeship systems may be highly relevant for addressing the phenomenon of the “missing middle” while boosting productivity.

Section two of this chapter focuses on industrial relations trends and picks up on the importance of compliance, with focus on innovations in compliance as well as how strengthening compliance can be beneficial for firms and their workers. Section three of this chapter on social protection brings focus to homeworkers, who are a highly vulnerable segment of workers that are linked with global value chains in the manufacturing sector. It also discusses progress towards a social protection floor for Indonesia and trends related to migrant workers.

The key message of the report is that by working together, Indonesia can build a more prosperous economy. Increasing productivity, improving wages and decreasing the incidence of low wages not only helps to strengthen the competitiveness of the economy, it also makes good business sense.

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 Strengthening productivity and competitiveness in manufacturing

The manufacturing sector in Indonesia is highly diverse, with significant differences between the large and medium (LM) establishments and the micro and small (MS) enterprises in the sector. There are also substantial differences across labour intensive industries, capital intensive industries and resource intensive industries.

Historically, the manufacturing sector has been a very important industry within the Indonesian economy, contributing to the dynamism of the economy, expanding export markets, and, more importantly, providing a source of quality employment for the Indonesian people.

However, the story has been a little different since the turn of the new millennia. Indonesia seen a declining role of the manufacturing sector in the overall economy, generally termed as deindustrialization, albeit at a rather pre-mature level. The Indonesian economy passed the peak of manufacturing industry's contribution to the overall GDP in 2004, when the sector accounted for approximately 28 per cent of GDP (see table below). However, in comparative terms, this figure is quite low. In advanced economies, the peak of manufacturing sector's contributions to GDP was achieved in 1960s and the figures were much higher. For example, approximately 36 per cent in Japan, 32 per cent in European Union and 30 per cent in industrial countries.²³

Manufacturing is an important sector for the Indonesian economy

However its growth has stagnated in recent years

Table 6:
GDP (IDR Billion, 2000 constant prices) and GDP shares (per cent), 2004–13

Sector	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP (value added)										
Overall economy	1,656,517	1,750,815	1,847,127	1,964,327	2,082,456	2,178,850	2,314,459	2,464,566	2,618,938	2,770,345
Manufacturing	469,952	491,561	514,100	538,085	557,764	570,103	597,135	633,782	670,191	707,458
LM Manufacturing	261,772	256,291	287,561	301,304	291,554	308,827	332,755	357,287	391,770	383,941
GDP (value added) share										
Overall economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Manufacturing	28.4	28.1	27.8	27.4	26.8	26.2	25.8	25.7	25.6	25.5
LM Manufacturing	15.8	14.6	15.6	15.3	14.0	14.2	14.4	14.5	15.0	13.9

Source: Calculated from BPS data (National Accounts and Manufacturing Statistics)

More importantly, at the peak of the industrialization in advanced economies, the employment share of the manufacturing sector was more or less comparable to the sector's share of GDP. In Indonesia, the employment share in the manufacturing sector is far below its share in GDP, indicating a failure of the sector to absorb surplus labour from the agricultural sector

23 See Rowthorn, R., and R. Ramaswamy. 1997. 'Deindustrialization: Causes and Implications'. Working Paper 97/42. Washington, DC: IMF.

(see table below). This trend has led to a call for re-industrialization of the Indonesian economy.

Table 7:
Employment and employment shares, 2001-13

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employment									
Total	95,356,277	98,018,099	101,853,665	104,642,625	107,070,256	109,589,715	108,165,761	113,011,621	112,761,072
Manufacturing	11,380,551	11,815,089	12,052,112	12,325,295	12,512,148	13,474,059	14,540,124	15,618,481	14,959,804
LM Manufacturing	4,226,572	4,755,703	4,624,937	4,457,932	4,345,174	4,501,145	4,629,369	4,928,839	4,382,908
Employment shares (%)									
Total	100	100	100	100	100	100	100	100	100
Manufacturing	11.9	12.1	11.8	11.8	11.7	12.3	13.4	13.8	13.3
LM Manufacturing	4.4	4.9	4.5	4.3	4.1	4.1	4.3	4.4	3.9

Source: Calculated from BPS data (National Accounts and Manufacturing Statistics)

The manufacturing sector is a source of regular wage employment

At the firm level within the manufacturing sector, the large and medium (LM) establishments play important roles. LM establishments are firms employing 20 employees or more.²⁴ *Firstly*, the manufacturing sector is the second largest contributor, after the service sector, to regular wage employment. This regular wage employment is concentrated in the LM establishments. Regular wage employees in the LM establishment are likely to receive higher wages, have terms of employment that comply with labour regulations, have better access to social security, and have higher chances of being involved in labour unions. *Secondly*, the LM establishments are likely to innovate, attract foreign direct investment and embark on technology transfers. These characteristics are critical to the dynamism of the economy and provide an essential source of growth. .

Table 8 shows the recent growth trajectory of the manufacturing sector and LM establishments in comparison to the overall economy. The manufacturing growth is more volatile and lower than the overall growth of the economy. Although the overall growth rate of LM establishments is higher than that of manufacturing sector, the growth of LM establishment is far more volatile recording two contractions in 2005, 2008 and 2013 respectively. The first contraction could be linked to the fuel price hikes in 2005.²⁵ The second contraction could be seen as the effect of the Global Financial Crisis of 2008-09. The most recent contraction in 2013 could be linked additional adjustments on fuel subsidies, as well as minimum wage increases, and the overall slowdown of the economy partly due to the end of commodity boom. These trends indicate that the LM establishments are more prone to shocks.

24 BPS categorises firms based on their employment size. Large firms employ 100 workers or more; medium firms employ between 20 and 99 workers; small Firms employ between 5 and 19 workers; and cottage firms employ less than 5 workers, including firms with unpaid workers.

25 On 25 October 2005, The Jakarta Post reported that around 70,000 workers had been laid off since the government hiked fuel prices earlier in the year and, in total, the number could reach 500,000 because fuel comprises 30 percent of production costs.

Table 8:
GDP (value added) growth (per cent), 2005–13

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
Total	5.7	5.5	6.3	6.0	4.6	6.2	6.5	6.3	5.8	5.9
Manufacturing	4.6	4.6	4.7	3.7	2.2	4.7	6.1	5.7	5.6	4.7
LM Manufacturing	-2.1	12.2	4.8	-3.2	5.9	7.7	7.4	9.7	-2.0	4.5

Source: Calculated from BPS data (National Accounts and Manufacturing Statistics)

Despite the relatively more superior value added growth of the LM establishments relative to the overall manufacturing sector, the employment growth of LM establishments has been much lower. During 2004–13, the average growth of employment in medium and large firms was only one-tenth of employment growth in the manufacturing sector on the whole (see table below). As a consequence, one may expect considerable productivity and wage gains among workers in the LM establishments and higher employment growth in the manufacturing sector must be due to higher labour absorption in micro and small (MS) firms.

Higher economic growth and lower employment growth point to productivity gains for large and medium firms

Table 9:
Annual employment growth (per cent), 2005–13

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
Total	-1.6	2.8	3.9	2.7	2.3	2.4	-1.3	4.5	-0.2	1.7
Manufacturing	4.8	3.8	2.0	2.3	1.5	7.7	7.9	7.4	-4.2	3.7
LM Manufacturing	-2.3	12.5	-2.7	-3.6	-2.5	3.6	2.8	6.5	-11.1	0.4

Source: Calculated from BPS data (National Accounts and Manufacturing Statistics)

The existence of large and medium (LM) establishment is also the cream of the manufacturing sector. It has been the centre of industrial development and the main source of regular wage employment. While the overall average real earnings of workers in the manufacturing sector only mimic the real average earning of workers in the overall economy, the level of average real wage received by workers employed in the LM establishments is much higher, approximately twice of average real wage in the overall manufacturing sector (see figure below). Despite the increasing trend of real wages in the past few years, the overall trends of real wages have been largely stagnant during 2001–12. However, in the past few years, wage recovery among workers in LM establishments has been impressive.

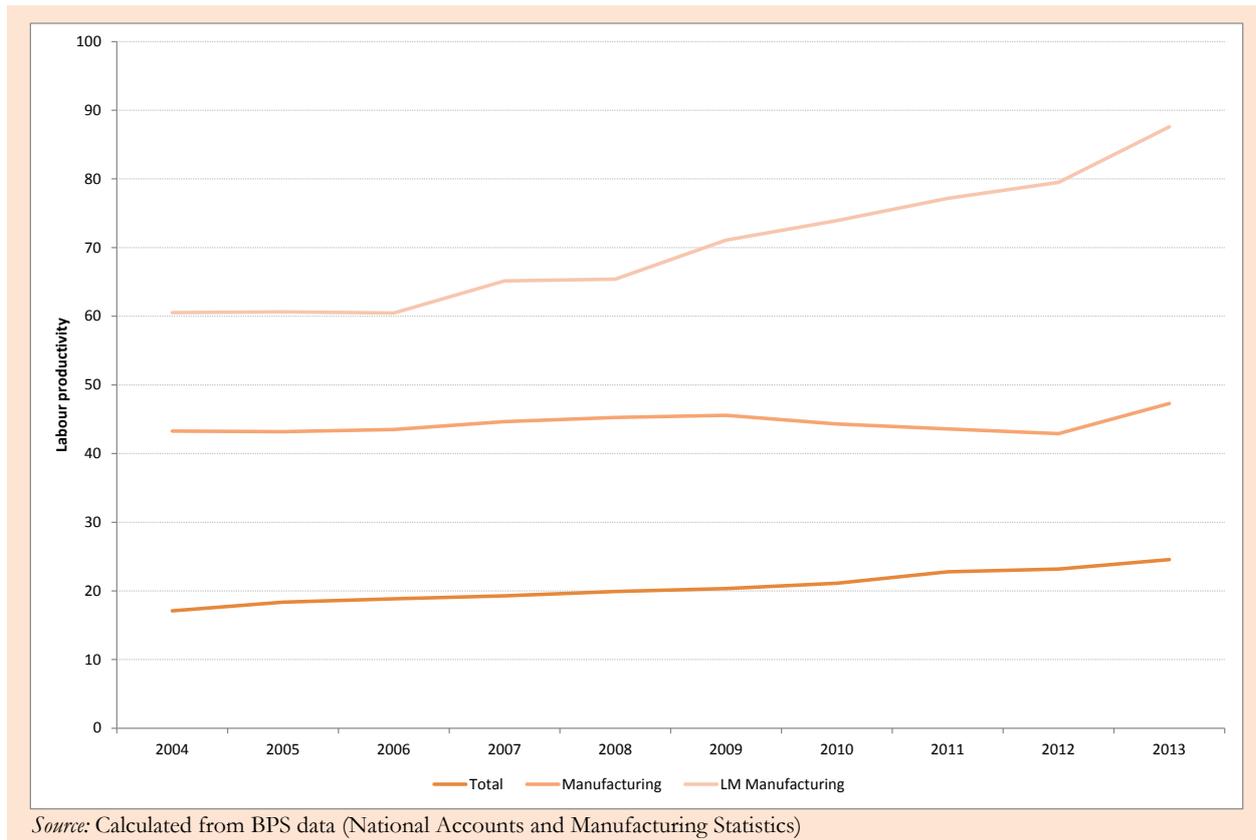
Figure 11:
Real wage growth, 2001-13 (IDR million per year, 2000 constant prices)²⁶



As wage is the price of labour for their contribution in the production process, it is imperative to look at labour productivity on the other side of the equation after discussing wage trends. Several interesting points emerge when wage is compared with productivity. *First*, despite the fact that the wage level in the manufacturing level is roughly similar to that of in the overall economy, labour productivity in the manufacturing sector is around twice as labour productivity in the overall economy (see figure below). This is an initial indication of the relative disadvantage of workers in the manufacturing sector. However, this could be due to heterogeneity within the manufacturing sector itself that led us to the next point.

26 Note: Sectoral GDP deflator is used to calculate real wage from nominal wage. Real wages in the overall economy and the manufacturing sector refer to earnings of own account workers, regular wage employment and casual employment collected in the Sakernas. Real wage in the LM establishments is calculated from labour cost in the LM Manufacturing Survey.

Figure 12:
Labour productivity (Value added per worker, IDR million, 2000 constant prices)



Second, labour productivity in the LM establishments is approximately twice of that productivity in the manufacturing sector and around three times higher than labour productivity in the overall economy. It has to be noted that workers in LM establishments receive wages approximately twice as high as workers in the manufacturing sector and the overall economy. In the case of workers in LM establishments, this signals that higher productivity would lead to higher wage.

Third, the growth of labour productivity in the manufacturing sector is more volatile and much lower than productivity growth in the overall economy (see table below). However, this could be due to heterogeneity within the manufacturing sector, as the productivity growth of LM establishments is far more superior and less volatile than that of the manufacturing sector.

With regard to the heterogeneity within the manufacturing sector, differentiating the sector into large and medium (LM) establishments and micro and small (MS) establishments becomes important. The LM establishments are largely characterized as more modern; they receive more foreign direct investments and technology transfers; therefore they have much higher productivity and their workers enjoy much higher wages. By contrast, the MS establishments suffer the opposite characteristics with

Labour productivity in medium and large firms outstrips general productivity trends

much lower productivity and their workers receiving far lower wages. Wage and productivity differentiations between LM and MS establishments in the manufacturing sector are subject to controversy because of data issues. This is therefore an important avenue for further research.

Table 10:
Labour productivity growth (per cent)

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
Total	7.5	2.6	2.3	3.2	2.3	3.8	7.9	1.7	6.0	4.1
Manufacturing	-0.2	0.7	2.6	1.4	0.7	-2.7	-1.6	-1.6	10.2	1.1
LM Manufacturing	0.2	-0.3	7.7	0.4	8.7	4.0	4.4	3.0	10.2	4.3

Source: Calculated from BPS data (National Accounts and Manufacturing Statistics)

Strategies are needed to expand employment in large firms and increase productivity in micro and small firms

Given the fact that LM establishments experienced low employment growth while enjoying much higher productivity and wages level, the opposite must be true for micro and small establishments. These contrasts pose two important challenges. *First* is how to increase employment in the LM establishments, in order to open greater access to more quality jobs and in doing so allow workers to move out of lower wage and lower productivity sectors. For this, the overall expansion of the LM establishments is critical. *Second* is how to increase productivity of the micro and small establishments, in hope that the productivity gains would positively influence wage levels. Policies required for these two challenges are quite different given the segregated nature of the Indonesia's manufacturing sector.

Observing the movements of wages and productivity in the overall economy as well as in the manufacturing sector, Indonesia seems to mimic a global trend of de-linking between wage and productivity.²⁷ Stagnant real wage occurs when productivity rises. Despite this trend, however, a panel data analysis across manufacturing sub-sectors indicates a positive correlation between wages and productivity in the case of LM establishments of the manufacturing sector.²⁸ This is analogous to the ideal situation where wage increases when the overall economy (employment and GDP) expands. However, further research at firm level data is required to confirm this finding.

Strategies are also needed to increase the contribution of medium-sized factories to the manufacturing sector

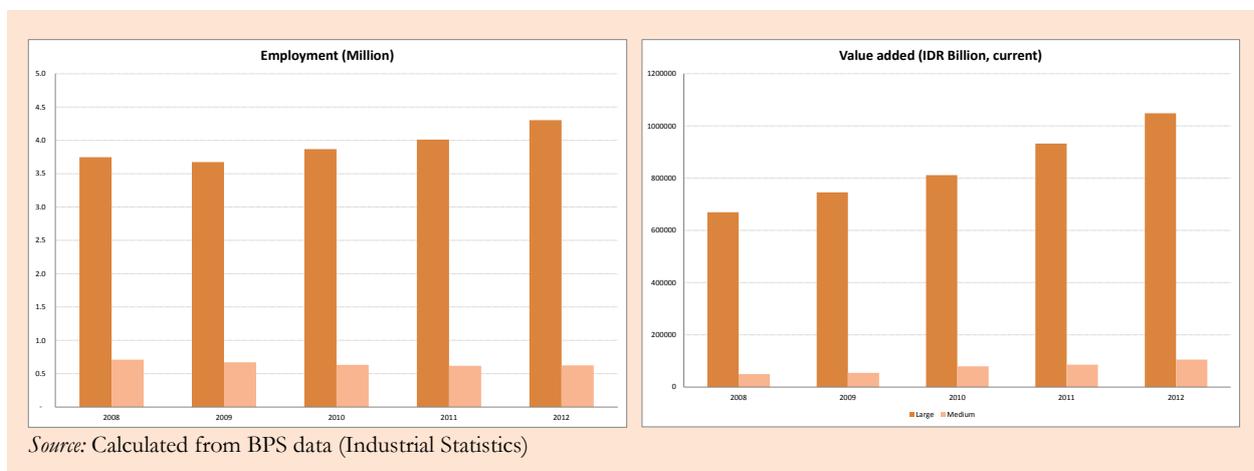
Within the manufacturing sector, although the LM establishments dominate the value added of the sector and enjoy much higher labour productivity and higher wages while simultaneously having a smaller share of employment, a cautious note should be taken with regard to large and medium differentiations. LM establishments are dominated by large firms in terms of both employment and value added (see figure below). The

27 See Tadjoeddin, Z. 2014a. 'Earnings, productivity and inequality in Indonesia', mimeo.

28 See Tadjoeddin, Z. 2014b. 'Wages, productivity and the evolution of inequality in Indonesia: A case study on manufacturing', mimeo.

productivity of workers in large firms is nearly twice the productivity of their counterpart in the medium firms. On average between 2009 and 2012, the employment and value added shares of medium size firms amounted to approximately 14 and 8 per cent respectively of all large-and-medium establishments. These figures seem to be much smaller than the employment and value added shares of micro and small establishments. This phenomenon is usually called the “missing middle” in the manufacturing sector, and it refers to the relatively small contribution of medium-size manufacturing firms in the overall manufacturing sector. The challenge is how increase the overall employment and value added shares of medium-sized establishments in the manufacturing sector.

Figure 13:
Large and medium firms, 2008-12



Some recent trends of the LM establishments are worth highlighting. In real terms, a declining trend in output growth of LM establishments is noticeable from the peak of 11.4 per cent in 2011, to 6.1 per cent in 2012, and down to only 1.1 per cent in 2013. At the same time, input costs increased at a higher rate than the output growth. This indicates that LM establishments were recently under pressure. This was reflected by a 2 per cent contraction of the value added of LM establishment in 2013, after they had enjoyed value added growth of between 6 to 9 per cent in recent years. Furthermore, on average during the period, 51.4 per cent of LM establishments' output was directed towards export markets, while 27.7 per cent of inputs were imported.

In summary, the manufacturing sector remains an important economic sector for the dynamism of the economy and is a source of quality employment. Within the sector, large and medium (LM) establishments play an important role as they are much better situated in terms of achieving productivity growth and wage growth, attracting skills investment and technology transfers, providing social protection and fostering social dialogue. The challenge is on creating sufficient employment growth in LM establishments. On the other hand, while micro and small (MS)

establishments showed much higher employment growth, they are disadvantaged on the other characteristics. Strategies strengthening micro and small enterprises, particularly “home based industries” as well as “homeworkers”, will be highly important for strengthening competitiveness and productivity of the manufacturing sector in the future.

2.2 Investing in skills development through apprenticeships

The economy is changing and investments are needed in training institutions to support this

The structural transformation of the Indonesian economy that has accompanied the sustained economic growth over the past decade has shifted skills demand in the labour market to emphasize higher skills and education. Widening wage gaps by educational attainment in the favour of university graduates corroborates this point. This trend in skills demand is expected to continue as Indonesia is on the path to expand its economy through investments and gains in productivity. An important question is to what extent and how soon the Indonesian education and training systems can respond to this change and equip young people and the existing workforce with the skills demanded within the labour market.

There is a time lag between the changes in skills demand and adaption of education and training programmes to new demand in skills. In the meanwhile, issues relating to skills mismatch emerge in the labour market. Reducing the lead time for education and training institutions to meet the changing demand of the labour market is the solution, but this is easier said than done. Assessing the current and anticipating future skills need, revising the existing or designing new education/training courses, re-training teachers and instructors, building necessary facilities and purchasing equipment all requires significant financial resources and technical capacity.

A partnership approach to skills development through quality apprenticeships

A possible solution to the aforementioned problem lies in collaboration among the education and labour authorities, companies and trade unions in enhancing the quality and the relevance of education and training. The Government can play a catalytic role in bringing education and training providers, employers and workers closer together to create greater synergies for investment in human capital. Dialogue and collaboration among the parties can lead to better identification of skills needs, enhance the relevance of education and training, and improve the jobs prospects of the youth. In this regard, the concept of apprenticeship systems offer an appealing policy option. Apprenticeships systematize collaboration by combining school-based learning and workplace-based training. It effectively taps into existing training resources and equips youth with knowledge and skills for their future occupations. In an apprenticeship model, companies provide practical training at their workshops using their equipment, and workers transfer technical know-how to the youth.

While Indonesian term “pemagangan” can be translated into English as “internship” or “apprenticeship”, these two systems of training are distinct in nature. Apprenticeship is a unique form of vocational education, combining on-the-job training and school-based learning, for specifically defined competencies and work processes. It is regulated by law and based on a written employment contract with a compensatory payment and standard social protection coverage. Apprenticeships usually last longer than one year and in some countries they last four years. Internships do not have the same features as apprenticeships. ILO’s approach to quality apprenticeship emphasizes social dialogue, clear definition of roles and responsibilities, legal framework and shared-financing arrangement as the four building blocks of quality apprenticeship. A quality apprenticeship is a sophisticated learning mechanism based on mutual trust and collaboration among the stakeholders: youth, labour and education authorities, employers and workers.²⁹

The four building blocks of quality apprenticeship include social dialogue, clear roles and responsibilities, legal framework and shared-financing arrangements.

Promoting the development of the apprenticeship system is timely in Indonesia for two reasons: facilitating youth in their school-to-work transition and fulfilling G20 policy consensus. First, apprenticeships are proven to reduce youth unemployment (see figure below). For example, in the midst of the global financial and economic crisis, which saw youth employment outcomes deteriorate, countries with apprenticeship systems were able to better support the labour market attachment of youth. This is because apprenticeships bridge school education with the world of work. Noting the positive impact of apprenticeship in reducing youth unemployment, the G20 Labour and Employment Ministers took a decision to promote apprenticeships, highlighting the importance of:

*“sharing of experience in the design and implementation of apprenticeships programmes and explore ways to identify common principles across the G20 countries”.*³⁰

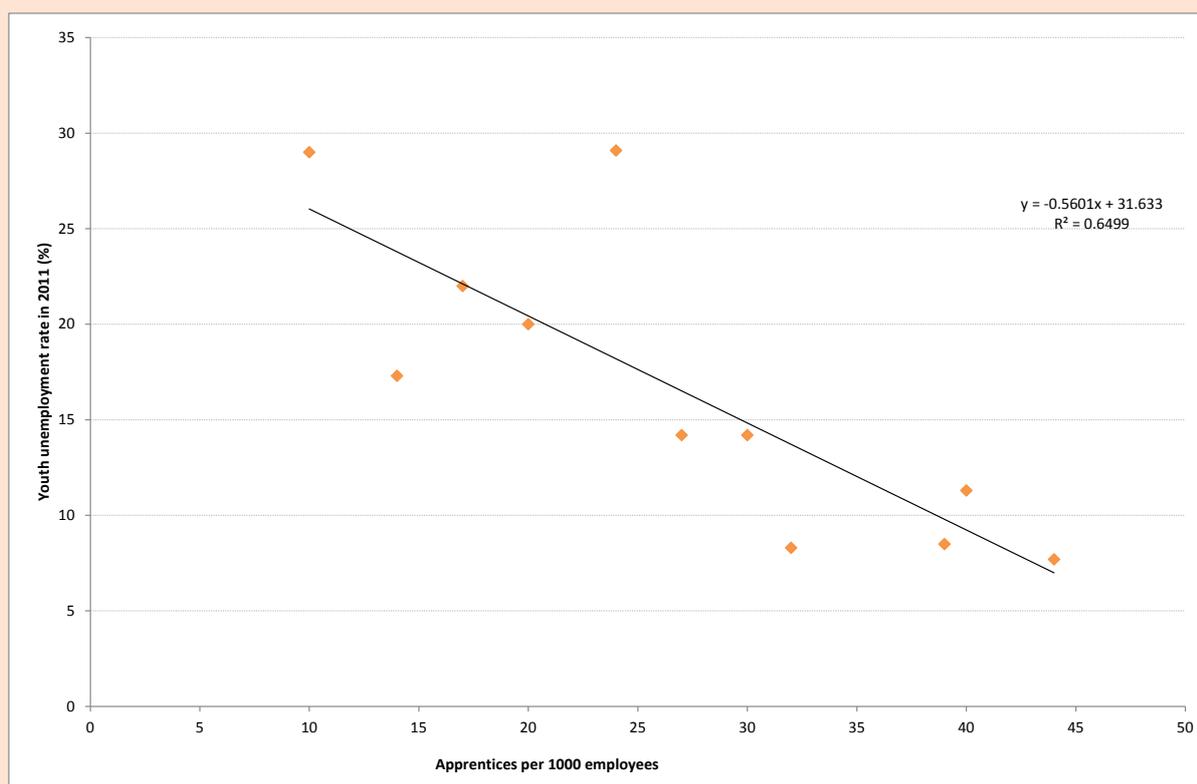
Leaders of workers and businesses in the G20 member states echoed the importance of quality apprenticeships in addressing youth unemployment. The G20 Leaders’ Summit in Brisbane, 15-16 November 2014, added further emphasis on apprenticeships affirming that G20’s “Employment Plans include investments in apprenticeships, education and training”.³¹ In addition, the Manpower Act (2003, No. 13) which provides the legal framework for apprenticeship (pemagangan) tasks the central government and local governments to develop apprenticeships (Article 29).

29 ILO (Forthcoming) *Quality Apprenticeships: Bridging training to productive and Decent Work, Skills for Employment Policy Brief*, International Labour Office, Geneva..

30 G20 Labour and Employment Ministers’ Conclusions. Guadalajara, Mexico, 17-18 May 2012.

31 G20 Leaders’ Communiqué, Brisbane Summit, 15-16 November 2014

Figure 14:
Prevalence of apprenticeship and youth unemployment, 2011



Source: ILO 2012a and ILO KILM 8th edition. Author's calculation

Note: Countries plotted in this chart include: Australia, Austria, Canada, Denmark, France, Germany, Ireland, Italy, Switzerland, United Kingdom and United States

Employers and workers benefit from apprenticeship systems

Apprenticeships benefit all parties involved. For example, it facilitates school-to-work transition for young people. It also lowers youth unemployment in a cost-effective manner. Employers who provide workplace training through apprenticeship systems can recover the training costs as apprentices become more productive. Employers can also economize on recruitment costs through participating in apprenticeship systems. Workers gain because apprenticeship programmes are quality training opportunities. In addition, graduates of apprenticeship programmes will also be able to access better working conditions thanks to training that has boosted their productivity.

Apprenticeship schemes are often part of collective bargaining in countries with a long-standing tradition of apprenticeship systems (e.g. Germany, Austria, Denmark and Switzerland. For instance, a collective agreement in Denmark (*Industriens Overenkomst 2004-2007*) stipulated working conditions of apprentices such as the minimum pay, yearly increase of pay, holidays, working time, travel allowances and pension coverage. Many middle-income countries promote apprenticeships to provide young people with career opportunities in occupations across all sectors of economy. It can be argued that quality apprenticeship systems are key to strengthening competitiveness and productivity for lower-middle income countries, such as Indonesia.

The Government of Indonesia and the ILO agreed to launch a tripartite discussion on quality apprenticeship in 2015. Through this dialogue process, stakeholders will exchange views on the relevance and benefits of improving and scaling up apprenticeship systems in the countries in the contexts of G20 policy coherence and Indonesia's manoeuvre to avoid middle-income trap.

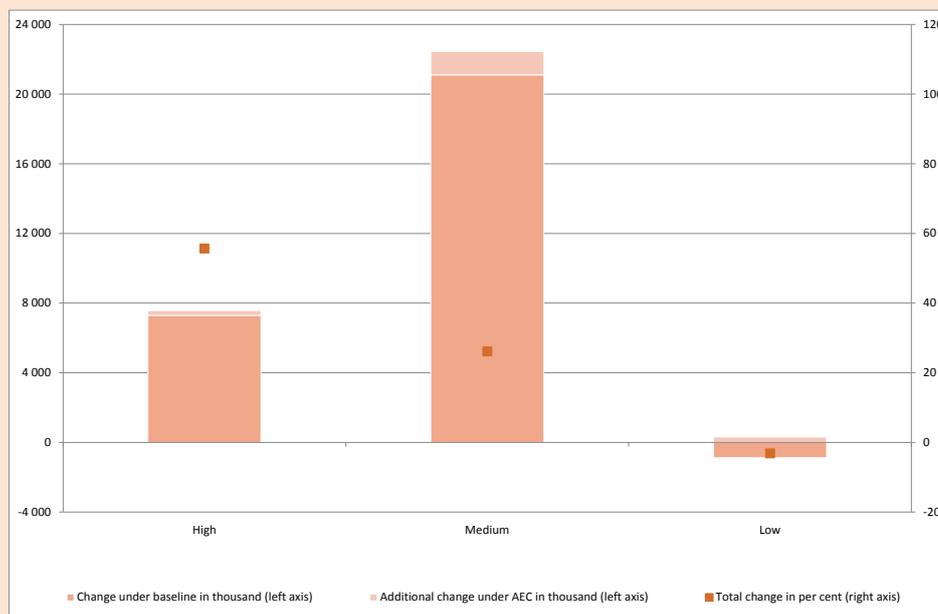
Box 6:**The impact of the ASEAN Economic Community on sectors and skills in Indonesia**

As a member of the Association of Southeast Asian Nations (ASEAN), Indonesia accounts for more than one-third of the region's economy and nearly two-fifths of the region's workforce. In 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, will become a reality. Trade and investment liberalization will impact the structure of the economy, jobs and demand for different skills. However, the benefits of the AEC will be distributed unevenly, and has the potential to exacerbate existing inequalities between regions and sectors and between women and men.

A recent report by the ADB and ILO finds that deepening trade integration as envisaged under the AEC could bring positive gains for Indonesia, with GDP expanding by an additional 2.5 per cent and total employment by 1.9 million by 2025, compared to a baseline scenario without deeper trade integration. Moreover, the AEC is expected to expand employment in trade and transportation, construction, metals, chemicals and textiles but decrease employment in the food processing sector. Absolute gains in agriculture are also expected; however, the relative share of employment in agriculture will decline. In-line with these sectoral impacts, projections also indicate that between 2010 and 2025, high-skill employment in the country could increase by an additional 55.7 per cent, while the demand for low-skilled employment could contract by 3.2 per cent. Notably, the largest absolute demand will be for medium-skill employment (see figure below).

Improvements in education and training systems would help Indonesia equip its workforce with the requisite technical competencies to meet these current and future demands for medium and high skills. These measures should include providing a responsive technical and vocational training system; fostering collaboration between training providers and employers to develop practical curricula and apprenticeship systems; engaging in public-private dialogue to anticipate future skill demands; and improving the accessibility and relevance of tertiary institutions.

Figure 15:
Estimated change in employment by skill level in Indonesia, 2010-25
(thousand and per cent)



Source: ILO and Asian Development Bank (2014) ASEAN Community 2015: Managing integration for better jobs and shared prosperity, ILO Regional Office for Asia and the Pacific, Bangkok

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.

2.3 Strengthening competitiveness through Better Work³²

The Better Work programme is a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC) that seeks to improve compliance with labour standards while promoting competitiveness. Better Work helps employers and workers to achieve compliance with the International Labour Organization's (ILO) core labour standards and national labour laws through supporting compliance with labour standards. Better work Indonesia focuses on Indonesia's apparel industry and offers assessments on current workplace conditions and customized advisory and training services to factories to address their individual needs.

Independent research by Tufts University, in collaboration with the University of Indonesia, has shown that improved compliance with labour regulations increases reliability for enterprises within the supply chain. For example, research indicates that factories enrolled in Better Work are more likely to be the preferred factory for buyers due to improving levels of compliance with labour standards. Results from surveys with factory managers show that participating factories have a 24 per cent increase in being the preferred supplier of their most important customers. Subsequently, factory managers appreciate the advantages of improving their overall level of compliance, and view that improved grievance systems and stronger worker manager committees are an important ingredient for improving the overall competitiveness and productivity of their enterprises.

In addition, factories participating in Better Work report that they receive fewer factory visits for compliance from their most important customers. Customer visits to factories can be costly in terms of time, in particular, repeated visits from compliance officers are costly and can distract factory managers from focusing on production. Therefore, reducing the frequency of inspections through ensuring that factories have sound quality assurance systems in place offers a win-win solution for both buyers and manufacturers.

Since joining the Better Work programme, the challenges that factory managers report as most prominent have changed significantly. For example, in the baseline study, factors such as the skill level of workers was reported as a common challenge. However, with gains in human resource source management and labour compliance that are associated with the Better Work enterprise advisory services, factories reporting obstacles to business success related to worker skill had decreased by more than half. Furthermore, managers reported more proactive strategies for addressing their human

Better Work promotes compliance with labour standards together with competitiveness

Improved compliance can increase reliability for enterprises

Reductions in obstacles to related to human resource management

32 This section of the Labour and Social Trends report refers to: i) TUFTS (2014) Better work Indonesia impact assessment: managers report, ILO Country Office for Indonesia and Timor-Leste, Jakarta. ii) TUFTS (2014) Better work Indonesia impact assessment: Indonesian workers survey summary, ILO Country Office for Indonesia and Timor-Leste, Jakarta

resource management challenges over time. For example, introducing new grievance procedures as well as establishing safety committees in their factories were among the human resource management innovations that managers had introduced to their factories.

In addition to understanding how the Better Work programme supports enterprise reform at the management level, it is also important to understand how these changes influence the experiences and attitudes of workers within the targeted factories. Therefore, baseline and follow up surveys were also conducted directly with workers from the factories participating in the Better Work programme.

Opportunities for career progression signal to workers that higher productivity can be rewarded

Analysis of the baseline and follow up surveys indicates that the majority of workers have worked in the same factory for more than two years. This is a positive trend, as high levels of worker turnover can have implications for the productivity of enterprises. Whilst this is encouraging, workers also noted that they had limited access to promotions and career advancement. When workers were asked the reason why they were not promoted, they cited lack of skills and lack of opportunities as the biggest obstacles to further developing their careers. Opening opportunities for career progression is important for strengthening the outcomes of firms, as such opportunities can provide incentives for skill development and can also signal to workers that higher levels of productivity can be rewarded. Therefore, in order to strengthen competitiveness and productivity, it is important that workers maintain up to date skills and that workers and employers cooperate to strengthen the overall skills profile of the firm. Training programmes that target both young and older workers are needed to support overall productivity gains.

Many factories use performance based targets

Many factories have pay incentive structures related to key performance indicators based on whether the worker or production line completes the production target before the end of the work day. Approximately 50 per cent of workers interviewed reported receiving bonuses from such incentive structures. However, over 80 per cent of workers interviewed in the study have a production quota that they have to achieve on a daily basis. This highlights that firms use a range of incentive structures in order to achieve targets. In particular, factories often have a range of bonuses that reward attendance, productivity and longevity. The use of the latter systems can be instrumental in supporting productivity gains in factories, through raising productivity, lowering turnover and increasing the benefits of worker training. However, the overall use of such incentive structures tended to be low in the surveyed factories. For example, only 1 in 3 people surveyed reported receiving an attendance bonus.

Late payment of wages is a concern for workers

Many workers interviewed in this study were not paid on a piece-rate basis, however, they were not strictly paid on an hourly basis either. Instead, factories tend to provide rewards for higher productivity through receiving a bonus for completing work before the end of the regular day. Similarly, in cases of low productivity, pay could be deducted or the workers could may

be required to remain at work until they have completed the production quota. In such cases, the overtime worked tends to go unpaid and workers can be required to “punch out” and then return to work to complete their production quota.

The factories offered workers a range of contracts options, including fixed term or unlimited time contracts, as well as short term contracts that are linked to training, probationary, or subcontracting. The study found that over time the nature of employee contracts was shifting from permanent contracts to short-term contracts. This trend needs to be further understood in the light of the gains that enterprises have from their participation in Better Work, which are associated with lower rates of staff turnover and being the preferred manufacturer of buyers.

In regard to wages, many workers expressed their concern about the late payment of wages and excess pay deductions. These concerns provide important information on pay practices and pay irregularities that can impact on the lives of workers and their families. Approximately 40 per cent of workers interviewed in the study reported that they had raised the issue of late payment of wages with their supervisors and/or managers. Concerns on excess pay deductions were generally discussed with union representatives and then discussed with management.

In addition to factors regarding the administration of wage payments, many workers also expressed increasingly concern on low wages, with 80 per cent of workers reporting this to be a concern in the baseline study and 88 per cent of workers reporting it as a concern in the follow-up study. Workers show a strong willingness to take concerns about low wages to their trade union representative, highlighting growing importance of worker - management dialogue in the surveyed factories.

Findings from analysis of the data collected highlights that enterprises feel pressure from both sides. On the one hand, workers seek to engage in dialogue on decent wages and decent working conditions. On the other hand, factory managers face penalties from buyers for failure to deliver on time, as well as uncertainty across a range of factors that concern the quality, quality and technical specifications of orders. Indeed, rush orders and the associated need for working overtime were found to be increasing concerns for managers. In addition, factory managers reported increasing delays between the delivery of orders and the payments from customers.

To further illustrate, in the baseline survey, factory managers reported that most customers paid between 15 to 29 days after delivery. In the follow-up survey, most managers reported that customers paid between 30 to 59 days after delivery. Such fluctuations in payment schedules between factories and their buyers can have a significant impact on the timely payment of wages to workers, particularly for credit-constrained factories. Ensuring a payment schedule that allows the enterprise to fulfill its obligations to its workers is essential for ensuring reputation of enterprises. Late payment

Workers seek representation from unions on issues related to wages

Enterprises face pressure from workers and buyers

Delayed payment from buyers is linked to the timely payment of wages to workers

Sound industrial dialogue between workers and employers is key

of wages can have a negative impact on workers' moral and staff turnover rates, which in turn have implications for the overall productivity of the firm. Thus, ensuring suitable payment schedules with buyers, while also building strong relations with lines of credit, could improve results on timely payment of wages to workers and reduce stress for both managers and workers

In summary, analysis of the baseline and follow-up surveys from Better Work Indonesia indicates that improved implementation and compliance with labour laws can lead to productivity gains for firms. Such gains are associated with factories increasingly becoming the preferred manufacturer for buyers, which ultimately promotes stability and continuity for both factories and their workers. The data also highlighted that the enterprises face many challenges and constraints in their operations, many of which can have flow on effects for workers. The findings from this study emphasize the importance of ensuring sound industrial dialogue between workers and employers, particularly for strengthening the overall competitiveness and productivity of enterprises and the broader economy in the future.

Box 7: Private Compliance Initiatives in Indonesia

In 2013 the ILO convened a meeting of experts on labour inspection and the role of Private Compliance Initiatives (PCI). PCIs refer to:

“private, voluntary mechanisms for monitoring compliance with established public (laws or regulations) and private standards”

They can include self assessment, auditing, certification and labeling and public reporting. In response to this meeting, the Ministry of Manpower has reviewed the role PCIs in Indonesia and is currently strengthening government policies to improve the quality of PCIs.

Building on the experiences of the ILO Labour Administration Section and Better Work Indonesia, the Ministry has identified a number of areas to improve the quality of PCIs in Indonesia. One important area has been to assist employers to have qualified staff that can assess a company's level of compliance by having staff certified in understanding the laws. This certification process is defined through Ministerial Decree No. 257/2014 on Labour Norms Cadre Formation and Training Guidelines. Through a modular training process, senior managers, human resource officers, union representatives and bipartite institution members (Lembaga Kerja Sama Bipartit, LKSB) are able to better understand labour laws and regulations on employment and its supporting regulations.

Another area the Ministry is working on is developing a self assessment tool to assist employers assess their current levels of compliance and identify areas where they need to address non compliance. The self assessment tool is building on the Better Work compliance assessment tool as a framework that can readily be used by trained company staff. The third area is a certification process that acknowledges complaints.

Source: http://www.ilo.org/labadmin/info/WCMS_230798/lang-en/index.htm

2.4 Trends in industrial relations

Supporting the realization of rights at work for both workers and employers is a central policy goal in Indonesia. In particular, the medium term development plan for 2015-2019 highlights that improving labour regulations and social protection systems for workers is a key priority. Key actions include strengthening labour market institutions for a more harmonious industrial relations environment, particularly in the area of collective bargaining and dispute resolution. There are a number of institutions that support industrial relations and social dialogue in Indonesia, including employers' organizations, workers' organizations, bipartite and tripartite institutions, company regulations, collective bargaining agreements and institutions for dispute resolution. The effective and efficient operation of these institutions is vital for improving competitiveness and productivity. Strong social partners and effective social dialogue between workers and employers are required to support this.

Strong social partners and effective social dialogue is a key element in competitiveness

In Indonesia employers are represented through APINDO on industrial relations issues and KADIN on broader issues related to the overall economy. APINDO is active in all provinces of Indonesia. In 2013 APINDO had a membership of 13,422 enterprises. Workers organizations are represented through a number of confederations, federations and enterprise level trade unions.³³ In 2013 there were 6 registered confederations and 92 federations. Trade unions represented approximately 3.4 million workers or 8.3 per cent of “regular employees” in Indonesia. Employment in the formal economy has been increasing in recent years and both employers' and workers' organizations have been instrumental in supporting this trend.

33 The ILO works with 4 trade union confederations, including Indonesian Prosperity Trade Union Confederation (Konfederasi Serikat Buruh Sejahtera Indonesia - KSBSI); Indonesian Trade Union Confederation (Konfederasi Serikat Pekerja Indonesia, KSPI); Indonesian Workers Union Confederation (Konfederasi Serikat Pekerja Seluruh Indonesia - KSPSI) (rekonsiliasi); and Indonesian Workers Union Confederation (Konfederasi Serikat Pekerja Seluruh Indonesia - KSPSI) (Kongres Jakarta).

Table 11:
Members of employers' and workers' organizations in 2013

Organization	Number of members in 2013
Members of employers' organizations	13,422*
Members of workers' organization	3,414,455
Employers assisted by permanent workers	3,862,567
Regular employees	41,123,849

Source: Directorate General of PHI and Jamsostek, Processed by Pusdatinaker; BPS (2014) Labour force situation, Badan Pusat Statistik, Jakarta. *Based on estimates from APINDO in 2015.

As employment in the formal economy has expanded in Indonesia, so too have the number of registered companies (see table below). In line with the Law on Obligatory Manpower Report (No.7/1981), companies in Indonesia are required to report on employment. The number of companies complying with this regulation has been increasing, however, the ratio of companies reporting on employment has been relatively stagnant over time.

Similarly, the number of collective bargaining agreements registered in recent years has been increasing, nevertheless, the number of collective bargaining agreements is still much smaller than the number of registered companies. The absence of a strong collective bargaining culture leaves both employers and workers in a position where it is more difficult to find the right combination between worker protections and business competitiveness in order to strengthen productivity and economic performance. In addition, often collective bargaining agreements provide a very limited number of benefits that go beyond the minimum requirements in the Law on Labour No. 13/2003. The limited scope and scale of collective bargaining in Indonesia often sees preferences for the use of legally binding tools, such as the minimum wage fixing structures, as the key mechanisms for improving working conditions in Indonesia.

Collective bargaining is still limited in Indonesia

Table 12:
Trends in company registration and collective bargaining agreements

Description	2009	2010	2011	2012	2013
Registered companies	208,737	216,547	225,080	225,852	239,109
Workers in registered companies	NA	NA	16,721,081	16,165,628	15,741,468
Registered companies reporting employment	41,961	44,149	45,852	47,969	51,895
Registered companies reporting employment (%)	20.1%	20.4%	20.4%	21.2%	21.7%
Registered companies with collective bargaining agreement	10,619	10,959	11,137	11,435	12,113
Registered companies with collective bargaining agreement (%)	5.1%	5.1%	4.9%	5.1%	5.1%

Source: Directorate General of PHI and Jamsostek, Processed by Pusdatinaker.

The latest “Investment Climate Monitoring Survey”,³⁴ which was conducted in 2014, found that the five main factors perceived as an obstacle to doing business by manufacturing firms include:

1. Macroeconomic instability;
2. Transportation;
3. Electricity;
4. Licenses and permits from local government; and
5. Economic policy and regulatory uncertainty.

Labour issues did not feature amongst the top concerns of the business community. Issues related to industrial relations ranked in position 8 as a concern for doing business. The main labour related concerns highlighted by managers was associated with minimum wages, however, the results from the survey indicate that 67 per cent of managers in the manufacturing sector and 87 per cent of managers in the services sector did not consider the minimum wage to be a severe or very severe constraint on business activity. Moreover, the majority of firms stated that labour regulation did not hamper their firm’s competitiveness in 2014. In addition, analysis of data collected over time indicates that the cost of handling labour issues had declined both in manufacturing and service sectors firms between 2010 and 2014.

A key factor underpinning these trends may be related to the operation of “Bipartite cooperation institutions”, which are an important element of the Indonesian industrial relations system. The Government played a major role in promoting these institutions through the announcement of a ministerial decree in 2008.³⁵ Bipartite cooperation institutions are mandatory for enterprise with 50 or more workers and are aimed at supporting enterprise level dialogue between workers and employers. They should ideally function as part of an early detection system for emerging industrial disputes, especially where unions have their legally guaranteed seat on these bipartite bodies. If these institutions function well, they could contribute to a decline in industrial disputes over time. Trends indicates that while these institutions have increased over time (see table below), their existence is still at a small scale and therefore may have a limited impact on reducing the incidence of industrial disputes.

The Investment Climate Monitoring Survey found that the number 1 concern of businesses is macroeconomic stability

34 LPEM-FEUI (2014) Investment Climate Monitoring Survey, Institute for Economic and Social Research, Faculty of Economics, University of Indonesia, Jakarta.

35 Ministerial Decree Number PER.16/MEN/X/2008, 49/2008/933.1/M-IND/10/2008 and 39/M-DAG/PER/10/2008.

Table 13:
Trends in bipartite cooperation institutions

Year	Number
2009	12,115
2010	13,246
2011	13,669
2012	14,339
2013	15,376

Source: Directorate General of PHI and Jamsostek, Processed by Pusdatinaker.

Industrial disputes are more common in periods of slower economic growth

Before disputes can be submitted to the industrial relations court, parties must go through one of three forums: mediation, reconciliation, arbitration. The rulings of the industrial relations courts may be appealed in the supreme court. The table above summarises trends related to industrial disputes in recent years, including disputes filed, cases resolved and cases deferred. Trends indicate that industrial disputes are more common in periods of slower economic growth, with disputes largely linked to the termination of employment. In the light of the slowdown in the economy in 2015, this historical trend is worth further consideration.

Table 14:
Trends in labour market institutions and industrial disputes

Description	2009	2010	2011	2012	2013
Disputes filed	NA	4,242	3,821	2,753	2,861
Cases resolved	NA	2,429	1,456	2,352	2,468
Cases deferred	413	311	348	401	393

Source: Directorate General of PHI and Jamsostek, Processed by Pusdatinaker.

In recent years there has been a continuing trend of disputes between workers and employers on minimum wage fixing, which takes place outside of the enterprise. When there are tensions between workers and employers, disputes may be expressed in the form of strikes or lock-outs. Official estimates on strikes indicate that their incidence has been fluctuating in recent years, with 51 strikes recorded in 2012 and 239 strikes recorded in 2013. If the economy continues to slow down in 2015, dismissals may expand along with the chance of strikes. In this situation, it is important to support the functioning of labour market institutions, particularly collective bargaining and other bipartite cooperation institutions, to resolve disputes through dialogue based mechanisms.

According to the Manpower Law (No. 13/2003), when regular employees are dismissed they are entitled to severance payment. Official data on the number of severance pay cases and workers that receive the associated compensation is provided in the table below. Trends in official data highlight that the incidence of severance cases and the number of

workers laid off are not proportional, as each case involves a different number of workers. Like industrial disputes, the incidence of severance pay cases tends to follow the cycle of the economy, with cases higher when the economy is slowing. Further research on severance payments indicates that compliance tends to be low, with only one third of workers entitled to severance payments receiving it.³⁶ Moreover, payments tend to be lower than that which is specified in the entitlements and vulnerable workers are also less likely to receive payments.

Table 15:
Trends on official severance payments and workers benefitting

Description	2009	2010	2011	2012	2013
Number of official severance pay cases	4,879	1,432	3,875	1,916	2,915
Number of workers official receiving severance pay	30,181	16,393	17,106	7,465	10,545

Source: Directorate General of PHI and Jamsostek, Processed by Pusdatinaker.

The labour inspectorate plays an integral role in the enforcement of the labour law and in the realization of rights at work. The number of labour inspectors in Indonesia is quite limited, with the approximately 0.6 labour inspectors for every 100 registered companies. It is estimated that the labour inspectorate can therefore only provide services to approximately 5-to-10 per cent of registered enterprises or less than 1 per cent of all enterprises annually. In 2013, labour inspectors from the Ministry of Manpower identified labour violations in 13,331 companies and issued formal notifications to 8,050 companies. The most frequent labour violations that are detected by government labour inspectors included i) violations on employment reporting, ii) minimum wage compliance, iii) violations on registration, and iv) violations on collective bargaining agreements.

If Indonesia is to strengthen its competitiveness and productivity through decent work, it is crucial that the formal sector expands and becomes the main driver of job creation. Productive social dialogue and expanding collective bargaining coverage is a key priority herein. Collective bargaining coverage is currently close to zero, however, if coverage was comprehensive, it may provide a productive environment for discussion on selected labour regulations. The Government, workers and employers therefore need to work together to ensure that Indonesia can strengthening competitiveness and productivity through sound industrial relations, expanding collective bargaining and improving the skills and capacities of workers and employers.

*Provision of labour
inspection services
faces constraints*

³⁶ Brusentsev, V., Newhouse, D., and Vroman, W. (2012) Severance Pay Compliance in Indonesia, Policy research working paper no. 5933, World Bank, Washington D.C.

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.

2.5 Homeworkers in Indonesia

Homeworkers, who are mostly women, represent the weakest segment in global supply chains and they are among the most disadvantaged workers

Many people in Indonesia work in non-standard employment relationships. Homeworkers are one such group of workers. They carry out work in their home for remuneration which results in a product or service as specified by the employer. They usually receive raw materials from subcontractors or businesses for their production and receive remuneration on a piece-rate basis. They differ from paid domestic workers or those carrying out unpaid housework. They often work long hours for low-pay, often in unsafe and unsanitary conditions, and they face decent work deficits. Since most of them work in their own homes, they lack recognition and voice, and their contribution to the economic and social development of their families, communities and society remains invisible. Homeworkers are linked to global supply chains, but they are among the most disadvantaged workers in the world. In Indonesia, homeworkers are not recognized or explicitly defined by national laws or regulations as a specific category of work. Therefore, much of the work undertaken by homeworkers is not regulated, and homeworkers lack legal and social protection, making them highly vulnerable to exploitation.

As homework is largely invisible, not much is known about it. We know that homeworkers are typically found in industrial or commercial informal subcontracting arrangements in the manufacturing sector in Indonesia. There is evidence of homework in Indonesia increasing over time and this increase coincides with the increasing flexibilization of the labour market, externalization of production processes and high rates of underemployment and informal work. However, the working conditions and

employment relationships of homeworkers are largely unknown. In order to shed light on the working conditions of homeworkers in Indonesia, the ILO/MAMPU Project in collaboration with MWPRI³⁷ conducted a study involving 233 homeworkers in East Java.

The study found that the majority of homeworkers are women, who juggle full time housekeeping responsibilities with homework. Many of these women have young children and due to the gendered division of tasks within households they face challenges in accessing work outside the household. Many of these women also have lower levels of educational attainment, which reinforces their disadvantaged status. Homework offers flexible work hours, which allows women to balance their obligations within the household with economic responsibilities. Homework is therefore closely associated with the “double burden”, with the women undertaking the lion’s share of duties within households and also undertaking paid work to increase the household income. Homework generally provides a form of supplemental income to households, with the heads of households who are men more likely to be the primary breadwinners.

Homeworkers generally work long hours and have large volumes of products to complete within a short period of time. Homeworkers generally schedule their work during the schooling hours of their children or undertake homework in the early afternoon or late in the evening. Many who engage in homework are unpaid, with children and other family members contributing their labour for free to support the timely completion of work orders. It was found that as children become older, they also become more likely to assist the family in homework activities. However, the study found that homeworkers prioritize the education of their children and often undertake homework in order to pay for expenses related to their children’s welfare, such as education and health.

The majority of the homeworkers in Indonesia have multiple jobs as well as multiple employers. For example, they may engage in activities related to agriculture and animal husbandry or work for a local business within their village in addition to undertaking homework. Alternatively, they may undertake homework from multiple sources. This situation highlights the precariousness of homework, with international research highlighting that those with multiple jobs tend to earn less than those with one job, even after all income sources are summed.³⁸

The study in East Java showed that homework is largely compensated on a piece rate basis and paid homeworkers are likely to earn between IDR 600 and IDR 6,500 per hour. This means that many homeworkers earn wages below the minimum wage, despite working long hours. Homework

Homeworkers juggle full time housekeeping responsibilities with homework

Excessive work hours and child labour is prevalent within homework

Homeworkers tend to have multiple jobs

Homework is subsidized by unpaid work

37 Mitra Wanita Pekerja Rumahan Indonesia (MWPRI), one of the Implementing Partners of the ILO/MAMPU Project.

38 Banerjee, A. and Duffo, E. (2007) The Economic Lives of the Poor, Journal of Economic Perspectives, American Economic Association, vol. 21(1), pages 141-168, Winter.

Homeworkers are among the lowest-paid workers

is also subsidized by unpaid labour, with homeworkers frequently receiving unpaid assistance from family and friends in completing orders. In addition, findings from the study indicate that homeworkers typically don't receive compensation from employers for work related costs and therefore have the burden of financing most of the production themselves. They are also penalised for defective or low quality products.

There are many factors that make homeworkers vulnerable to exploitation, such as lack of regulation, lack of recognition, voice and representation, and their place of work that isolates them from other workers, one such factor is the absence of written contracts of agreements. Instead, informal verbal agreements are made between the worker and the subcontractor or the firm, leaving them with no basis to negotiate the terms of their subcontracted agreements. As most homeworkers operate individually and are not organized, they have very limited bargaining power. Many survey respondents stated that they had never negotiated with their employers on terms of employment, rates of pay, working conditions or product deadlines. Due to the informal nature of homework in Indonesia, many homeworkers don't even consider the activities that they undertake to be a form of work and instead may refer to homework as a hobby.

However, unlike homework in other countries, this study found that many homeworkers receive work orders directly from the factory that employs them rather than from intermediaries, and subsequently know the company for which they work.³⁹ This situation highlights that homework embraces the three common elements of an employment relationship under Indonesian labour law,⁴⁰ namely, defined work, remuneration and a degree of subordination. The existence of these elements helps to clarify the employment relationship that exists between homeworkers and their employers as defined by Indonesian labour law.

Gender equality in households is key in improving livelihood and working conditions of homeworkers

The East Java study showed that homeworkers that have decision making authority within their households were more likely to negotiate with employers on terms of employment, working conditions and the rate of pay. This finding implies that promoting gender equality within households may be key to improving the livelihoods and the working conditions of homeworkers. In addition, homeworkers that were supported by their employers through provision of training on product manufacturing and occupational health and safety reported a lower incidence of faults and higher rates of efficiency in task completion. This highlights that investment by firms to promote skills development and welfare of homeworkers can have gains on both sides.

Linking homeworkers with trade unions can support their rights at work

Strengthening relationships between employers and homeworkers, as well as extending protections to these workers remains a challenge, largely

39 Mehrotra, S. and Biggeri, M. (eds) (2007) *Asian Informal Workers: Global risks, local protection*, Routledge, London.

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

because homeworkers are isolated and unorganized. Homeworkers work in the privacy of their homes and face significant barriers to joining workers' organizations due to the precariousness of their employment contracts. However, a small portion of the sample of homeworkers involved in the study were linked to trade unions. It was found that these homeworkers were more likely to receive compensation for work-related injuries from their employers than other homeworkers. In addition, homeworkers with linkages to workers' organizations were more likely to negotiate with employers and have knowledge on their rights at work. This finding highlights the importance of linking homeworkers with workers' organizations and related advocacy groups in order to support improvements in their working conditions.

In relation with this, the small number of homeworkers that had more secure work arrangements and employment relationships were more likely to have social security or a form of government social protection. For example, homeworkers that had worked with the same employer for long periods of time were more likely to be linked with health insurance programmes. While this is positive, it is important to highlight that homeworkers didn't have access to maternity protection, pension schemes or severance payments to support themselves during periods of unemployment or retirement.

In summary, homework is a form of non-standard employment in Indonesia that is characterized by unpredictable employment, low wages, and long hours of work. The majority of homeworkers are women and children conducting factory work in home-based settings, earning either no pay or low pay. Development and adoption of a policy on homeworkers which recognizes them and promotes their rights as workers will play an important role in addressing their decent work deficits. This can also contribute to eliminate unfair competition among businesses. Linking these workers with workers' organizations and other advocacy groups is likely to empower this group of workers and help to improve their working conditions. In addition, policies that support women's empowerment, such as provision of maternity leave, child care and flexible work time arrangements, as well as programmes to support women to improve their qualifications and access to work outside the household, are needed to strengthen the overall position of women within the world of work.

There is also a need to have hard data available in order to better understand the prevalence and the working conditions of homeworkers, and to develop strong arguments for better valuing the considerable contribution that low-income Indonesian women make to the economic and social development of their families, communities and society. Progress in these areas will be key for empowering women, unleashing their productive potential.

More secure work arrangements are linked with access to social protection

Box 8:
A growing formal economy through investments in productivity and social protection

The share of employment in the formal and informal economies⁴¹ in Indonesia 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 and by February 2015 this had reduced to 51.9 per cent. In addition, most of the jobs that have been created in Indonesia since 2001 have been in the formal economy. For example, of the 22 million jobs added to the Indonesian labour market between 2001 and 2013, approximately 82 per cent are considered formal.⁴² Despite solid progress, many jobs in Indonesia are still informal, and thus provide little protection to workers.

The considerable progress toward formalization of employment has been driven by strong labour demand and improved access to formal employment resulting from better education. On the demand side, robust investment and domestic consumption have been the twin motors of Indonesia's economic growth momentum. Investments in pro-poor social programmes and increases in minimum wages have bolstered household incomes, and thus contributed to aggregate demand. While these factors have supported formalization, job quality - in terms of vulnerability and labour productivity - have been a persistent concerns for Indonesia. Many workers are employed in activities with low productivity, which has kept real incomes low for most Indonesians. In addition, many workers in the formal economy still do not have formal contracts and are often paid below the minimum wage. The combination of low incomes, limited social protection systems and informal employment means that many Indonesians are vulnerable to shocks.

Escaping the middle-income trap and growing the formal economy are some of Indonesia's most eminent challenges. To support the expansion of the formal economy, Indonesia is focusing on a combination of policies to enhance productivity through facilitating the movement of workers to higher productivity activities and through improving worker protections. In particular, Indonesia has been actively reforming its social security system and expanding social assistance programmes - both of these measures have expanded the number of protected workers.

41 National Statistics Office (*Badan Pusat Statistik*) defines informal and formal employment by a matrix of employment status and main occupation. See BPS (2012) *Labour force situation in Indonesia: August 2012*, Jakarta. The matrix differs from the conceptual framework of informal employment endorsed by the 17th International Conference of Labour Statisticians in 2003. The framework uses type of production unit and type of job to distinguish formal and informal employment. See ILO (2003) *Guidelines concerning a statistical definition of informal employment (Geneva)*. Note that population data weights were changed in 2011

42 ILO staff calculation based on national labour force survey data.

For Indonesia, improving job quality and transitioning to a formal economy requires investment across many fronts, including reducing barriers to doing business, investing in social protection systems, increasing access to vocational training and tertiary education, and increasing the efficiency of labour markets to promote formalization. Protection policies on minimum wages, severance pay, outsourcing and social security benefits are closely linked and use of collective bargaining is still limited. There is a need to engage in dialogue to consider how these policies and regulations can work in tandem to protect workers while creating more and better jobs in the formal economy.

Source: ILO (2014) Indonesia: Labour and social trends update, August 2014, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

2.6 The expansion of social security in Indonesia

In January 2014 Indonesia commenced the implementation of the national social security system as mandated by Law No.40/2004 in the five areas, including health, old-age pension, old-age lump-sum, employment injury, funeral benefit. According to Law No. 24/2011 on social security, two public entities were created to manage this national social security system. BPJS Kesehatan (former PT ASKES) provides the health social security, while BPJS Ketenagakerjaan (former PT Jamsostek) manages employment related social security. The national health insurance (Jaminan Kesehatan Nasional) provided by the BPJS Kesehatan is to be a mandatory scheme for all citizen by 2019. All companies in Indonesia are obliged to register their employees in this public health insurance by 2019 at the latest.

As of August 2014 there were approximately 126 million people (out of 255 million) registered in the new health system. 86.4 million people were transferred directly from the former subsidy scheme for health insurance (JAMKESMAS) to the current scheme. Based on the Indonesia Assessment Based National Dialogue,⁴³ the total cost per year for the provision of health insurance to the whole informal economy at a third class level is estimated to amount to 2.48 per cent of government expenditure by 2020. The challenges is how to provide a decent public health system, as the new scheme relies on the referral system from the first level health centers (Puskesmas), many of which are in a poor condition.

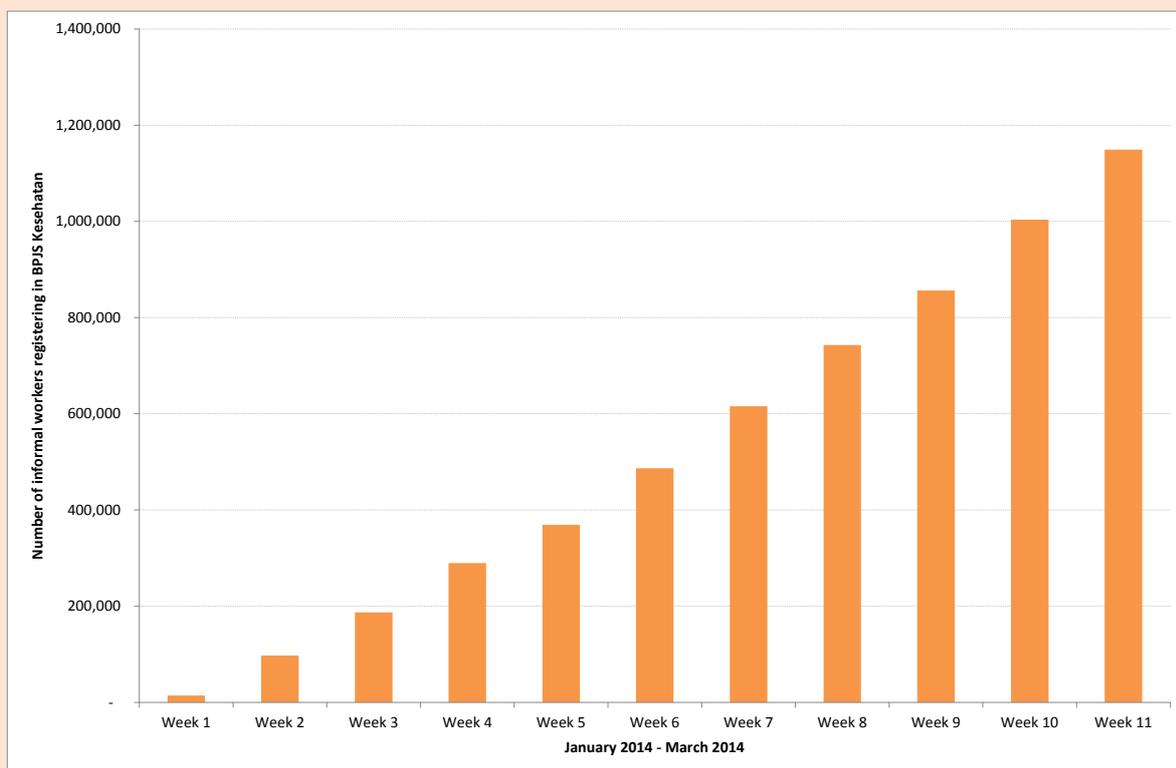
BPJS Kesehatan provides health social security, while BPJS Ketenagakerjaan manages employment related social security

Sustained efforts are needed to close the gap in the social protection floor

43 ILO (2012) Social Protection Assessment Based National Dialogue: Towards a Nationally Defined Social Protection Floor in Indonesia, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

BPJS Kesehatan has recorded a significant increase in the registration of informal workers (pekerja bukan penerima upah) in the national health insurance since January 2014 (see figure below). For example, in the first week of January there were only 14,217 of informal economy workers registered in BPJS Kesehatan. By March 2014 over one million informal economy workers had registered. However, there are over 63 million people working in the informal economy in Indonesia, which means that sustained efforts are needed to close the gap in the social protection floor for this vulnerable group.

Figure 16:
New informal worker registrants in BPJS-Kesehatan (January – March, 2014)



Source: BPJS Kesehatan, June, 2014

Law No. 24/2011 on social security transforms PT Jamsostek into the new public entity called BPJS Ketenagakerjaan. The old-age pension and old-age lump sum schemes for the civil servant is currently managed by PT Taspen, while PT Asabri is administering the military members and their families. Both institutions will be merged under BPJS Ketenagakerjaan by 2029. BPJS Ketenagakerjaan will start to implement the new mandatory scheme, which includes old-age pensions, by mid-2015 for all formal worker. To be effective and sustainable, this new social security system requires proper benefit levels, sound fiscal risk management, committed participation from contributor groups, and sound strategies to cover non-contributory groups

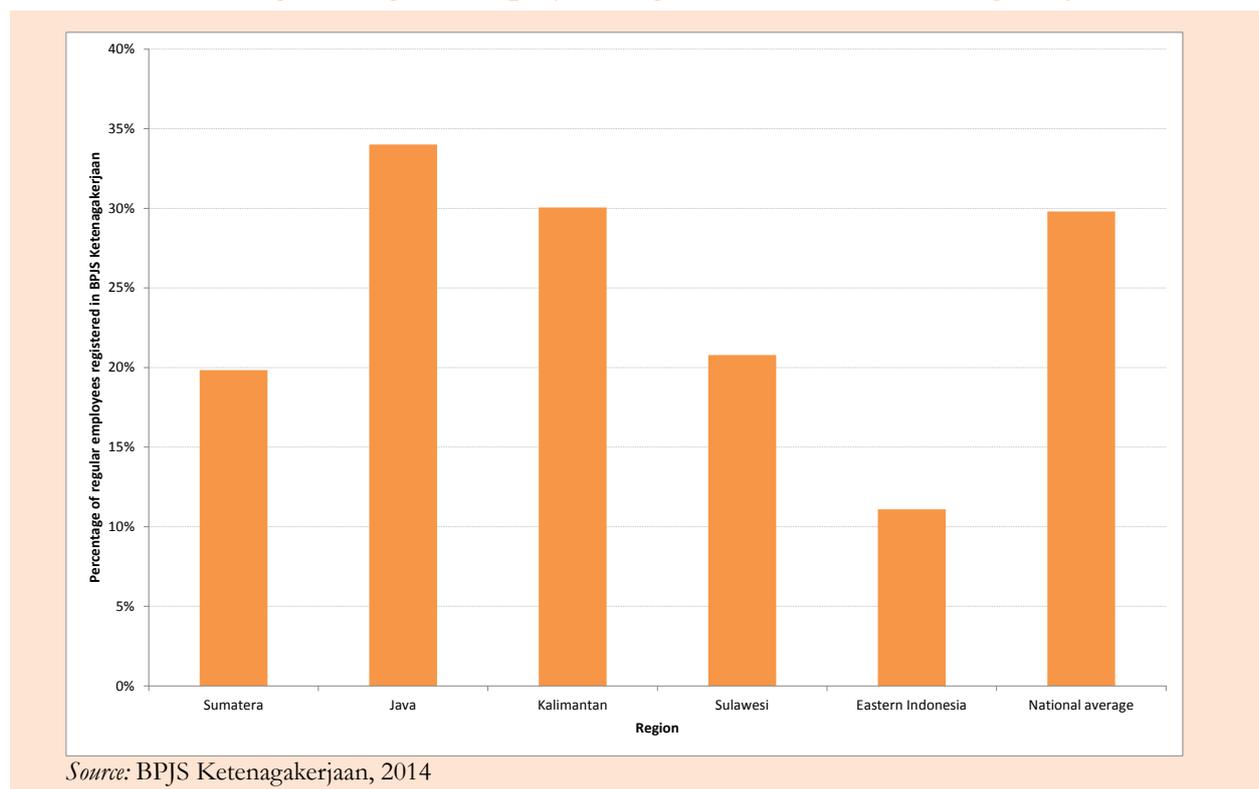
BPJS Ketenagakerjaan is designed to provide social security for regular employees in categories of old-age pension, old-age lump sum, employment injury and funeral benefit starting from mid-2015. The participation of workers from the informal economy within this system is mandatory in only two categories, namely, employment injury and funeral benefit, as the government has planned to offer a lower contribution rate for their participation. In October 2014 the number of active participants in BPJS Ketenagakerjaan was 12,920,685 workers or approximately 7 per cent the population aged 15 years and over. The number of companies active in BPJS Ketenagakerjaan was 212,986 employers in the same period. Both the membership of individuals and enterprises has been increasing over time, however, many still remain outside the system.

7 per cent of the population aged 15 years and over are a member of BPJS Ketenagakerjaan

Participation in the BPJS Ketenagakerjaan is highest on Java

Indonesia faces challenges in registering regular employees into its mandatory workers social security scheme. Most participants in the scheme come from Java, while the eastern provinces have very low rates of participation (see figure below). Participation is linked to the incidence of regular wage employment within regions, with regions with a high share of regular wage employment also likely to have a high incidence of enrolment in BPJS Ketenagakerjaan. For example, Java accounted for 63 per cent (27 million) of all regular employees in Indonesia and also accounted for 72 per cent (9 million) of all BPJS Ketenagakerjaan participants in 2014. The high incidence of both regular wage employment and BPJS Ketenagakerjaan enrolment is likely linked to the density of the manufacturing and services sector on Java, as well as the higher incidence of trade union membership within these sectors.

Figure 17:
Percentage of regular employees registered in BPJS Ketenagakerjaan



Extending social security to the informal economy is a considerable and urgent challenge

In addition to the schemes for formal workers, the Government piloted a social security scheme for informal economy workers in 2013. This programme covered 1,171,687 workers who receive a government subsidy in order to contribute in social security. The challenge is to extract the lessons from this pilot and roll out a national scheme that gives informal economy workers access to social security. However, the challenges of registering informal workers are considerable, as informal worker participation is still voluntary for all schemes. However, it is a challenge that needs to be addressed, as workers who are not covered are likely to be highly vulnerable to falling into poverty, particularly in their retirement or if they become unable to work.

A mechanism is needed to facilitate registration and coordination

All members of existing social security schemes should have an electronic identity card or “kartu tanda penduduk elektronik” (E-KTP), which commenced in the beginning of 2014. The information from this system will be shared with the BPJS Ketenagakerjaan next year. However, there are still many citizen that have not yet registered in the current e-KTP database due to lack of access, low literacy, and a low level of awareness on the advantages of having an e-KTP.

There needs to be an improved mechanism that can facilitate the registration for formal and informal workers in social security programmes. Such a mechanism should be embedded within the sub-national government system. In particular, there is currently an insufficient number of BPJS Kesehatan and BPJS Ketenagakerjaan offices across Indonesia. BPJS Kesehatan has only 116 main and branch offices at the national, provincial, and district levels in a country that has 34 provinces and 515 districts. This means that many districts do not have any BPJS Kesehatan office and sub-district level BPJS Kesehatan offices are rare. Although BPJS Kesehatan has placed officers in public hospitals, their main role is to inform and register patients who need treatment but are not yet registered.

A single referral system can empower local administrators in the provision of social security services

BPJS Ketenagakerjaan currently has 11 regional offices, 121 branch offices, and 53 sub-branch offices. However, these offices only provide registration services to formal economy workers. Informal economy workers need to travel to the provincial office to register under one of the pilot programmes. This poses a huge challenges in terms of access.

One way to overcome this challenge is to develop a single referral system (SRS). With a SRS, the members of current schemes would have better access to the benefit scheme and claims could be more readily applied. The willingness of informal workers to contribute to social security scheme could be enhanced through the existence of such a facility, as it would be closer to where they live. Moreover, a SRS can act as a central window for accessing the Government’s full range of employment and social programmes, which include employment services, vocational training centers, public employment programmes, and cash transfer programmes, among others.

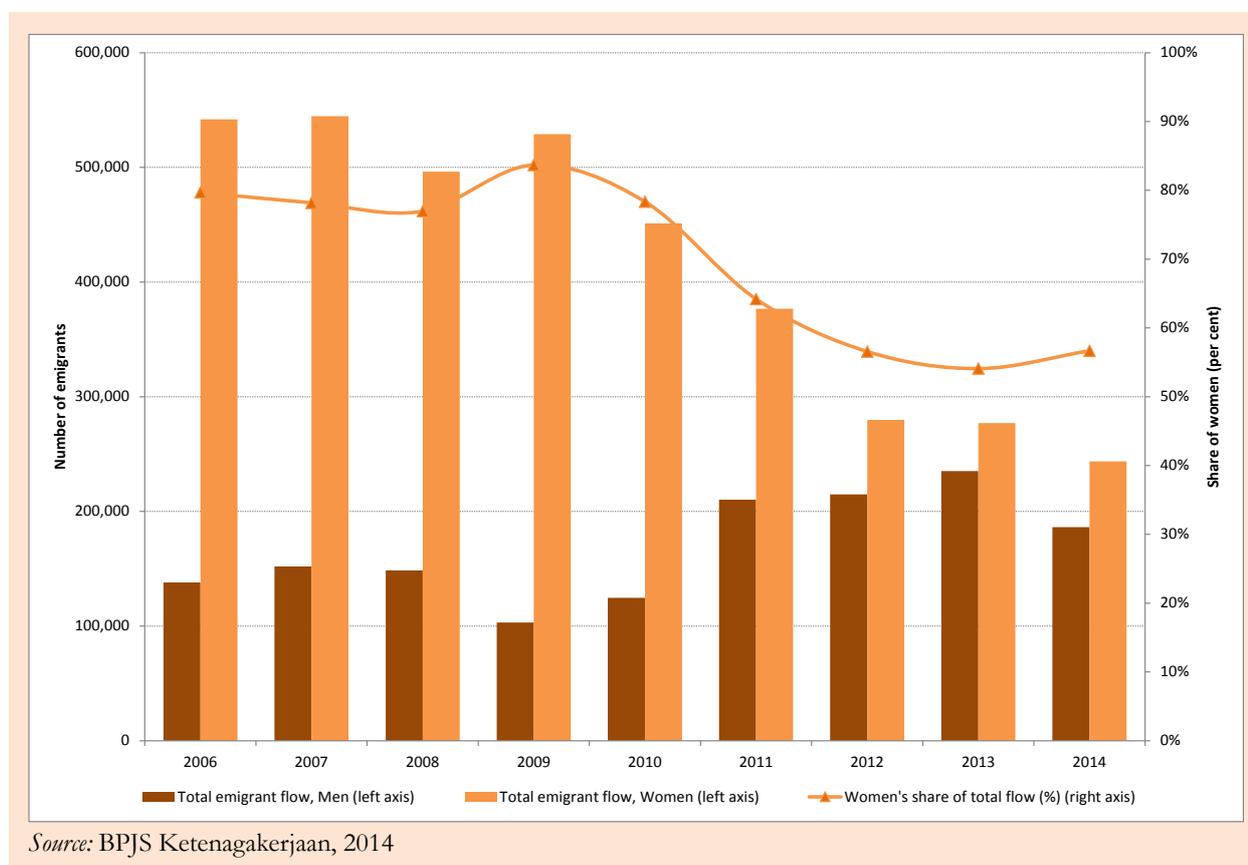
The concept of the SRS relies on local administrations at district, sub-district, and village levels for its daily operations, thus empowering local communities. In line with the ongoing decentralization reform in Indonesia, the SRS is intended to give sub-national administrators concrete roles in the delivery of social services. More specifically, the SRS will involve local administrators in the process of the registration of individuals and families, and support in targeting, enrolment, delivery of benefits and transfers, monitoring, evaluation, and impact assessments. The SRS will also build the institutional capacities of local institutions to administer and monitor existing social protection programmes, which will ultimately help to strengthen the overall competitiveness and performance of the Indonesian economy.

2.7 Indonesian migrant workers

Migrant worker trends have been changing in recent years

Indonesia is second only to the Philippines in the scale of its labour migration within ASEAN, with the Government supporting the placement of a total of 429,872 migrant workers abroad in 2014.⁴⁴ This is equivalent to approximately 0.4 per cent of the economically active population in Indonesian. In addition, there were 6,198,816 nationals living abroad across 178 countries in 2014.⁴⁵ Historically the majority of migrant workers departing from Indonesia have been women, however, in the last three years this has shifted, with approximately 57 per cent of migrant workers female and 43 per cent male in 2014 (see figure below).

Figure 18:
Emigrant workers' flow from Indonesia to the rest of the world by gender, 2006-14



In addition, there have also been significant shifts in the numbers of migrant workers operating in the informal and formal economies. For example, in 2010, 73 per cent of Indonesian nationals working abroad were employed in the informal economy, which fell to only 47 per cent by 2014. Through more decisive action and stricter rules that are now imposed on receiving countries, the Indonesian Government has managed to cut back the share of Indonesian workers entering into informal employment.

44 See <http://www.bnp2tki.go.id/statistik/statistik-penempatan/9359-penempatan-tki-2010-2013.html>

45 Ministry of Foreign Affairs (2014)

In particular, it is worth highlighting the moratorium on the sending of Indonesian migrant workers to work in the informal economy in Saudi Arabia, Jordan, Kuwait, Syria and Malaysia. In addition, the Government has been providing competency based training, assessment and certification services to support the skills portability for migrant workers, with the aim of increasing their placement in the formal economy while abroad. These policy measures are seeing the face of Indonesian migrant work change considerably.

However, it is worth highlighting that the majority of Indonesian migrant workers are still low-skilled, with approximately 32 per cent of official migrant workers having their highest level of educational attainment as primary school. A further 63 per cent have either junior or senior high school as their highest level of educational attainment. Less than one per cent of migrant workers departing in 2014 (4135 people) had university degrees. Subsequently, 40 to 50 per cent of Indonesian migrant workers work as domestic workers, housekeepers or care takers. It is also common for Indonesian migrant workers to be employed as labourers on plantations, in fisheries, or in the manufacturing and construction sectors. Trends regarding the demand for Indonesian migrant workers from destination countries are increasingly being linked to requests for workers in the manufacturing, plantations and health care sectors. In addition, trends indicate that an increasing number of Indonesian migrant workers are working within the fisheries and maritime industries (see box below). As these people work on ships and in fishing vessels, special interventions are needed to support the realization of their rights at work.

Migrant worker sending communities in Indonesia are largely located on the Islands of Java and Nusa Tenggara Barat. The main destination countries include Malaysia (29 per cent), Taiwan (16 per cent) and those in the Middle East. ASEAN countries provide work opportunities for just under 40 per cent of all Indonesian migrant workers. Migrant workers face many challenges relating to decent work while abroad, including timely payment of wages, physical, verbal and emotional abuse from their employers, and detention, particularly for informal economy workers. However, lack of access to livelihood opportunities in the domestic sphere and the possibility of earning higher incomes abroad provide strong motivation for continued labour migration. One strategy that the Government is trialling to improve working conditions is the application of standardised salaries and working conditions in selected sectors and countries in order to improve employment quality.

Indonesian migrant workers overseas make significant contributions to the domestic economy in terms of remittances – totalling USD 8.3 billion or equivalent to 1 per cent of GDP in 2014.⁴⁶ Approximately 35 per cent of these remittances were from migrant workers in Malaysia, Singapore and

Shifts in trends are underpinned by more decisive action from the Government

However, the majority of migrant workers still have lower levels of educational attainment and tend to work as labourers or unskilled jobs in the services sector

Realizing rights at work for migrant workers is a considerable challenge

⁴⁶ GDP was estimated at IDR 10,542,693.5 billion in current prices (base year 2010) by Badan Pusat Statistik (www.bps.go.id) and migrant worker remittances were estimated at IDR 98,822 billion by Bank Indonesia (<http://www.bi.go.id>).

Better coordination and responsive services are need to promote decent work.

Brunei Darussalam. However, many of the households that receive these international remittances often remain poor, with the remittances often being used for supporting daily consumption needs rather than as productive investments. In response to this the Government has been providing training on financial education for workers and their families to support the empowerment of migrant workers post placement. In 2015 the Ministry of Manpower's public employment programmes will be targeted towards migrant worker sending communities. In addition, the Government is prioritizing border security, supporting repatriation, complaint management and the regulation of brokerage services to end extortionary practices of recruitment agencies and middle-men. Better coordination and responsive services are need to promote decent work for migrant workers.

Box 9:

The Maritime Labour Convention (MLC 2006) and Work in Fishing Convention, 2007 (No. 188)

The Maritime Labour Convention (MLC) was established in 2006 and sets out seafarers' rights to decent conditions of work while helping to create conditions of fair competition for shipowners. The Regulations of the MLC 2006 are organized into general areas of concern under five titles, including:

- Title 1: Minimum requirements for seafarers to work on a ship;
- Title 2: Conditions of employment;
- Title 3: Accommodation, recreational facilities, food and catering;
- Title 4: Health protection, medical care, welfare and social security protection;
- Title 5: Compliance and enforcement.

The convention entered into force on 20 August 2013, one year after 30 ratifications from ILO member states. This means that every country, including Indonesia, must comply with the specifications in the convention. As of October 2014, 65 ILO member states, which represent 80 per cent of global shipping, had ratified the convention. The scope of the MLC 2006 is limited, with the Convention focusing on the working and living conditions of seafarers and excluding fishing vessels and fishers. Therefore to complement the MLC 2006, in 2007 the Work in Fishing Convention (No. 188) was released. This convention focuses on fishing and reflects the unique characteristics of commercial fishing.

In Indonesia, work within the fisheries and maritime industries is related to migrant workers. In particular, the number of people

taking up occupations as migrant workers in the fisheries and maritime sectors has been increasing in recent years. For example, in 2011 workers in fisheries and maritime accounted for 2.33 per cent of all registered migrant workers, by 2014 this had increased to 4.67 per cent (see table below). The main reasons for this trend include the introduction of new government regulations within the industry, as well as strengthened cooperation between the Government of Indonesia and the Republic of Korea in the area of sourcing migrant workers for fisheries and related industries. In particular, the National Agency for the Placement and Protection of Indonesian Workers (BNP2TKI) issued a new regulation (No. 03/KA/I/2013) regarding the procedures for placement and protection of Indonesian workers who work on foreign fishing vessels. After the issuance of this regulation, the number of Indonesian workers working on foreign fishing vessels that registered through BNP2TKI increased. In addition, there are indications that Indonesian migrant workers are competing for a greater market share in the maritime and fisheries sector throughout within the region.

**Table Selected Indonesian migrant worker occupations,
2011–13**

Occupation	2011	2012	2013	2014
Fisherman	4,371	5,213	5,559	4,852
Able body seaman	4,777	7,796	8,719	4,810
Deck hand	4,509	12,283	11,249	10,410
Total migrant workers	586,802	494,609	512,168	429,872
Per cent of migrant workers in occupations related to fisheries and maritime	2.33%	5.11%	4.98%	4.67%

Source: BNP2TKI (2014) Penempatan dan perlindungan tenaga kerja Indonesia: Tahun 2013, BNP2TKI, Jakarta.

The growth trends regarding the intersection between migrant workers and work within the fisheries and maritime sector highlights the importance of ensuring decent working conditions for these workers through ratifications of the MLC 2006 and the Work in Fishing Convention, 2007 (No. 188). Moreover, as an archipelago nation, ratification of both the MLC 2006 and the Work in Fishing Convention are highly important for promoting decent work for all workers.

Source: <http://www.ilo.org/global/standards/maritime-labour-convention/lang-ja/index.htm>

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

Employment Status	Main Occupation									
	Professional, technical and related workers	Administrative and managerial workers	Clerical and related workers	Sales workers	Services workers	Agriculture, animal husbandry, forestry and fishing industry workers and hunters	Production and related workers	Transport workers and equipment operators	Labourers	Others
Own account worker, 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 (2014) Labour force situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta.

Note: F denotes formal and INF denotes informal

Annex II: Statistical appendix - Labour market indicators by sex 2006-2014

Variable	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	February 2013	Mei 2013	August 2013	November 2013	February 2014	Mei 2014	August 2014
Population	NA	230,972,808	229,033,995	231,832,834	238,219,392	242,562,637	245,913,472	247,684,386	248,534,385	249,363,064	250,206,200	251,044,811	251,885,169	252,711,300
• Men	NA	116,093,467	114,586,031	116,050,632	119,852,909	121,892,052	123,575,948	124,473,589	124,900,910	125,310,790	125,735,793	126,161,928	126,585,570	126,991,259
• Women	NA	114,879,341	114,447,964	115,782,202	118,366,483	120,670,585	122,337,524	123,210,797	123,633,475	124,052,274	124,470,407	124,882,883	125,299,599	125,720,041
Population 15 years and over	160,811,498	164,118,323	166,641,050	169,328,208	172,070,339	175,120,454	177,514,211	178,774,131	179,378,354	179,967,361	180,572,907	181,169,972	181,769,009	182,992,204
• Men	80,441,969	82,079,391	82,841,198	84,174,122	85,820,939	87,352,893	88,547,078	89,183,237	89,485,338	89,775,181	90,078,083	90,378,450	90,679,867	91,301,514
• Women	80,269,529	82,038,932	83,799,852	85,154,086	86,249,400	87,767,561	88,967,133	89,590,894	89,893,016	90,192,180	90,494,824	90,791,522	91,089,142	91,690,690
Economically active	106,388,935	109,941,359	111,947,265	113,833,280	116,527,546	116,825,488	120,317,653	123,635,733	124,051,254	120,172,003	124,742,535	125,316,991	126,019,987	121,872,931
• Men	67,749,891	68,719,887	69,144,337	70,409,087	71,881,763	73,265,085	74,583,567	75,767,700	76,175,368	74,843,744	76,834,392	76,859,056	77,120,842	75,826,094
• Women	38,639,044	41,221,472	42,802,928	43,424,193	44,645,783	43,560,403	45,734,086	47,868,033	47,875,886	45,328,259	47,908,143	48,457,935	48,899,145	46,046,837
Not in the labour force	54,422,563	54,176,964	54,693,785	55,494,928	55,542,793	58,294,966	57,196,558	53,138,398	55,327,100	59,795,358	55,830,372	55,852,981	55,749,022	61,119,273
• Men	12,692,078	13,359,504	13,090,168	13,765,035	13,939,176	14,087,808	13,963,511	13,145,537	13,309,970	14,931,437	13,243,691	13,519,394	13,559,025	15,475,420
• Women	41,730,485	40,817,460	41,603,617	41,729,893	41,603,617	44,207,158	43,233,047	41,722,861	42,017,130	44,863,921	42,586,681	42,333,587	42,189,997	45,643,853
Employed	95,456,935	99,930,217	102,552,750	104,870,663	108,207,767	108,165,761	113,011,621	116,436,521	116,953,206	112,761,072	117,666,929	118,169,922	118,864,477	114,628,026
• Men	61,977,289	63,147,938	63,899,278	65,122,526	67,462,223	68,434,381	70,324,512	71,550,784	72,050,867	70,335,241	72,732,168	72,540,181	72,850,745	71,463,307
• Women	33,479,646	36,782,279	38,653,472	39,748,137	40,745,544	39,731,380	42,687,109	44,885,737	44,902,339	42,425,831	44,934,761	45,629,741	46,013,732	43,164,719
Unemployment	10,932,000	10,011,142	9,394,515	8,962,617	8,319,779	8,659,727	7,306,032	7,199,212	7,098,048	7,410,931	7,075,606	7,147,069	7,155,510	7,244,905
• Men	5,772,602.0	5,571,949.0	5,245,059.0	5,286,561	4,419,540	4,830,704	4,259,055	4,216,916	4,124,501	4,508,503	4,102,224	4,318,875	4,270,097	4,362,787
• Women	5,159,398.0	4,439,193.0	4,149,456.0	3,676,056	3,900,239	3,829,023	3,046,977	2,982,296	2,973,547	2,902,428	2,973,382	2,828,194	2,885,413	2,882,118
Labour force participation rate	66.2%	67.0%	67.2%	67.2%	67.7%	66.7%	67.8%	69.2%	69.2%	66.8%	69.1%	69.2%	69.3%	66.6%
• Men	84.2%	83.7%	83.5%	83.6%	83.8%	83.9%	84.2%	85.0%	85.1%	83.4%	85.3%	85.0%	85.0%	83.0%
• Women	48.1%	50.2%	51.1%	51.0%	51.8%	49.6%	51.4%	53.4%	53.3%	50.3%	52.9%	53.4%	53.7%	50.2%

Annex II: Statistical appendix – Labour market indicators by sex 2006–2014 (continued)

Variable	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	February 2013	Mei 2013	August 2013	November 2013	February 2014	Mei 2014	August 2014
Employment-- population ratio	59.4%	60.9%	61.5%	61.9%	62.9%	61.8%	63.7%	65.1%	65.2%	62.7%	65.2%	65.2%	65.4%	62.6%
• Men	77.0%	76.9%	77.1%	77.4%	78.6%	78.3%	79.4%	80.2%	80.5%	78.3%	80.7%	80.3%	80.3%	78.2%
• Women	41.7%	44.8%	46.1%	46.7%	47.2%	45.3%	48.0%	50.1%	50.0%	47.0%	49.7%	50.3%	50.5%	47.0%
Unemployment rate	10.3%	9.1%	8.4%	7.9%	7.1%	7.4%	6.1%	5.8%	5.7%	6.2%	5.7%	5.7%	5.7%	5.9%
• Men	8.5%	8.1%	7.6%	7.5%	6.1%	6.6%	5.7%	5.6%	5.4%	6.0%	5.3%	5.6%	5.5%	5.7%
• Women	13.4%	10.8%	9.7%	8.5%	8.7%	8.8%	6.7%	6.2%	6.2%	6.4%	6.2%	5.8%	5.9%	6.2%
Part time employment	15,325,882	15,471,987	16,172,862	16,174,364	18,010,583	20,928,886	22,431,248	22,929,759	23,343,431	26,736,050	27,042,992	26,400,956	26,855,171	26,087,318
• Men	6,911,014	6,724,577	7,017,014	6,948,257	7,974,803	988,552	10,512,499	9,925,515	10,243,716	13,052,551	11,724,307	11,335,724	11,283,658	11,824,478
• Women	8,414,868	8,747,410	9,155,848	9,226,107	10,035,780	19,940,334	11,918,749	13,004,244	13,099,715	13,683,499	15,318,685	15,065,232	15,571,513	14,262,840
Part time employment rate	16.1%	15.5%	15.8%	15.4%	16.6%	19.3%	19.8%	19.7%	20.0%	23.7%	23.0%	22.3%	22.6%	22.7%
• Men	11.2%	10.6%	11.0%	10.7%	11.8%	1.4%	14.9%	13.9%	14.2%	18.6%	16.1%	15.6%	15.5%	16.5%
• Women	25.1%	23.8%	23.7%	23.2%	24.6%	50.2%	27.9%	29.0%	29.2%	32.3%	34.1%	33.0%	33.8%	33.0%
Under-employment	13,774,867	14,898,192	14,916,506	15,395,570	15,258,755	13,061,854	12,742,949	13,718,734	13,258,701	11,000,403	9,983,038	10,567,016	9,647,131	9,680,866
• Men	8,278,796	8,444,974	8,576,340	8,724,692	8,647,031	7,538,825	7,350,491	7,767,892	7,450,298	7,349,689	6,161,258	6,353,469	5,703,723	6,055,005
• Women	5,496,071	6,453,218	6,340,166	6,670,878	6,611,724	5,523,029	5,392,458	5,950,842	5,808,403	3,650,714	3,821,780	4,213,547	3,943,408	3,625,861
Under-employment rate	14.4%	14.9%	14.5%	14.7%	14.1%	12.1%	11.3%	11.8%	11.3%	9.8%	8.5%	8.9%	8.1%	8.4%
• Men	13.4%	13.4%	13.4%	13.4%	12.8%	11.0%	10.5%	10.9%	10.3%	10.4%	8.5%	8.8%	7.8%	7.9%
• Women	16.4%	17.5%	16.4%	16.8%	16.2%	13.9%	12.6%	13.3%	12.9%	8.6%	8.5%	9.2%	8.6%	7.8%

Source: BPS (2014) Labour force situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta.

Annex III: Statistical appendix - Population aged 15 years and over by educational attainment, 2006-2014

Educational attainment	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
No schooling	5,305,136	9,753,661	9,918,921	10,333,940	9,979,899	10,646,027	10,377,922	9,969,529	5,262,392
• Men	2,517,807	3,218,459	3,094,546	3,212,433	3,206,121	3,542,123	3,338,345	3,276,136	2,253,848
• Women	2,787,329	6,535,202	6,824,375	7,121,507	6,773,778	7,103,904	7,039,577	6,693,393	3,008,544
Not yet completed primary school	12,565,591	19,137,793	19,220,361	22,778,927	27,482,552	26,487,337	25,203,699	24,250,159	16,205,037
• Men	7,210,328	8,879,602	8,859,689	9,588,903	12,835,091	12,026,789	11,547,021	11,089,450	9,364,345
• Women	5,355,263	10,258,191	10,360,672	13,190,024	14,647,461	14,460,548	13,656,678	13,160,709	6,840,692
Primary school	37,503,722	56,563,462	56,516,324	52,814,427	46,538,755	47,039,937	49,127,895	49,067,533	34,182,208
• Men	23,856,021	28,383,080	27,981,558	26,836,104	23,321,189	23,633,551	24,474,930	24,332,200	21,447,676
• Women	13,647,701	28,180,382	28,534,766	25,978,323	23,217,566	23,406,386	24,652,965	24,735,333	12,734,532
Junior high school	21,102,090	36,394,897	36,749,457	36,868,112	38,299,980	39,112,715	38,811,419	40,003,114	21,917,676
• Men	14,343,923	18,754,592	18,954,302	19,144,053	19,379,441	19,993,787	19,775,667	20,402,234	14,478,891
• Women	6,758,167	17,640,305	17,795,155	17,724,059	18,920,539	19,118,928	19,035,752	19,600,880	7,438,785
Senior high school (general)	15,770,625	23,390,385	23,755,110	24,414,587	26,255,300	28,032,476	28,031,948	29,115,200	20,542,523
• Men	10,771,773	12,576,605	12,744,071	13,382,589	14,159,279	15,035,796	14,936,005	15,516,523	13,814,983
• Women	4,998,852	10,813,780	11,011,039	11,031,998	12,096,021	12,996,680	13,095,943	13,598,677	6,727,540
Senior high school (vocational)	7,555,450	10,002,880	10,174,507	11,235,356	12,736,772	12,748,638	13,709,382	14,602,503	11,853,278
• Men	5,284,755	5,776,735	6,003,298	6,537,132	7,555,919	7,638,945	8,205,412	8,612,830	8,122,192
• Women	2,270,695	4,226,145	4,171,209	4,698,224	5,180,853	5,109,693	5,503,970	5,989,673	3,731,086
Diploma I/II/III/ Academy	2,784,068	4,076,333	4,135,754	4,041,487	4,113,542	4,093,674	3,932,988	3,917,921	3,150,297
• Men	1,422,911	1,815,520	1,804,155	1,722,392	1,760,895	1,752,286	1,697,730	1,689,968	1,501,462
• Women	1,361,157	2,260,813	2,331,599	2,319,095	2,352,647	2,341,388	2,235,258	2,227,953	1,648,835
University	3,802,253	4,798,912	5,095,558	5,777,612	6,663,539	6,959,650	8,318,958	9,041,402	8,759,520
• Men	2,342,373	2,674,798	2,899,990	3,218,961	3,603,004	3,729,616	4,571,968	4,855,840	4,842,697
• Women	1,459,880	2,124,114	2,195,568	2,558,651	3,060,535	3,230,034	3,746,990	4,185,562	3,916,823
Population aged 15 years and over	106,388,935	164,118,323	165,565,992	168,264,448	172,070,339	175,120,454	177,514,211	179,967,361	121,872,931
• Men	67,749,891	82,079,391	82,341,609	83,642,567	85,820,939	87,352,893	88,547,078	89,775,181	75,826,094
• Women	38,639,044	82,038,932	83,224,383	84,621,881	86,249,400	87,767,561	88,967,133	90,192,180	46,046,837

Source: BPS (2014) Labour force situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta.

Annex IV: Statistical appendix - Labour market indicators by status in employment 2006-2014

Main employment status (number of employed people)	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
Self Employed	19,504,632	20,324,527	20,921,567	21,046,007	21,030,571	19,056,445	18,894,468	19,206,574	20,490,000
Self Employed Assisted by Family Member	19,946,732	21,024,297	21,772,994	21,933,546	21,681,991	19,915,031	19,464,448	19,346,446	19,270,000
Employer with Permanent Workers	2,850,448	2,883,832	3,015,326	3,033,220	3,261,864	3,731,153	3,993,977	3,862,567	4,180,000
Employee	26,821,889	28,042,390	28,183,773	29,114,041	32,521,517	37,124,961	40,853,830	41,123,849	42,380,000
Casual employee in agriculture	5,541,158	5,917,315	5,991,493	5,878,894	5,815,110	5,375,582	5,447,607	5,197,005	5,090,000
Casual employee not in agriculture	4,618,280	4,458,857	5,292,262	5,670,709	5,132,061	5,551,743	6,240,941	6,057,369	6,410,000
Unpaid Worker	16,173,796	17,278,999	17,375,335	18,194,246	18,764,653	17,410,846	18,116,350	17,967,262	16,810,000
Total employed persons	95,456,935	99,930,217	102,552,750	104,870,663	108,207,767	108,165,761	113,011,621	112,761,072	114,630,000
Main employment status (per cent of total employed)	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
Self Employed	20.43%	20.34%	20.40%	20.07%	19.44%	17.62%	16.72%	17.03%	17.87%
Self Employed Assisted by Family Member	20.90%	21.04%	21.23%	20.91%	20.04%	18.41%	17.22%	17.16%	16.81%
Employer with Permanent Workers	2.99%	2.89%	2.94%	2.89%	3.01%	3.45%	3.53%	3.43%	3.65%
Employee	28.10%	28.06%	27.48%	27.76%	30.05%	34.32%	36.15%	36.47%	36.97%
Casual employee in agriculture	5.80%	5.92%	5.84%	5.61%	5.37%	4.97%	4.82%	4.61%	4.44%
Casual employee not in agriculture	4.84%	4.46%	5.16%	5.41%	4.74%	5.13%	5.52%	5.37%	5.59%
Unpaid Worker	16.94%	17.29%	16.94%	17.35%	17.34%	16.10%	16.03%	15.93%	14.66%
Total employed persons	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Key indicators	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
Vulnerable employment (number of employed people)	65,784,598	69,003,995	71,353,651	72,723,402	72,424,386	67,309,647	68,163,814	67,774,656	68,070,000
Vulnerable employment rate	68.92%	69.05%	69.58%	69.35%	66.93%	62.23%	60.32%	60.10%	59.38%

Source: BPS (2014) Labour force situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta

Annex V: Statistical appendix - Labour market indicators economic sector 2006-2014

Economic sector (number of employed people)	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
Agriculture, Forestry, Hunting and Fishery	40,136,242	41,206,474	41,331,706	41,611,840	41,494,941	39,142,053	39,921,568	39,220,261	38,973,033
Mining and Quarrying	923,591	994,614	1,070,540	1,155,233	1,254,501	1,456,734	1,605,864	1,426,454	1,436,370
Manufacturing	11,890,170	12,368,729	12,549,376	12,839,800	13,824,251	14,540,124	15,618,481	14,959,804	15,254,674
Electricity, Gas and Water	228,018	174,884	201,114	223,054	234,070	237,905	251,547	252,134	289,193
Construction	4,697,354	5,252,581	5,438,965	5,486,817	5,592,897	6,324,516	6,869,565	6,349,387	7,280,086
Wholesale Trade, Retail Trade, Restaurant and Hotels	19,215,660	20,554,650	21,221,744	21,947,823	22,492,176	22,576,315	23,599,696	24,105,906	24,829,734
Transportation, Storage and Communication	5,663,956	5,958,811	6,179,503	6,117,985	5,619,022	5,085,220	5,066,610	5,096,987	5,113,188
Financing, Insurance, Real Estate and Business Services	1,346,044	1,399,490	1,459,985	1,486,596	1,739,486	2,589,011	2,694,370	2,898,279	3,031,038
Community, Social, and Personal Services	11,355,900	12,019,984	13,099,817	14,001,515	15,956,423	16,213,883	17,383,920	18,451,860	18,420,710
Total	95,456,935	99,930,217	102,552,750	104,870,663	108,207,767	108,165,761	113,011,621	112,761,072	114,628,026
Economic sector (per cent of total employed)	August 2006	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	August 2013	August 2014
Agriculture, Forestry, Hunting and Fishery	42.05%	41.24%	40.30%	39.68%	38.35%	36.19%	35.33%	34.78%	33.99%
Mining and Quarrying	0.97%	1.00%	1.04%	1.10%	1.16%	1.35%	1.42%	1.27%	1.25%
Manufacturing	12.46%	12.38%	12.24%	12.24%	12.78%	13.44%	13.82%	13.27%	13.30%
Electricity, Gas and Water	0.24%	0.18%	0.20%	0.21%	0.22%	0.22%	0.22%	0.22%	0.25%
Construction	4.92%	5.26%	5.30%	5.23%	5.17%	5.85%	6.08%	5.63%	6.35%
Wholesale Trade, Retail Trade, Restaurant and Hotels	20.13%	20.57%	20.69%	20.93%	20.79%	20.87%	20.88%	21.38%	21.66%
Transportation, Storage and Communication	5.93%	5.96%	6.03%	5.83%	5.19%	4.70%	4.48%	4.52%	4.46%
Financing, Insurance, Real Estate and Business Services	1.41%	1.40%	1.42%	1.42%	1.61%	2.39%	2.38%	2.57%	2.64%
Community, Social, and Personal Services	11.90%	12.03%	12.77%	13.35%	14.75%	14.99%	15.38%	16.36%	16.06%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: BPS (2014) Labour force situation in Indonesia: August 2014, Badan Pusat Statistik, Jakarta.

Annex VI: Statistical appendix - Wage indicators 2006-2013

Variable	2006	2007	2008	2009	2010	2011	2012	2013	2014
National simple average minimum wage (nominal)	602,700	673,300	743,200	839,400	908,800	988,800	1,119,100	1,288,400	1,494,134
Average net wages per month for regular employees (nominal)	985,028	1,077,312	1,158,085	1,319,930	1,410,982	1,552,456	1,641,451	1,917,152	1,952,589
National simple average minimum wage (real)	641,315	673,300	674,251	729,522	751,276	775,844	842,046	906,149	986,878
Average net wages per month for regular employees (real)	1,048,140	1,077,312	1,050,647	1,147,150	1,166,414	1,218,106	1,235,079	1,348,358	1,298,688
Annual growth in average real minimum wages	NA	4.99%	0.14%	8.20%	2.98%	3.27%	8.53%	7.61%	8.9%
Annual growth in average real wages for regular employees	NA	2.78%	-2.48%	9.19%	1.68%	4.43%	1.39%	9.17%	-4.4%
Consumer Price Index	94.0	100.0	110.2	115.1	121.0	127.4	132.9	142.2	151.4

Source: BPS (2014) *Labourer situation in Indonesia: August 2014*, Badan Pusat Statistik, Jakarta.