LABOUR MARKET IN INDONESIA
CURRENT EMERGING ISSUES IN
EMPLOYMENT AND SKILLS DEVELOPMENT

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Ministry of State for National Development Planning
BAPPENAS

Fostering Local Employment and Skills Development in
Indonesia And The Philippines
Experts Meeting Organized by ILO and OECD
Jakarta, December 3rd 2008
SOME BACKGROUND ON

INDONESIAN LABOUR MARKET
Indonesian Labor Market

- Dualistic Economy.
  - Formal Vs Informal.
    - Formal 30 %, Informal 70 %

- Productive and non Productive Jobs

- Unskilled Labor.
  - 55% of the labor force are graduated from primary school or lower

Unemployment from Another Perspective

• Urban Phenomena:
  Urban 12.39% (Open Unemployment Rate), 5.6 million (56%).
  Rural 6.80% (Open Unemployment Rate), 4.4 million (44%).
  ➔ Unlike Poverty Phenomena
  Urban 13.56 million (12.52%).
  Rural 23.61 million (20.37%).

• Youth Unemployment is higher:
  15-19 36.7%
  20-24 23.1%
  ➔ Solution is not only creating new employment but also increases
     access to higher education or training

• Unemployment problem is not always identical to poverty problem
  1. High school graduates and higher is 55.55%
     ➔ Can afford to wait for a better job
  2. Junior high school and lower is 44.45%
     ➔ Can not afford to be unemployed
  3. 75% found job in less than 12 months, 25 % more than 12 months.
     ➔ employed but in an unproductive job and still poor
## Proportion of Experienced Worker Among the Unemployed 1998-2004 (%)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>38.69</td>
<td>34.01</td>
<td>28.89</td>
<td>32.18</td>
<td>37.12</td>
<td>32.06</td>
<td>34.30</td>
</tr>
<tr>
<td>Urban</td>
<td>39.52</td>
<td>37.40</td>
<td>32.92</td>
<td>35.30</td>
<td>39.77</td>
<td>35.11</td>
<td>38.47</td>
</tr>
<tr>
<td>Rural</td>
<td>37.38</td>
<td>28.35</td>
<td>22.99</td>
<td>27.26</td>
<td>32.89</td>
<td>27.20</td>
<td>27.96</td>
</tr>
</tbody>
</table>

Source: SAKERNAS BPS.

- They prefer to be unemployed until get a better job
- Miss match of skill
- Can not keep up with new “environment”
### Number of Business Establishments and Workers

<table>
<thead>
<tr>
<th>Category</th>
<th>Establishments</th>
<th>%</th>
<th>Workers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>18,928,220</td>
<td>83.25%</td>
<td>31,047,663</td>
<td>62.51%</td>
</tr>
<tr>
<td>Permanent Location</td>
<td>10,336,514</td>
<td>45.46%</td>
<td>21,447,768</td>
<td>43.18%</td>
</tr>
<tr>
<td>Not Permanent</td>
<td>8,591,706</td>
<td>37.79%</td>
<td>9,599,895</td>
<td>19.33%</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>3,587,574</td>
<td>15.78%</td>
<td>10,608,535</td>
<td>21.36%</td>
</tr>
<tr>
<td>Permanent Location</td>
<td>2,400,168</td>
<td>10.56%</td>
<td>8,942,571</td>
<td>18.00%</td>
</tr>
<tr>
<td>Non Permanent</td>
<td>1,187,406</td>
<td>5.22%</td>
<td>1,665,964</td>
<td>3.35%</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>164,839</td>
<td>0.72%</td>
<td>3,050,067</td>
<td>6.14%</td>
</tr>
<tr>
<td>Permanent</td>
<td>160,205</td>
<td>0.70%</td>
<td>3,038,318</td>
<td>6.12%</td>
</tr>
<tr>
<td>Tidak Permanen</td>
<td>4,634</td>
<td>0.02%</td>
<td>11,749</td>
<td>0.02%</td>
</tr>
<tr>
<td>Large Enterprise</td>
<td>44,048</td>
<td>0.19%</td>
<td>4,761,776</td>
<td>9.59%</td>
</tr>
<tr>
<td>Permanent Location</td>
<td>43,459</td>
<td>0.19%</td>
<td>4,760,083</td>
<td>9.58%</td>
</tr>
<tr>
<td>Non Permanen</td>
<td>589</td>
<td>0.00%</td>
<td>1,693</td>
<td>0.00%</td>
</tr>
<tr>
<td>Unclassified</td>
<td>12,107</td>
<td>0.05%</td>
<td>202,126</td>
<td>0.41%</td>
</tr>
<tr>
<td>Permanent Location</td>
<td>12,107</td>
<td>0.05%</td>
<td>202,126</td>
<td>0.41%</td>
</tr>
<tr>
<td>Non Permanent</td>
<td>0</td>
<td>0.00%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22,736,788</td>
<td>100.00%</td>
<td>49,670,167</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Ekonomi Censsus 2006 (BPS)
### Number of Establishments and Workers

By Permanent Location and Legal Entity

<table>
<thead>
<tr>
<th>Category</th>
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<th>%</th>
<th>Workers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Permanent Location</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Entity</td>
<td>1.327.801</td>
<td>5,84%</td>
<td>14.069.780</td>
<td>28,33%</td>
</tr>
<tr>
<td>Non Legal Entity</td>
<td>11.624.652</td>
<td>51,13%</td>
<td>24.321.086</td>
<td>48,97%</td>
</tr>
<tr>
<td><strong>Non Permanent Location</strong></td>
<td>9.784.335</td>
<td>43,03%</td>
<td>11.279.301</td>
<td>22,71%</td>
</tr>
<tr>
<td>Mobile Vendor</td>
<td>4.131.781</td>
<td>18,17%</td>
<td>4.535.498</td>
<td>9,13%</td>
</tr>
<tr>
<td>Street Vendor</td>
<td>3.092.983</td>
<td>13,60%</td>
<td>3.883.097</td>
<td>7,82%</td>
</tr>
<tr>
<td>Motorcycle Taxi</td>
<td>1.263.511</td>
<td>5,56%</td>
<td>1.263.511</td>
<td>2,54%</td>
</tr>
<tr>
<td>Market Stall/ corridors</td>
<td>1.296.060</td>
<td>5,70%</td>
<td>1.597.195</td>
<td>3,22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22.736.788</td>
<td>100,00%</td>
<td>49.670.167</td>
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Source: Economic Census 2006 (BPS)
CHALLENGES

- Create Modern/Formal Job.
- Facilitate Workers Movement From Less Productive Job to a More Productive Job.
- Improve or Preserve welfare for Workers Who Still Work In The Less Productive Job.

- Decent Work
- Employment-Rich and Pro-poor Economic Growth Through Investment
- Labor Intensive Industries.
- Flexible Labor Market Policies, including more decentralized industrial relations
- Better Human Resource
- Well designed worker training and certification process
IMPROVING INVESTMENT CLIMATE AND IMPROVING INDUSTRIAL RELATIONS BY PROMOTING DECENTRALIZED SYSTEM WITH STRENGTHENED UNION MOVEMENT AND COLLECTIVE BARGAINING
“between 2003 and 2006 wages stagnated and employment stagnated”
But GDP growth was much higher 1986-96 than 2003-2006

Real GDP growth rate

1986-1996 average = 7.9%
2003-2006 average = 5.4%
The biggest constraints perceived by businesses are:

1. **Macroeconomic instability**  
   - (another commodities or fuel price shock?)

2. **Infrastructure**  
   - (roads, ports, electricity)

3. **Corruption**

4. **Economic policy uncertainty**  
   - (e.g., investment negative list)

- Labor skills and labor regulations are the 6th and 7th biggest perceived obstacles.

Source: Survey of 587 manufacturing firms in 5 major metropolitan areas, mid-2007, University of Indonesia (LPEM-FEUI)
Labor -- Less than one-third of firms perceive labor issues as severe obstacles, but:

- Severance pay and lay-off procedures are seen as the biggest obstacles

% of respondents reporting obstacle to be severe or very severe

- severance pay
- lay-off procedures
- minimum wages
- overtime regulations
- "local hire" regulations
- expatriate employment regs
- social security regulations
- labor inspections
- female employment regs

0 5 10 15 20 25 30 35

end-2005
mid-2007
MAJOR CAUSES OF LABOR MARKET INFLEXIBILITY

1. Minimum wage has become the main mechanism for setting wages. → create rigidity.
2. High cost of severance payment has deterred employer from hiring new workers on a permanent basis.
3. Increased restriction on recruitment.
4. Slow progress in promoting collective bargaining at the enterprise level (no codes on acting in good faith).
5. Costly dispute resolution (industrial courts).
IMPACT OF EXCESSIVE GOVERNMENT REGULATION

High cost labor regulations discouraged employers from hiring new workers on a permanent basis
Contributed to reduced new permanent job opportunities in the modern sector
Contributed to higher youth unemployment
Encouraged shift to fixed term contracts and outsourcing
Helped increase workers’ feelings of job and income insecurity especially among workers with no access to these “protected” jobs
Inhibited development of unionism and collective bargaining (not much left for unions to negotiate over!)?
Improve Labor Market Policy

→ Decentralized system with strengthened union movement and collective bargaining

→ Recognition of the rights to collective bargaining are fundamental human rights

→ Dispute resolution mechanism

→ Balancing between worker protection and flexibility

→ Worker will be paid a wage rate that is related to their productivity

→ Protect workers against the risk of income lost
A NEW TREND FOR INDUSTRIAL RELATIONS

Where do we want union-employer relations to look like in 10 years from now?

New Order Era – Tight controls
Reformasi Era – Improved labor rights but excessive labor regulations
New Trend/Best Practice – Decentralized system with strengthened union movement and collective bargaining
DECENTRALIZED INDUSTRIAL RELATIONS

**Principles:**

The main purpose of free unions and collective bargaining is to replace government regulations but with legislated safeguards.

International evidence shows that union-employer collective bargaining processes are more effective in raising productivity and workers’ long term welfare compared to excessively costly government regulation.

**Recent international practice:**

Governments legislate the framework for collective bargaining, right to strike, dispute resolution that ensures a level playing field between employers and unions.

But employment conditions are determined through collective bargaining between employers and unions.

Basic rights and standards legislated by parliament.
IMPROVING LABOR SKILLS
BY
PROMOTING WORKER
COMPETENCY AND
CERTIFICATION SYSTEM
LABOUR MARKET WILL WORK WELL IF:

- Easy to recruit worker and to predict worker competency
  ➞ Predicting cost of training

- To get a decent work: Employability and Mobility is very important.
  ➞ Firm to firm
  ➞ Occupation to occupation
  ➞ Region to region

- Firm and workers should be able to adapt to changes in production technology and changes in preference.
  ➞ Right Mix of permanent employee, contract worker, and outsourcing

- Freedom in collective bargaining
  ➞ Negotiating wage that relates to productivity

➢ All of this requires a well functioning worker competency and certification system
Enhancing Efficiency and Transparency in Labour Market

- Worker should be able to prove his/her competence
- Employer can verify his/her competence

→ Increase skills and competence through certification process

GOALS:

→ All Workers Should Have Certification of Competence
Minimal Knowledge for Workers

- **Essential Academic Learning:**
  
  Language, Mathematics, Science, Technology, Social Science, Arts, Health Related and Sports

- **Practical Skills:**
  
  Communications, Numeric, Information Processing, Problem-solving, self-management and competitive skills, physical skills, work and study skills
Worker Characteristics Requires by Businesses:

- Worker Should Be Able To Prove His/Her Competence
  - Knowledge, Skills, and Attitudes to perform a job task

- Competence Area:
  Manufacture, Agriculture, Finance, Banking, Food and Beverages, Architecture, Information Technology, Engineering, Processing Technology, Trade Services, Capital Market, Tourism, Creative Industry, Management, Marketing, and many others.

- Industry Competency Map
Critical Elements for Worker Certification System:

- **Test Centers:**
  Examination/test materials, test facility with tools and machinery for testing, accreditation for test facility. All meet with industry standards.

- **Training Centers:**
  Curriculum, Tools, Machineries, materials meet with industry standards. Competence Based Training (CBT).
  
  ➔ Develop a mechanism involving Industry association in developing industry standards and curriculum
  
  ➔ Ensure worker can prove competence and employer can verify it
VOCATIONAL TRAINING

- Vocational Training Integrated in the Education System
  → Ministry of Education

- Vocational Training Integrated in the Labor Market
  → Ministry of Manpower

Initial Vocational Training
Continuing Vocational Training
Lesson Learned From Other Country:

- The process of developing a skills certification system is a medium or a long-term process.
- Public-private partnerships as a key to success and sustainability.
- Involvement of diverse stakeholders.
- Strengthening worker training institutions complements the process of skills certification.
Thank You