The impact of the global recession on Indonesia’s economy and labour market was relatively contained and short lived. GDP growth remained above 4 per cent per annum, and by the first quarter of 2010, GDP had already regained pre-crisis growth of around 6 per cent. Importantly, employment growth has remained robust and unemployment rates have continued to decline. In fact, the unemployment rate in February 2011 stood at 6.8 per cent compared to 8.1 per cent two years prior.

A number of factors underlie Indonesia’s good performance, including a timely macro-policy reaction and efforts to reinforce domestic demand through income and employment generation. A part of the Government’s response was to continue to place emphasis on investment. In the decade leading up to the crisis, investment as a percentage of GDP rose more than 10 percentage points to above 30 per cent, compared to stagnant growth in rest of the G20 (figure 1). In the case of Indonesia, well-designed public works investments that leverage employment-intensive techniques have been helpful in fostering local economic development and stimulating job creation.

Reinforcing infrastructure investment

The overall emphasis of Indonesia’s fiscal stimulus measures was to boost household incomes through personal tax cuts. While only a small share –16.6 per cent, 12.2 trillion rupiah (IDR) or US$1.2 billion – of the crisis response measures introduced in 2009 was allocated towards infrastructure investments, the measures were intended to build on the strategy in place prior to the crisis.1

The vast majority of this spending was allocated through the Ministry of Public Works (IDR 6.6 trillion) which brought the share of government expenditures on public workers up to an estimated 17 per cent in 2009. Indeed, given that the Government was leveraging an existing programme, the funds were dispersed relatively quickly. The measures were announced early in 2009, and by the end of the year, 93.1 per cent of the funds were spent.

Projects with strong employment content

The projects focused on a range of investments in transportation, notably improving highways, bridges, and rural roads, and a number of other areas, such as energy and public housing (table 1). Of the IDR 6.6 trillion allocated by the Ministry of Public Works, 3.0 trillion was allocated to sub-national governments. In all, over 1 million jobs with an average duration of 47 days are estimated to have been created as a result of the infrastructure and local empowerment programmes of the 2009 stimulus program.

---

package. According to a survey conducted by the ILO Country Office for Indonesia and Timor-Leste, close to two-thirds (60.6 per cent) of the beneficiaries had less than 6 years of education, and nearly half of the jobs went to young people aged 15–29 years.2

Community-based approaches

Indonesia has a long history of community development programmes that seek to build resilience and provide support to households by developing village level infrastructure. Since 1968 such programmes have provided for the construction and maintenance of village roads, irrigation, hydroelectric installations and market infrastructure, among others projects. In 2002, many of the programmes were reformed and now include skills development as an important component complement. Moreover, these programmes have embraced a participatory development approach, which actively involves local communities in the planning process in order to build synergies between investments in physical infrastructure and investments in human capital.

The National Programme for Community Empowerment

One of the key elements of the country’s community-driven development (CDD) approach is the National Programme for Community Empowerment (PNPM-Mandiri or Program Nasional Pemberdayaan Masyarakat Mandiri). Created in 2006 by the President of Indonesia, the PNPM consolidated various existing programmes into a national framework, building on the success of earlier programmes, notably the Kecamatan Development Program (KDP) and the Urban Poverty Project (UPP). The PNPM operates through “block grants” to create opportunities for communities to actively engage in the planning and implementation of local development projects. The programme is present in all sub-districts in Indonesia, both rural and urban. Based on each community’s identified priorities, it funds investments in social, transport and agricultural infrastructure, provides access to credit and supports value chain development.

As part of the stimulus package, the budget for PNPM was increased from IDR 4.2 trillion to IDR 7.6 trillion from 2008 to 2009. The programme has been successful in terms of targeting: 73 per cent of rural workers participating in the programme were classified as very poor by their communities.3 According to the World Bank, as of October 2009, PNPM-Mandiri and its predecessors (KDP and UPP) have led to the construction and refurbishment of some 62,000 kilometres of roads and thousands of other infrastructure-related projects, e.g. 11,000 clean water supply units.4 Moreover, these programmes have helped reduce unemployment in rural areas. Recent evaluations show that individuals living in PNPM-Rural areas who were unemployed in 2007 had a 1.25 percentage point greater chance of being employed in 2010 than in control areas.5

Community investment programmes linked to entrepreneurship training

In another example of the CDD approach, the Ministry of Manpower and Transmigration currently implements a set of four programmes focusing on community

---

Table 1. Estimates of job creation from infrastructure development and empowerment programmes funded by the 2009 stimulus package

<table>
<thead>
<tr>
<th>Government Ministry/Department</th>
<th>Budget allocation IDR billion</th>
<th>Percentage of total</th>
<th>Number of jobs created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public works Centre</td>
<td>6,601</td>
<td>54.1</td>
<td>952,674</td>
</tr>
<tr>
<td>Transport</td>
<td>2,198</td>
<td>18.0</td>
<td>72,890</td>
</tr>
<tr>
<td>Energy and mineral resources</td>
<td>500</td>
<td>4.1</td>
<td>6,434</td>
</tr>
<tr>
<td>Public housing</td>
<td>400</td>
<td>3.3</td>
<td>5,000</td>
</tr>
<tr>
<td>Maritime affairs and fishery</td>
<td>100</td>
<td>0.8</td>
<td>12,590</td>
</tr>
<tr>
<td>Manpower and transmigration</td>
<td>300</td>
<td>2.5</td>
<td>10,983</td>
</tr>
<tr>
<td>Health</td>
<td>150</td>
<td>1.2</td>
<td>146</td>
</tr>
<tr>
<td>Trade</td>
<td>335</td>
<td>2.7</td>
<td>7,653</td>
</tr>
<tr>
<td>Cooperatives and SMEs</td>
<td>100</td>
<td>0.8</td>
<td>4,234</td>
</tr>
<tr>
<td>Other departments</td>
<td>1,515</td>
<td>12.4</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>12,199</td>
<td>100.0</td>
<td>1,072,603</td>
</tr>
</tbody>
</table>

Source: Coordinating Ministry of Economic Affairs (2009).
infrastructure investment and development, with emphasis on entrepreneurship training and support to small enterprises and cooperatives. The programmes, worth approximately IDR 2.0 trillion in 2011, support activities in over 360 districts in Indonesia, and seek to increase the employment growth rate through promoting entrepreneurship:

- **Employment-Intensive Investment in Productive Infrastructure (Padat Karya Produktif)** provides funding for investments in community infrastructure that have the potential to boost local economic growth followed by entrepreneurship training to complement the investment;
- **Appropriate Technology for Boosting Local Development (Teknologi Tepat Guna)** supports technical and entrepreneurship training followed by investment in simple technologies to enhance productivity in villages;
- **Support for Self Employment (Tenaga Kerja Mandiri)** targets the development of the creative economy, including provision of vocation and entrepreneurship training to support the development of micro and small enterprises; and
- **Subsidies for Cooperative Enterprise Development (Program Subsidi)** provides subsidies and support for the development of cooperative enterprises to improve the quality of services provided to members.

### Generating employment

While the overarching objective of the above programmes is to accelerate poverty reduction and expand employment opportunities, their immediate focus is to improve local productive physical infrastructure. Indeed, while the programmes support a range of vocational and entrepreneurship skill development activities for various sectors in the economy (agriculture, agricultural extension services and social services, etc.), the physical works undertaken make strategic investments in infrastructure to reinforce local community development. For instance, a community can propose to develop their aquaculture industry, and to support this initiative the programmes would provide both the physical works element of the investment (the building of the fish pond) and entrepreneurship training and business extension activities to develop the value chain and increase returns to local communities. This approach has been shown to be successful in stimulating economic development and in generating local employment opportunities. Moreover, these programmes can be scaled up to provide countercyclical support during times of crisis, as the Government did in 2009 in response to the global financial and economic crisis.

It is important, however, that new infrastructure projects not come at the expense of maintaining and improving the existing or recently developed infrastructure stock. It is also critical to continue to monitor and evaluate longer-term outcomes, especially with regard to formal job creation. Informal employment remains high and early evidence suggests that the jobs offered by these projects are limited in duration, resulting in limited long-term employment effects.

### Challenges ahead

Key to Indonesia's success in dealing with the crisis was its ability to quickly leverage existing programmes, especially in the area of infrastructure investment. Drawing on its past experiences in dealing with the Asian crisis, the Government was able to quickly and effectively implement a series of countercyclical measures. In addition, the labour-intensive techniques used in public works investments helped to stimulate employment creation with positive spill-over effects on local economic development.

The Government of Indonesia continues to make infrastructure improvement one of its main policy priorities as it recognizes that investments in infrastructure can have a long-term positive impact on both development and household income. Indeed, in its Medium Term Development Plan 2010–14, Indonesia announced plans to invest IDR 1,429 trillion (around 25 per cent of GDP) from 2010 to 2014 in infrastructure, of which around 64 per cent would be privately financed.

As private investment is expected to play a significant role, it will be important to foster better private investment, perhaps by relaxing regulations governing foreign direct investment. More generally, improvements to the regulatory framework, such as promoting independence of regulators in certain sectors and strengthening the power of others, are also needed.

---

1. IILS (2011).
References:


