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# Labour and Social Trends in Indonesia 2011

## Promoting job-rich growth in provinces



ILO Office for Indonesia



# **Labour and Social Trends in Indonesia 2011**

Promoting job-rich growth in provinces

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# Foreword

The fourth issue of the *Labour and Social Trends in Indonesia* focuses on employment growth in provinces. Indonesia has maintained positive economic growth for over a decade and this trend is forecasted to continue with acceleration in economic expansion. It is obvious that bright opportunities lie ahead of Indonesia. Last year's report took up translating economic growth into job creation as the main theme since economic growth alone does not guarantee a job-rich and inclusive growth.

This year we turn our attention to provinces. Indonesia is a large archipelago consisting of over 17,000 islands in a vast geographic area. It boasts diversity in culture, food, ethnicity, religion and local languages. I must admit that I enjoy travelling across this beautiful nation. While travelling, I also noted a great diversity in socio-economic conditions from one place to another. It naturally came to my mind that adequate employment policies shall differ reflecting the conditions of a province (*'lain lebuk, lain belalang'*). After all, there is no 'one-size-fits-all' policy solution or a 'silver bullet' to accelerate employment creation, although there may be similarities in policy responses to common issues among provinces.

In addition to diverse socio-economic conditions, Indonesia has a decentralized structure of governance. This gives us another reason to pay more attention to provinces. While policymakers at the national level continue playing pivotal roles in generating a framework of development and guiding provinces, policymakers at the local level analyze issues that confront their localities and formulate suitable policies to address them. Generally speaking, a key success factor for a decentralized organization is problem solving capacity at the local level.

The ILO in Indonesia is increasingly working with policymakers and social partners locally. We have worked in six provinces on skills development. A headquarters'-based technical project piloted an employment diagnostic analysis method in three provinces of Indonesia. Our engagement with provinces has generated valuable knowledge and lessons to be shared as well as policy/programme models for wider roll-out to other provinces. We will continue our work both with the national and local counterparts.

This report was written by Kazutoshi Chatani, economist for the ILO Jakarta Office. He served for the Economic and Labour Market Analysis department of ILO headquarters prior to his assignment in Indonesia. The report benefited from valuable comments provided by colleagues from the ILO Jakarta office and the Regional Economic and Social Analysis Unit of the ILO Regional Office for Asia and the Pacific.

We hope that the report will generate discussions on and contribute to Indonesia's job-rich and inclusive growth in provinces. Taking this opportunity, we renew our commitment to work with our Constituents in Indonesia using our technical expertise and through technical cooperation projects in order to realize a job-rich path of economic growth that would benefit all citizens with the spirit of "Bersama kita bisa" (together we can).

**Peter van Rooij**  
Director  
ILO Jakarta Office

## List of Acronyms and Indonesian Terms

APINDO	<i>Asosiasi Pengusaha Indonesia</i> (The employers' association of Indonesia )
ASEAN	Association of Southeast Asian Nations
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> (National development planning agency)
BNP2TKI	<i>Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia</i> (National agency for the placement and protection of Indonesian overseas workers)
BPS	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
EDA	Employment Diagnostic Analysis
GDP	Gross Domestic Product
GRDP	Gross Regional Domestic Product
ILO	International Labour Organization
KILM	Key Indicators of the Labour Market
Komnas Perempuan	<i>Komisi Nasional Perempuan</i> (the National Commission on Violence against Women)
MP3EI	<i>Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia</i> (The Masterplan for the Acceleration and Expansion of Economic Development of Indonesia)
MDG	Millennium Development Goal
MoMT	Ministry of Manpower and Transmigration
NTB	Nusa Tenggara Barat
NTT	Nusa Tenggara Timur
OECD	Organisation for Economic Co-operation and Development
PKH	<i>Program Keluarga Harapan</i> (conditional cash transfer programme)
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> (National Programme for Community Empowerment)
Rp.	Rupiah
SIYB	Start and Improve Your Business
SMEs	Small and Medium Enterprises
Sukernas	<i>Survei Angkatan Kerja Nasional</i> (National Labour Force Survey)
Susenas	<i>Survei Sosial Ekonomi Nasional</i> (National Socioeconomic Survey)

Note: Throughout the report the following exchange rate is applied: 1 USD=Rp. 9,000

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

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# Executive Summary

This report focuses on job-rich growth at the province level. The underlying theme of this report “promoting job-rich growth in provinces” is derived from a guiding policy principle of the current Government, “pro-employment and pro-poor” growth. Given the considerable diversity in socio-economic conditions among Indonesian provinces, realizing inclusive and job-rich growth requires suitable policy interventions at the local levels, which correspond to distinct challenges in employment creation in the locality. Indonesia’s decentralized governance adds another reason for devoting more efforts to labour market analysis at the local level.

The first half of this report highlights key socio-economic trends and labour market performance at the provincial level. At the national level Indonesia has maintained economic growth for over a decade, weathered the global financial crisis relatively better than regional rivals, and is forecasted to grow faster than other neighbouring countries in the coming years. A closer look at this economic growth, however, reveals that economic activities are concentrated in a few provinces and growth rates differ significantly among provinces. In fact, nearly half of national GDP is generated in three provinces in Java: DKI Jakarta, Jawa Timur and Jawa Barat. Eastern provinces lag far behind these industrial centres in terms of wealth generation. Employment opportunities reflect the unbalanced economic development across the nation, except for provinces endowed with rich natural resources.

Overall, employment growth is back on track since 2006 as corroborated by declining unemployment rates after they peaked in 2005. Yet, various challenges remain in achieving inclusive and job-rich growth. First, youth continue to face difficulties in entering the labour market. Employment opportunities for youth failed to expand between 2000 and 2010. A recent downward trend in youth unemployment was partly brought on by declining labour participation of youth because more and more youth pursue education; hence labour market pressure for the young has been eased to a certain degree.



Second, women's labour market integration made modest progress despite the sustained economic growth in the past decade and gender gaps in employment-to-population ratios remain wide though they are narrowing. There appear to be various gender barriers in the labour market, which prevent the Indonesian economy from fully tapping into increasingly educated women's human capital. Third, time-related under-employment has been on a slightly upward trend. Fourth, a sustained economic expansion over the decade has brought about a modest decline in informal employment.

These four challenges warrant further efforts on behalf of the Government and social partners in generating and delivering more full and productive employment. It is increasingly clear that economic growth alone does not guarantee inclusive and job-rich growth and various policy interventions in a coherent manner are necessary in order to translate economic growth into job growth that benefits all groups of workers.

Labour market performance varies significantly among provinces. As with economic activities, around 60 per cent of the workforce is concentrated in Java and Bali. Given the unevenly distributed employment opportunities, workers continuously migrate from rural areas to industry hubs and large cities in search for jobs. Consequently, urban unemployment rates remain considerably higher than rural unemployment rates. Provinces of Kepulauan Riau and Banten realized a high employment growth between 2006 and 2010 as the industry grows in these provinces. Papua realized a high job growth and low unemployment, but more than one out of three people in the province suffer from abject poverty, implying a deficiency of productive work.

Employment in Indonesia has been shifting from agriculture to services. The shift has been accelerated since 2006. In 2010, 42.5 per cent of workers were employed in services sectors. This surpassed the share of agriculture employment, which stood at 38.1 per cent in the same year. As a consequence, skills demand in the labour market has been rapidly changing, increasingly rewarding higher education. Another driver of skills demand changes is various initiatives for greening the economy by both the public and private sectors. A challenge for Indonesian policymakers, educational, and labour market institutions is the adaptation of policy strategies and curricula to accommodate these shifts in skills demand.

A particular challenge in achieving "pro-job and pro-poor" growth is maintaining or enhancing purchasing power of poor workers. Wage increases of factory workers have lagged far behind food inflation since 2006, except in 2009 when prices were depressed due to a slowdown in the economy. Poor workers spend a large proportion of their income on food consumption, thus high food inflation and lagging wage increases have had an impoverishing effect on them. Stabilizing food prices and maintaining purchasing power of wages, especially wages for low-skilled workers, are areas that require policymakers' constant attention.

The Government of Indonesia has taken a bold stride in improving access to education. The shares of the workforce with secondary and tertiary education in Indonesia are lower than regional rivals, but these gaps in educational attainment of the workforce will narrow as younger generations of Indonesians enter the labour market. Children under the age of seven are expected to have 13.2 years of education on average in Indonesia, which is the longest among the middle-income countries in Southeast Asia. A better educated workforce will be conducive to enhancing competitiveness of Indonesian businesses.

The second half of this report looks at concrete measures to enhance employment growth at the provincial level. It takes up, among others, regional development initiatives, business environment, an employment diagnostic analysis, rural road connectivity, a productive migration cycle, effective use of women's human capital, workers' rights, and social dialogue. Although socio-economic conditions differ among provinces, provincial policymakers and social partners may find opportunities for accelerating employment creation in these thematic areas.

An underlying motif of this report is to narrow development and employment gaps among provinces, or between economic centres and peripheries. Disparities in development and employment opportunities draw rural population to cities and industrial hubs. Some domestic migrant workers find jobs and the others become urban unemployed. Indeed, urban unemployment rates have been significantly higher than rural unemployment rates. The Harris-Todaro model of multi-sector labour markets suggests that rural development is a key to address high urban unemployment.

The Government has revealed the Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI), which gives a strong boost to economic development through six economic corridors, the enhancement of national connectivity, and the spurring of human capital development. The planned large-scale investment will generate many economic opportunities throughout the nation. A necessary factor that turns economic opportunities into creation of productive employment creation is formal enterprise development. In this regard, improving the business environment is desired.

Given the decentralized governance and diversity in socio-economic conditions among provinces, it is an important task of local government and social partners to formulate suitable policies that accelerate inclusive and job-rich growth. The ILO has developed an employment diagnostic analysis methodology (EDA), which helps local policymakers and social partners to identify critical constraints to employment growth that strengthens the basis for policy formulation. Policy prioritization and sequencing are helpful where policy resources are limited.

The quality of the road network is crucial for the rural population to have access to socio-economic services, and similarly, for the outreach of such services to rural areas. Rural transport infrastructure is known to have a positive impact on welfare of rural households and poverty reduction. A local resource-based approach combines the use of an optimum mix of labour and light equipment to attain the twin goals of rural infrastructure development and employment creation.

Another relatively untapped potential in stimulating the local economy, especially in underprivileged communities where many migrant workers originate, is the productive use of remittances. Remittances brought by migrant workers not only enhance the welfare of migrant workers' families but also provide sustainable means to live out of poverty, if used productively. In this regard, addressing migrant workers' vulnerability to abuse at various stages of migration is an urgent task. In addition, social and financial services such as pre-departure training, financial education, financial services and entrepreneurship training contribute to productive use of remittances.

Despite increasing women's educational attainment, women's human capital remains relatively under-utilized due to a range of hindrances. Such obstacles to gender equality include gender stereotypes on occupations, family responsibilities disproportionately assigned to women, people's perception on women's roles and status in the society. An effective anti-discrimination legal framework and affirmative action appear necessary to address women's unequal access to employment and discriminatory practices at work. Removing gender barriers in society and in the labour market as well as increases in women's labour participation are important for Indonesia to pursue inclusive and sustainable growth.

Given the high reliance of the Indonesian economy on domestic consumption, allowing for good working conditions and thus enabling a sustained or increasing domestic consumption is conducive to sustainable growth of the economy. Although the recognition of labour rights in Indonesia has improved, violations of workers' rights are not rare occurrences even in unionized enterprises within the formal economy. Further efforts are necessary to safeguard legally recognized workers' rights. Besides, a rapid economic expansion often triggers considerable social transformations. Smooth adjustment of the socio-economic institutions will be an important undertaking for policymakers and social partners in the years to come. In this light, effectiveness of social dialogue in striking good and sustainable working conditions and reaching negotiated solutions to emerging issues will affect sound development of the Indonesian economy and society in the near future.



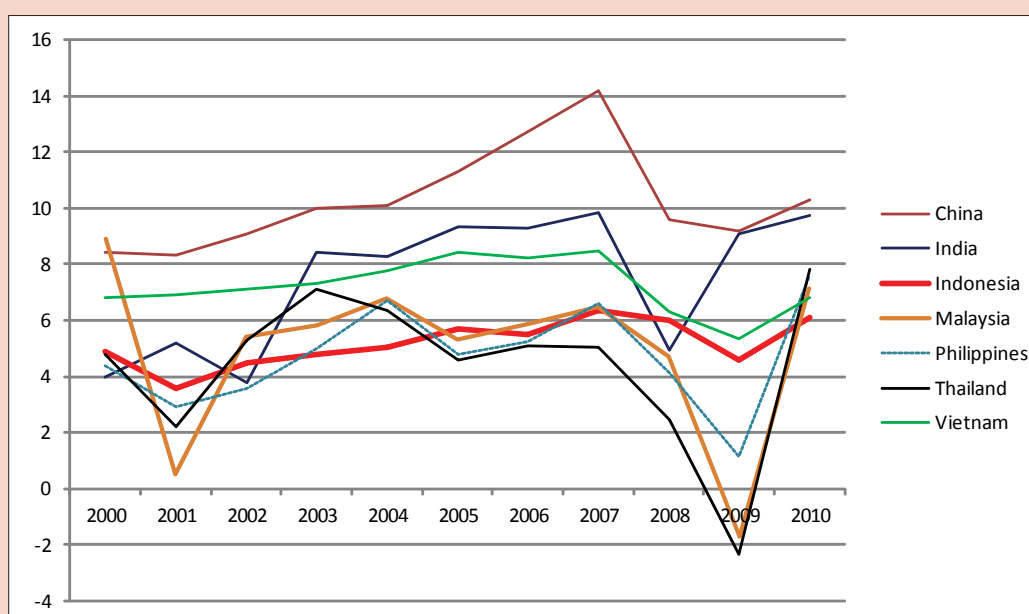
# Trends in the economy and the labour market

## 1.1 Economic trends

Indonesia has realized sustained economic growth for over a decade since the drastic economic contraction during the Asian financial crisis. The growth rate was subdued compared with the pre-crisis period between the mid-1980s and the run up to the crisis. However, it appears that Indonesia has been steadily regaining growth momentum. It is worth mentioning Indonesia's improved macroeconomic stability. The Government, for example, was able to lower both the debt-to-GDP ratio and budget deficit. The Indonesian economy's relatively low external exposure and vigorous domestic consumption helped the country weather the recent global financial crisis much better than many other countries in the region.

*A decade-long sustained economic expansion*

**Figure 1.1**  
Economic growth rates (selected countries, %)

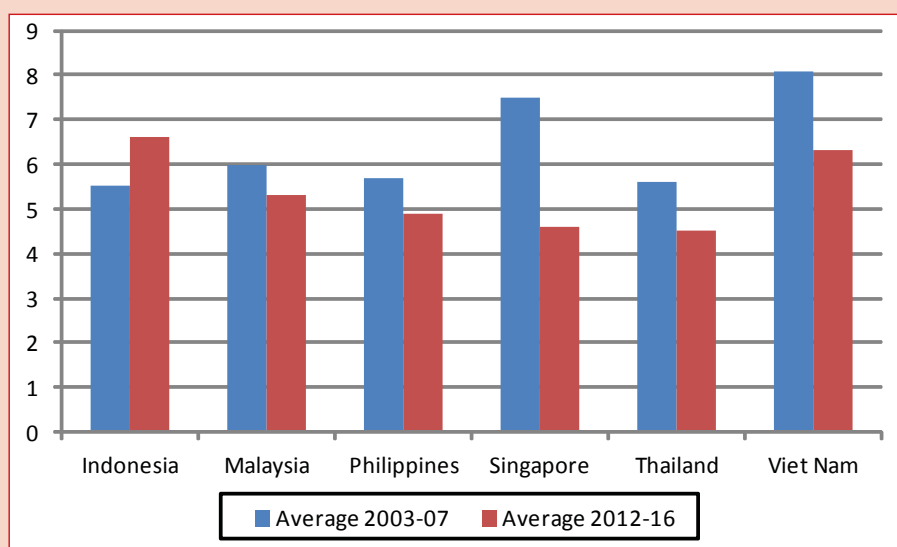


Source: World Bank, World DataBank

*Indonesia is  
forecasted to grow  
faster than regional  
rivals*

According to a recent forecast by the Organisation for Economic Co-operation and Development (OECD), Indonesia's economic growth will accelerate in the coming years, attaining an average growth rate of 6.6 per cent per year between 2012 and 2016. Given a protracted recovery from the financial crisis that erupted in the United States and the on-going sovereign debt crisis in Europe, demand from major export destinations of Southeast Asian countries will remain depressed. As a result the economic growth of Indonesia's regional rivals with high exposure to trades is forecasted to slow down. For the period between 2012 and 2016, Indonesia will attain the highest growth rate in the region, according to the OECD forecast.

**Figure 1.2**  
**Real GDP growth rates (forecasts)**



Source: OECD, *Southeast Asian Economic Outlook 2011/2012*

One notable feature of the Indonesian economy is the high share of household consumption, 56.6 per cent in 2010, in the GDP. The net export (i.e. export less import) accounted for 36.0 per cent of the GDP, but the share was much lower than that of regional rivals. This modest reliance of the economy on exports partly helped Indonesia weather the impact of the global financial crisis. Household consumption will remain a mainstay of the economy in the coming years. Speaking of crisis response, the Government quickly implemented a fiscal stimulus package, which also supported the economy when demand was slacking. This policy response is reflected in the high growth rate of Government consumption between 2008 and 2010. Gross domestic fixed capital formation is expected to rise in the coming years as the Government and the private sector accelerate infrastructure spending. The new land acquisition law<sup>1</sup> will spur infrastructure development.

<sup>1</sup> The House of Representatives passed a Law on Land Provision for the Development for Public Interest in December 2011. Under the Law, the Government can acquire necessary land for infrastructure development projects by offering monetary compensation, resettlement, or ownership share in public projects to land owners.

**Table 1.1**  
**Expenditure of GDP at constant market prices**

Type of expenditure	2008 (Trillion Rupiahs)	2010 (Trillion Rupiahs)	Share in GDP (%, 2010)	Annual growth rate (%, 2008- 2010)
Household consumption	1,191.2	1,306.8	56.6	4.7
Government final consumption	169.3	196.4	8.5	7.7
Gross domestic fixed capital formation	493.8	553.4	24.0	5.9
Net export	833.3	831.0	36.0	-0.1
Gross Domestic Product	2,082.5	2,310.7	100	5.3

Source: BPS, author's calculation

From a perspective of geo-economics, Indonesian economic activities are concentrated in Java. No less than 61 per cent of value added was originated in Java in 2010. Sumatra and Java combined accounted for more than 82 per cent of the total Indonesian GDP. Eastern provinces lag far behind the economic centres. This skewed distribution of economic opportunities exerts migratory pressure. It needs to be redressed by further efforts in developing these provinces.

*Considerable  
diversity in economic  
growth among  
provinces*

Although economic growth has been stable and upward at the national level, it is important to note a significant diversity in economic growth rates among provinces. On the one hand, some provinces with industrial hubs or with natural resources' exploitation recorded two-digit annual growth rates between 2006 and 2010 (i.e. Banten, Sulawesi Tengah, Sulawesi Tenggara, Sulawesi Barat and Papua Barat). On the other hand, the economy in Aceh has contracted annually by 2.3 per cent on average during the same period as reconstruction and rehabilitation projects phased out. Economic growth in the province of Papua has been stagnant since 2006.



**Table 2:**  
**Gross regional domestic product (GRDP) at 2000 constant market prices by provinces**

Type of expenditure	2006 (Rp. billion)	2010 (Rp. billion)	Share in GRDP (2010, %)	Annual growth rate (2006- 2010)
Aceh	36,854	33,071	1.5	-2.3
Sumatera Utara	93,347	118,641	5.3	7.8
Sumatera Barat	30,950	38,860	1.7	7.4
Riau	83,371	97,702	4.4	5.4
Jambi	13,364	17,465	0.8	8.5
Sumatera Selatan	52,215	63,736	2.9	6.5
Bengkulu	6,611	8,330	0.4	7.5
Lampung	30,861	38,305	1.7	6.8
Kepulauan Bangka Belitung	9,054	10,867	0.5	5.7
Kepulauan Riau	32,441	41,083	1.8	7.8
<b>Sumatera</b>	<b>389,067</b>	<b>468,061</b>	<b>21.1</b>	<b>6.1</b>
DKI Jakarta	312,827	395,664	17.8	7.6
Jawa Barat	257,499	321,876	14.5	7.3
Jawa Tengah	150,683	186,995	8.4	6.9
DI. Yogyakarta	17,536	21,042	0.9	5.6
Jawa Timur	271,249	342,281	15.4	7.5
Banten	61,342	88,394	4.0	11.1
<b>Java</b>	<b>1,071,136</b>	<b>1,356,253</b>	<b>61.0</b>	<b>7.6</b>
Bali	22,185	28,881	1.3	8.2
<b>Java &amp; Bali</b>	<b>1,093,320</b>	<b>1,385,133</b>	<b>62.3</b>	<b>7.6</b>
Kalimantan Barat	24,768	30,292	1.4	6.5
Kalimantan Tengah	14,854	18,789	0.8	7.6
Kalimantan Selatan	24,452	30,674	1.4	7.1
Kalimantan Timur	96,613	110,580	5.0	4.2
<b>Kalimantan</b>	<b>160,687</b>	<b>190,335</b>	<b>8.6</b>	<b>5.3</b>
Sulawesi Utara	13,473	18,371	0.8	9.6
Sulawesi Tengah	12,672	17,437	0.8	10.4
Sulawesi Selatan	38,868	51,197	2.3	8.9
Sulawesi Tenggara	8,643	12,226	0.6	11.1
Gorontalo	2,176	2,917	0.1	9.5
Sulawesi Barat	3,321	4,744	0.2	11.0
<b>Sulawesi</b>	<b>79,153</b>	<b>106,893</b>	<b>4.8</b>	<b>9.6</b>
Nusa Tenggara Barat	15,604	20,057	0.9	7.2
Nusa Tenggara Timur	10,369	12,532	0.6	6.2
Maluku	3,440	4,251	0.2	6.9
Maluku Utara	2,359	3,035	0.1	7.9

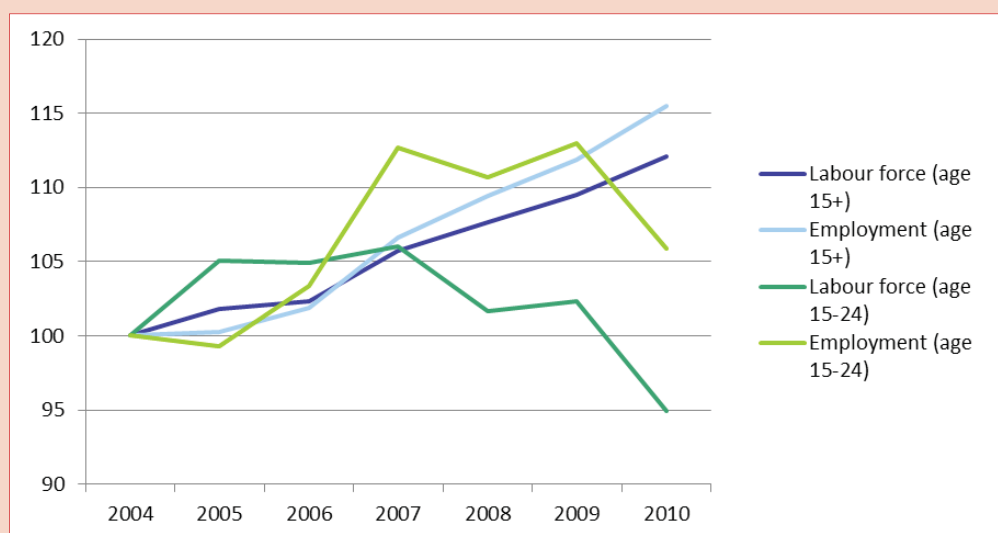
Papua Barat	5,549	8,686	0.4	13.1
<b>Papua</b>	<b>18,402</b>	<b>22,620</b>	<b>1.0</b>	<b>0.5</b>
Nusa Tenggara, Maluku & Papua	55,723	71,181	3.2	5.2
<b>Total of 33 Provinces</b>	<b>1,777,950</b>	<b>2,221,604</b>	<b>100</b>	<b>7.1</b>

Source: BPS website

## 1.2 Labour market trends

Overall labour market indicators have shown improvement since 2006 and it appears that job growth has been back on track thanks to high job growth in the service sector. Despite the impact of the global financial crisis and a protracted recovery of advanced economies from it, employment growth (age 15+) rates have been surpassing the growth rates of the labour force since 2006. Employment grew annually by 3.2 per cent on average between 2006 and 2010, faster than the pace of labour force expansion at 2.3 per cent per year during the same period. Even with this remarkable job growth record, some groups of workers still face difficulties in finding decent work in the labour market.

**Figure 3:**  
**Labour force and employment growth index (year 2000=100)**



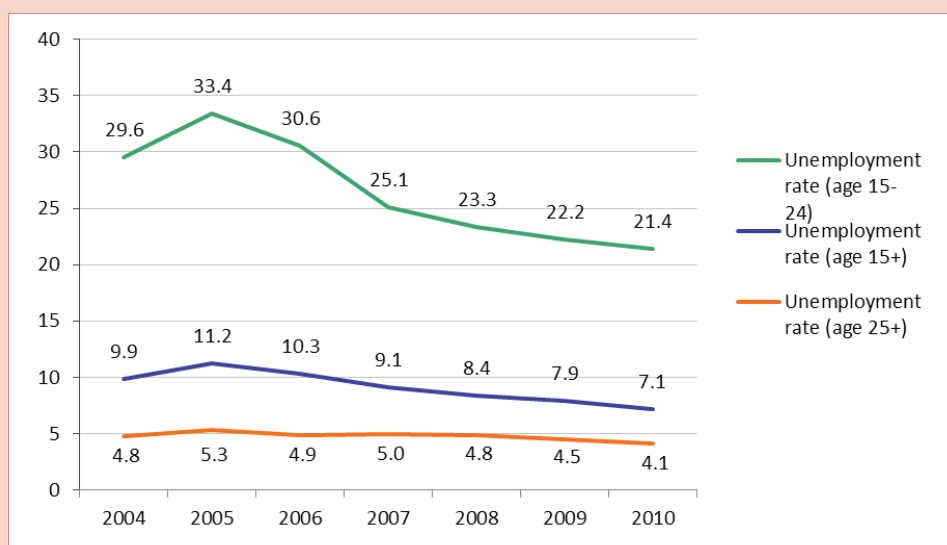
Source: BPS, author's calculation

Youth unemployment (age 15-24) peaked in 2005 at 33.4 per cent and it has been on a downward trend since then. However, this statistic requires caution since young workers (age 15-24) are more than five times more likely to be unemployed than older workers (age 25+). Labour market entrance barriers against youth remain high. The youth unemployment rate

*Youth unemployment declined, but still high*

is lower in 2010 than in 2004 partly thanks to job growth for youth and in part because of a decline in labour participation of youth. In fact, labour participation rates of youth declined from 54.1 per cent in 2004 to 49.1 per cent in 2011. In lieu of labour participation, an increasing number of youth pursue higher education nowadays. Improving income has made higher education affordable for a greater number of families. Increasing return on higher education has also made investment in human capital more attractive. Meanwhile, it is important to note that 10.2 per cent of youth are neither in employment nor in education. This group of youth might risk losing a tie with the labour market if an idle period prolongs.

**Figure 4:**  
**Unemployment rates by age group (%)**



Source: BPS, author's calculation

### *Women's human capital remains relatively untapped*

Another group of workers yet to fully benefit from improved labour market conditions is women workers. The employment-to-population ratio of women has gradually increased since 2006, generally reflecting improving labour market performance. The ratio recorded a remarkable increase of 6.4 percentage points between 2006 and 2010. However, despite this increase, gender gaps in employment-to-population ratio remain large. The ratio for women was 31.3 percentage points lower than male employment-to-population ratio in 2010. In addition, women generally face higher unemployment rates than men. It appears that various socio-cultural factors and employment practices hamper integration of women into the labour market. Public awareness raising campaigns and policy interventions are needed in order to narrow the gender gaps in the labour market.

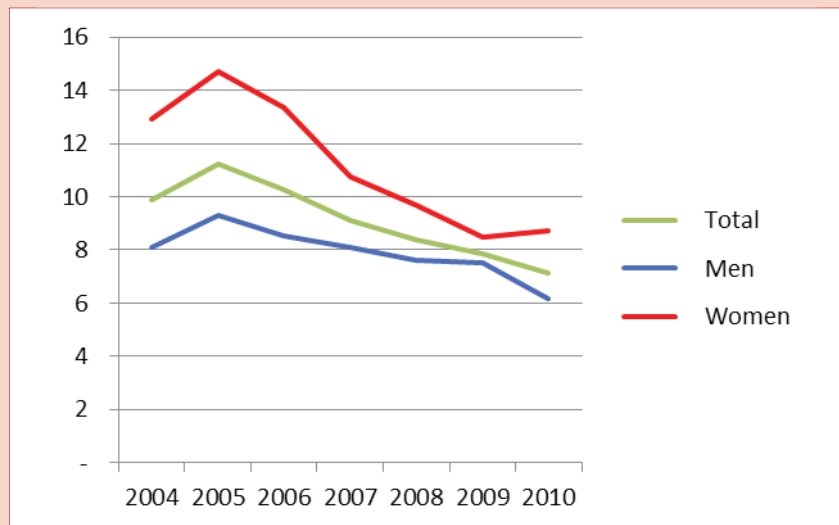


**Table 3:**  
**Employment-to-population ratio, ages 15-64, %**

Year	2004	2005	2006	2007	2008	2009	2010
Total	62.3	60.8	60.9	62.4	63.2	63.6	64.7
Male	80.5	78.6	78.7	78.4	78.7	78.9	80.3
Female	44.1	42.6	43.0	46.3	47.7	48.2	49.0

Source: BPS, Sakernas

**Figure 5:**  
**Unemployment rate by gender (age 15+, %)**

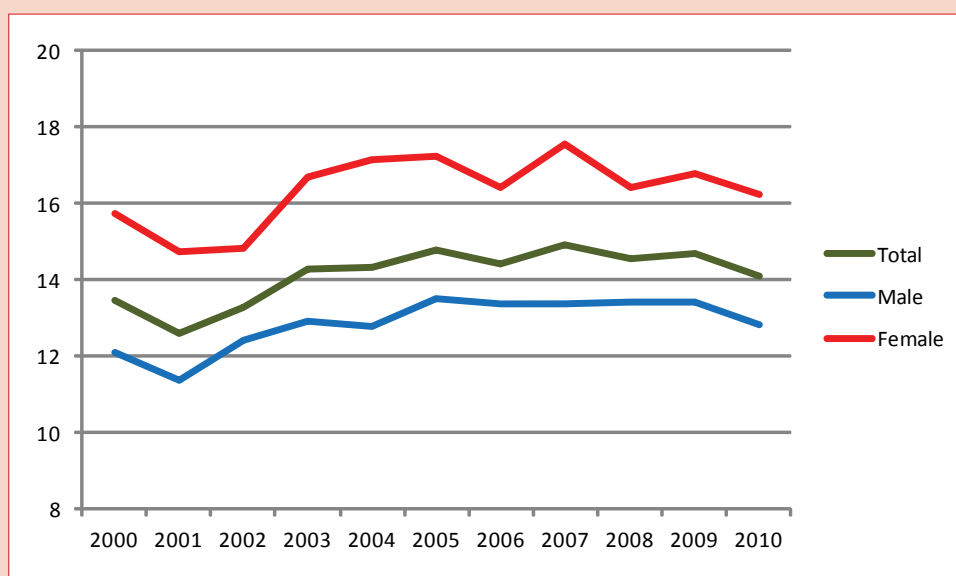


Source: BPS, Sakernas

Although unemployment rates have been on the downward trend, time-related underemployment has been high. A worker is classified as being in time-related underemployment when he/she works less than 35 hours per week and is looking for a job or is available for more work. 14.1 per cent of total workers were under-employed according to this definition in 2010. The share was higher among women at 16.2 per cent in the same year. Some observers deem it as a form of hidden unemployment.

*Time-related underemployment has been high*

**Figure 6:**  
**Time-related underemployment rate (%)**



Source: ILO, Decent Work Indicator based on BPS Sakernas

*Economic growth  
alone does not  
guarantee growth  
of productive  
employment*

Despite improvements in labour market performances as outlined in the beginning of this section, especially a robust job growth in the past few years, a perplexing fact is that Indonesian employment remains largely informal. In fact, about 60 per cent of employment was informal in 2010. The share of informal employment exhibited only a modest decline between 2001 and 2010 in spite of a decade-long sustained economic expansion. Understanding factors behind this is imperative to effective employment policy formulation. It is observed that productivity of informal employment is generally lower than formal employment and so are working conditions. The largely informal nature of Indonesian employment reduces the ability of the economy to improve working conditions. A decade-long economic growth has not yet fully translated into growth of productive jobs.

**Table 4:**  
**Informal employment (age 15+, %)**

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	61.5	63.3	64.7	63.2	63.2	62.8	62.1	61.3	61.6	59.0
Male	57.9	60.4	61.9	60.5	61.4	61.4	59.9	59.3	60.1	57.2
Female	67.5	68.3	69.5	68.2	66.6	65.4	65.9	64.5	64.0	61.8

Source: BPS, Sakernas

Turning our eyes from national labour statistics to the provinces one finds considerable differences in labour market outcomes across the country. Slightly less than 60 per cent of the total Indonesian labour force is concentrated in the Java Island and in Bali. Sumatera and Java islands alone absorb 78.9 per cent of the labour force, which is similar to the pattern of economic activities' concentration. Unemployment rates ranged from 3.1 per cent in Bali to 13.7 per cent in Banten in 2010. Urban areas tend to have high unemployment since rural workers flock to cities and industrial hubs and search for employment opportunities given limited labour market information. Employment-to-population ratio (age 15-64) also varies among provinces: 78.1 per cent in Papua was the highest and Jawa Barat sits at the other end of the spectrum at 55.9 per cent.

*Diverse labour  
market performances  
among provinces*

Indonesian provinces experience job growth at considerably different rates. Between 2006 and 2010, a period during which labour market performances generally improved, Kepulauan Riau and Banten realized a remarkably high job growth thanks to expansion of industries while some provinces such as DI Yogyakarta and Jawa Tengah had stagnant job growth. Generally speaking, provinces in Sumatera saw relatively high job growth at above national average of 3.1 per cent per year, except for Aceh, Bengkulu, and Sumatera Barat. Job growth was slower than the national average in provinces in Java with a notable exception of the capital, DKI Jakarta. The province of Papua achieved the fastest average annual job growth rate for the period between 2006 and 2010, the highest employment-to-population ratio and the fourth lowest unemployment rate in 2010. The province, however, suffered from the highest poverty incidence in the country partly because the employment opportunities in the province are largely informal: wage employment, a proxy for formal employment, accounted only for 17.0 per cent in 2010. The national average was 30.1 per cent in the same year.



**Table 5:**  
**Selected labour market indicators by province**

	Labour force (‘000)	Unemploy- ment rate (2010, %)	Employment- to-population ratio (2010, %)	Annual employment growth rate (2006-2010,
Aceh	1,938.5	8.4	57.9	2.3
Sumatera Utara	6,617.4	7.4	64.3	6.0
Sumatera Barat	2,194.0	7.0	61.7	3.1
Riau	2,377.5	8.7	58.1	5.2
Jambi	1,545.7	5.4	62.2	7.3
Sumatera Selatan	3,665.0	6.7	65.6	3.2
Bengkulu	855.0	4.6	68.6	1.7
Lampung	3,957.7	5.6	64.2	5.1
Kepulauan Bangka Belitung	620.1	5.6	62.8	8.2
Kepulauan Riau	826.5	6.9	64.1	10.5
<b>Sumatera</b>	<b>24,597.5</b>	<b>6.9</b>	<b>63.0</b>	<b>4.8</b>
DKI Jakarta	5,272.6	11.1	60.3	5.3
Jawa Barat	18,893.8	10.3	55.9	3.1
Jawa Tengah	16,856.3	6.2	66.2	0.4
DI. Yogyakarta	1,882.3	5.7	65.8	0.3
Jawa Timur	19,527.1	4.2	66.1	1.4
Banten	5,309.5	13.7	56.4	9.1
<b>Java</b>	<b>67,741.6</b>	<b>7.7</b>	<b>61.9</b>	<b>2.3</b>
Bali	2,246.1	3.1	75.0	3.9
<b>Java &amp; Bali</b>	<b>69,987.7</b>	<b>7.6</b>	<b>62.2</b>	<b>2.4</b>
Kalimantan Barat	2,197.3	4.6	69.8	1.8
Kalimantan Tengah	1,066.7	4.1	67.0	2.0
Kalimantan Selatan	1,840.3	5.3	67.5	4.0
Kalimantan Timur	1,648.5	10.1	59.7	6.6
<b>Kalimantan</b>	<b>6,752.8</b>	<b>6.1</b>	<b>66.1</b>	<b>3.5</b>
Sulawesi Utara	1,036.6	9.6	57.2	3.1
Sulawesi Tengah	1,220.5	4.6	66.0	3.0
Sulawesi Selatan	3,571.3	8.4	58.8	4.6
Sulawesi Tenggara	1,045.9	4.6	68.6	4.5
Gorontalo	456.5	5.2	61.1	4.4
Sulawesi Barat	532.2	3.3	69.1	6.3
<b>Sulawesi</b>	<b>7,862.9</b>	<b>6.9</b>	<b>61.6</b>	<b>4.2</b>
Nusa Tenggara Barat	2,252.1	5.3	63.1	2.8
Nusa Tenggara Timur	2,132.4	3.3	70.3	1.1
Maluku	651.3	10.0	59.9	6.7
Maluku Utara	437.8	6.0	61.2	1.4

Papua Barat	342.9	7.7	64.0	3.0
Papua	1,510.2	3.6	78.1	14.3
<b>Nusa Tenggara, Maluku &amp; Papua</b>	<b>7,326.6</b>	<b>4.9</b>	<b>67.5</b>	<b>4.4</b>
<b>Total of 33 Provinces</b>	<b>116,527.5</b>	<b>7.1</b>	<b>62.9</b>	<b>3.2</b>

Source: BPS, author's calculation

It requires attention of policymakers that economic growth alone does not guarantee job growth in Indonesian provinces. Figure 9 plots the 33 provinces less Aceh and Papua on an annual employment growth rate-economic growth rate (2006-2010) diagram. Aceh and Papua are outliers: annual economic growth rates (2006-2010) are -2.3% and 0.5% in Aceh and Papua, respectively. Annual employment growth rates are 2.3% in Aceh and 14.3% in Papua. Coordinates axes represent the national averages, employment growth rate at 3.1 per cent per year and economic growth rate at 7.1 per cent. Differences in industry composition and capital intensity of economic activities among the provinces generate somewhat mixed linkages between economic growth and employment. Some natural resource rich provinces charted high economic growth with modest employment expansion. Provinces with industry hubs of labour intensive sectors realized high economic and employment growth. Provinces with a high job growth but with a low output growth experienced a loss in productivity, implying a negative effect on overall working conditions.

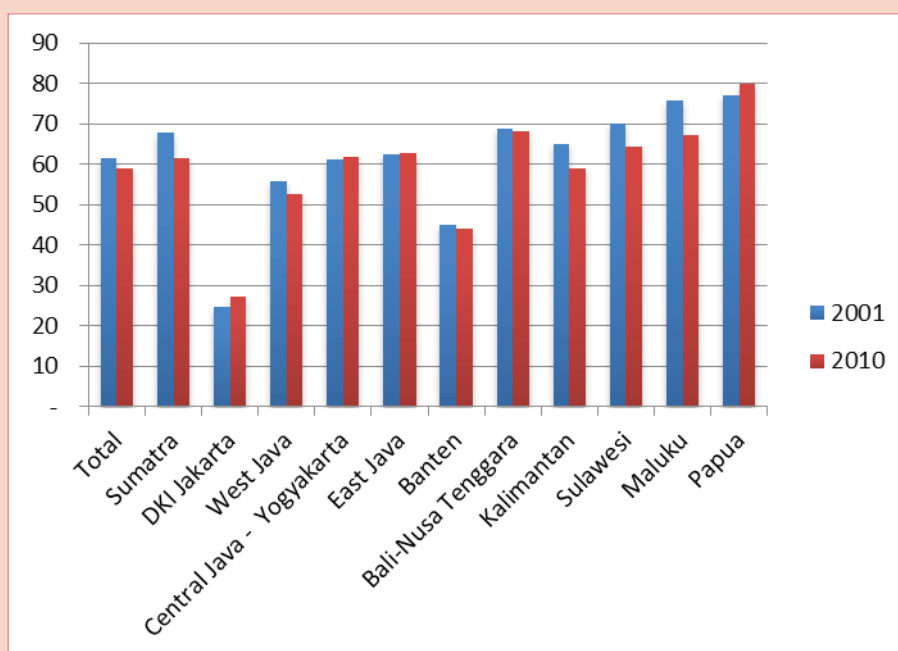
Labour productivity, measured by total value-added of the province (GRDP) per worker, is outstanding in DKI Jakarta where businesses are concentrated, Kalimantan Timur with rich natural resources, and Riau and Kepulauan Riau that house industrial hubs. The labour productivity of DKI Jakarta, 84.4 million Rupiahs per worker is over quadruple of the national average at 20.5 million Rupiahs per worker. Agriculture-dominant provinces without much exportable natural resources or thriving industry tend to have low labour productivity. Output per worker in Bengkulu, Gorontalo, Sulawesi Barat, Nusa Tenggara Barat, Nusa Tenggara Timur, Maluku and Maluku Utara were less than a half of the national average in 2010. Enhancing value-added to agricultural products by food processing is one way of increasing labour productivity.

*Economic activities concentrate in a few areas*

Incidences of informal employment vary significantly among regions ranging from 27.3 per cent in DKI Jakarta to 79.8 per cent in Papua (provinces of Papua and Papua Barat combined). The share of informal employment at the national level declined 2.5 percentage points between 2001 and 2010; however, this is not a common trend among regions and geographical groups of provinces. In fact, Sumatera, Kalimantan, Sulawesi and Maluku recorded considerable declines in informal employment during the same period, whereas DKI Jakarta and Papua saw increases in informal employment. In general, informality in employment is higher in eastern provinces.

*Incidences of informal employment and poverty are higher in eastern provinces*

**Figure 7:**  
**Informal employment by region (ages 15+, per cent)**



Source: BPS, Quarterly Wage Statistics

Note: Some provinces are grouped together as a region as follows: Sumatra (all provinces in the Sumatra), Bali-Nusa Tenggara (Bali, NTB and NTT), Kalimantan (all provinces in the Kalimantan), Sulawesi (all provinces in the Sulawesi), Maluku (Maluku and Maluku Utara) and Papua (Papua Barat and Papua)

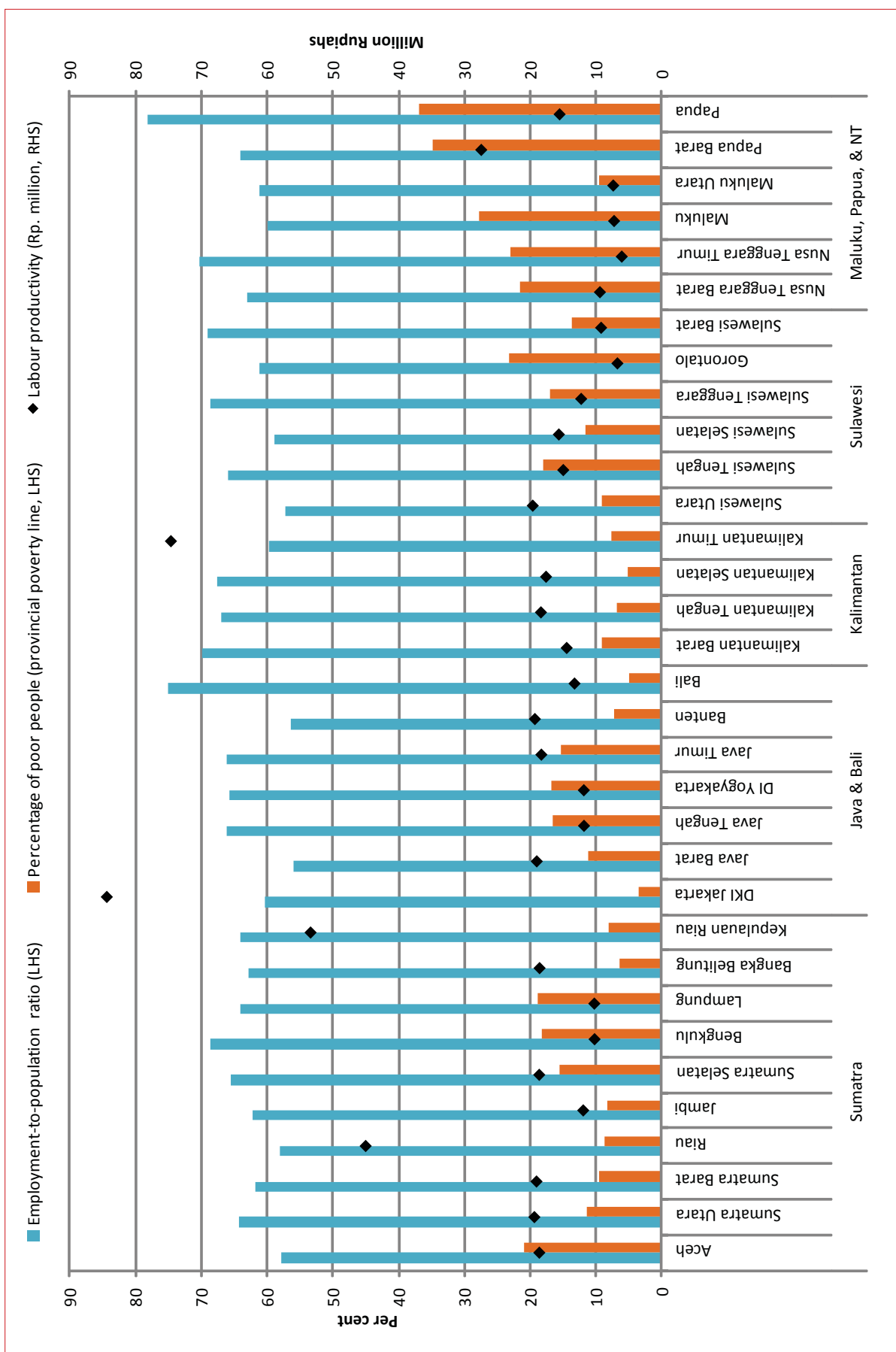
Poverty incidence, the percentage of people living below the *provincial* poverty line, varies significantly across the nation. More than one out of three people are classified as poor in Papua and Papua Barat. DKI Jakarta and Bali boast low poverty incidences owing to flourishing economic activities. It is worth noting that high average labour productivity does not always result in a low poverty incidence in the province. For instance, Papua Barat suffers from a high poverty incidence although the labour productivity in the province far surpasses the national average, which implies that high output, especially in the mining sector, is not shared with a wider population in these provinces. Maluku Utara is an opposite case, managing a low poverty incidence along with a low labour productivity. Note that poverty incidence here is measured using the provincial poverty line, not national or international poverty lines, reflecting the cost of living in each province. The high-cost nature of the provincial economy in some provinces may have negatively affected poverty. Causes of a high-cost economy include inefficient transportation and weak market functioning.

The results that economic growth and employment growth may not work in tandem provide important policy implications for local policy planners. First, policies that pursue economic growth alone would not suffice for realizing a job-rich development and lifting the living standards of the people in the province. An appropriate mix of policies in wide-ranging areas including industrial policy, human resource development policy and labour

market policy is necessary for inclusive growth. Second, Indonesia needs a regionally-balanced growth strategy. Economic activities are concentrated in some areas: the capital, industrial hubs and places with rich natural resource endowments. Labour market outcomes mirror this picture. A strategy that aims to develop more industrial and business hubs with a good regional balance is justifiable if inclusive growth is a policy goal.



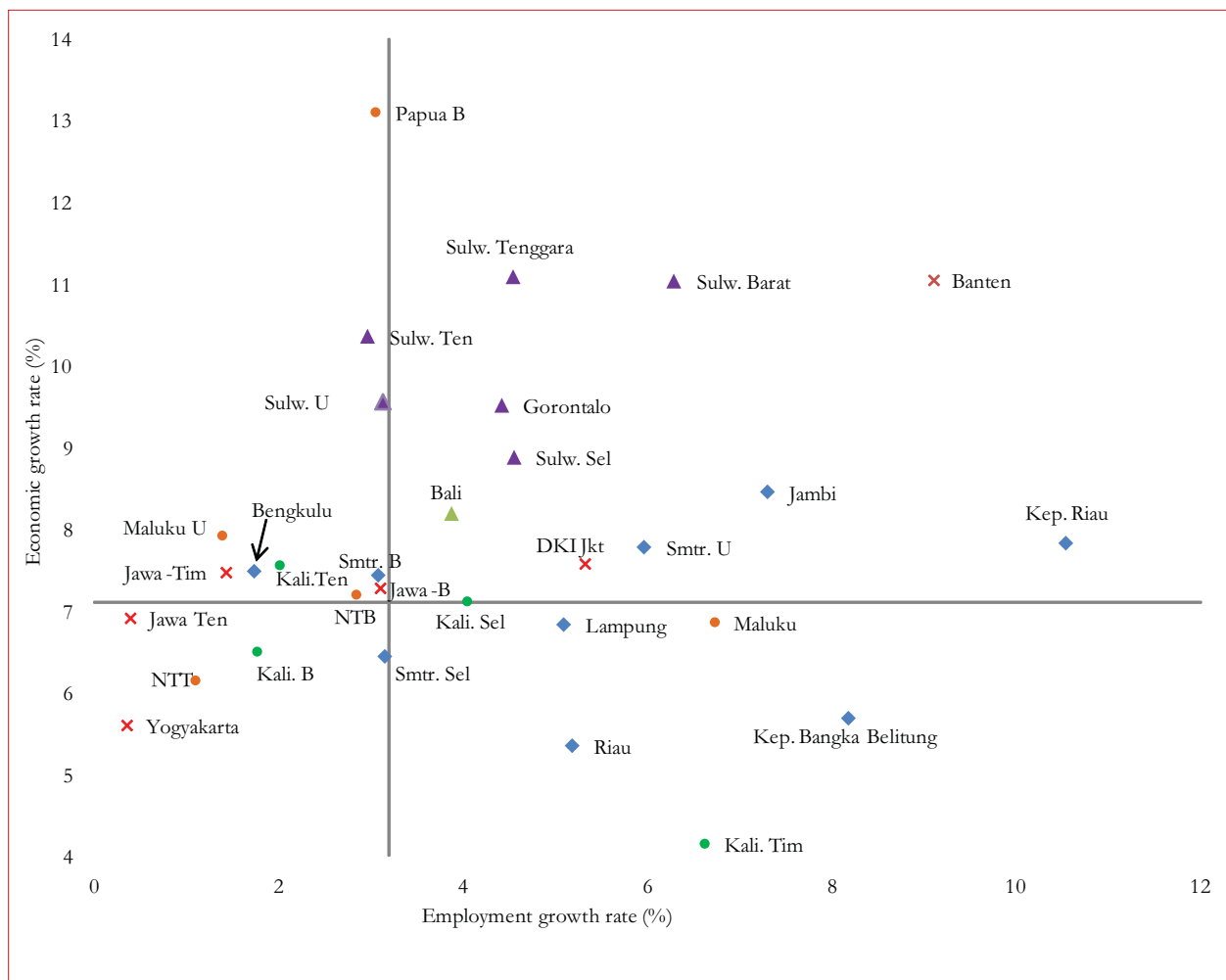
Figure 8: Employment, labour productivity and poverty (2010)



Source: BPS, author's calculation

Note: Labour productivity is GRDP per employed in million Rupiahs.

**Figure 9:**  
**Annual economic and employment growth rates by province (2006-2010, %)**



Source: BPS, author's calculation

Note: The figure excludes Aceh and Papua because they are outliers. Annual economic growth rates (2006-2010) are -2.3% and 0.5% in Aceh and Papua, respectively. Annual employment growth rates are 2.3% and 14.3% in the provinces.

The Indonesian labour market has been undergoing a structural shift in employment in terms of sector absorption of workers, mirroring economic structural changes. First, the agriculture share of employment has been on the decline. The agriculture sector used to be the largest employer, but today service sectors employ more workers than agriculture. Second, the share of manufacturing jobs slightly declined between 2000 and 2010. Some observers are concerned about this path of development characterized by a rapid expansion of service sectors while bypassing industry. The truth is that the sub-sector composition of manufacturing has been shifting to the favour of productivity. Since the Asian financial crisis, labour-intensive sectors (e.g. textile, leather products and footwear) have declined while other capital-intensive sub-sectors (e.g. transportation equipment and machinery) have grown. Third, construction spending as share of GDP has been increasing (from 5.8 per cent in 2004 to 6.4 per cent in 2009), which is associated with substantial employment growth within the construction sector.

*Employment has been shifting to the service sector*

**Table 6: Sector share in employment (%)**

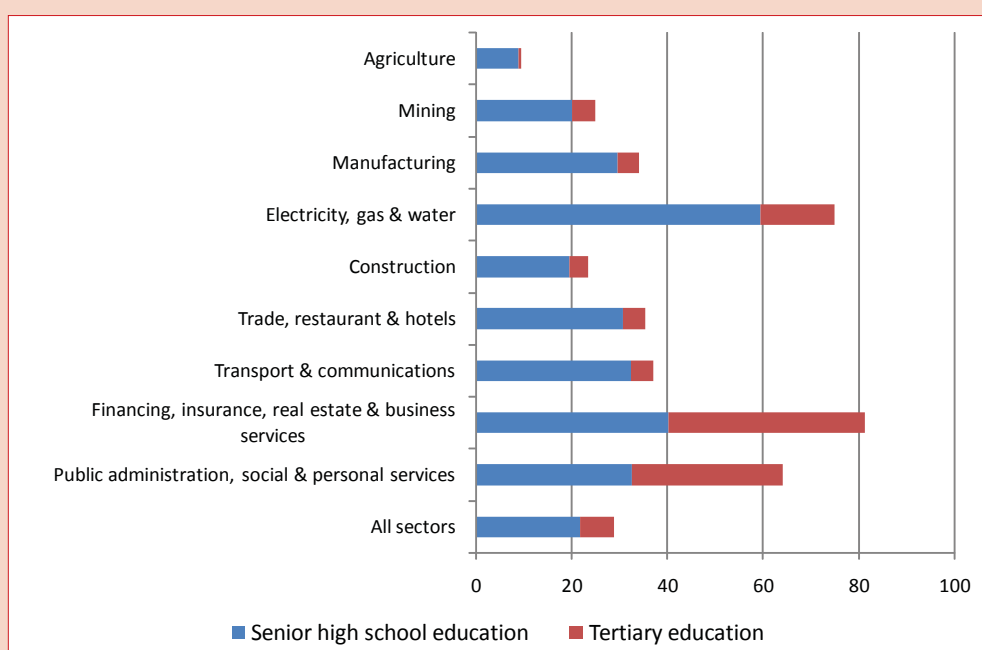
Year	2000	2005	2010
Agriculture	45.3	44.0	38.1
Mining and quarrying	0.5	1.0	1.2
Manufacturing	13.0	12.7	12.8
Electricity, gas and water	0.1	0.2	0.2
Construction	3.9	4.9	5.2
Trade, restaurant and hotels	20.6	19.1	20.8
Transportation and communications	5.1	6.0	5.2
Financing, insurance, real estate, and business services	1.0	1.2	1.6
Public administration, social & personal services	10.7	11.0	14.7
Total	100.0	100.0	100.0

Source: BPS, *Labor Force Situation in Indonesia*

### *Increasing demand for educated workers*

The changes in sectoral composition of the economy and the labour force have also altered skills demand. With the growth of the service industry, educated workers are increasingly in demand. Figure 10 shows the share of workers with secondary and tertiary education in the nine major sectors. Clearly, service sectors hire more university graduates than agriculture or industry with a notable exception of the utility sector. If the current trend of the structural shift in sector composition of the workforce continues, it follows that more educated workers will be in demand. The wage trend generally reflects this skills demand. In fact, wages for university graduates have been rapidly increasing whereas wages for workers with lower educational attainments have been relatively stagnant.

**Figure 10:**  
**Share of workers by education and sector (2009, per cent)**



Source: Source: BPS, *Labor Force Situation in Indonesia*, author's calculation

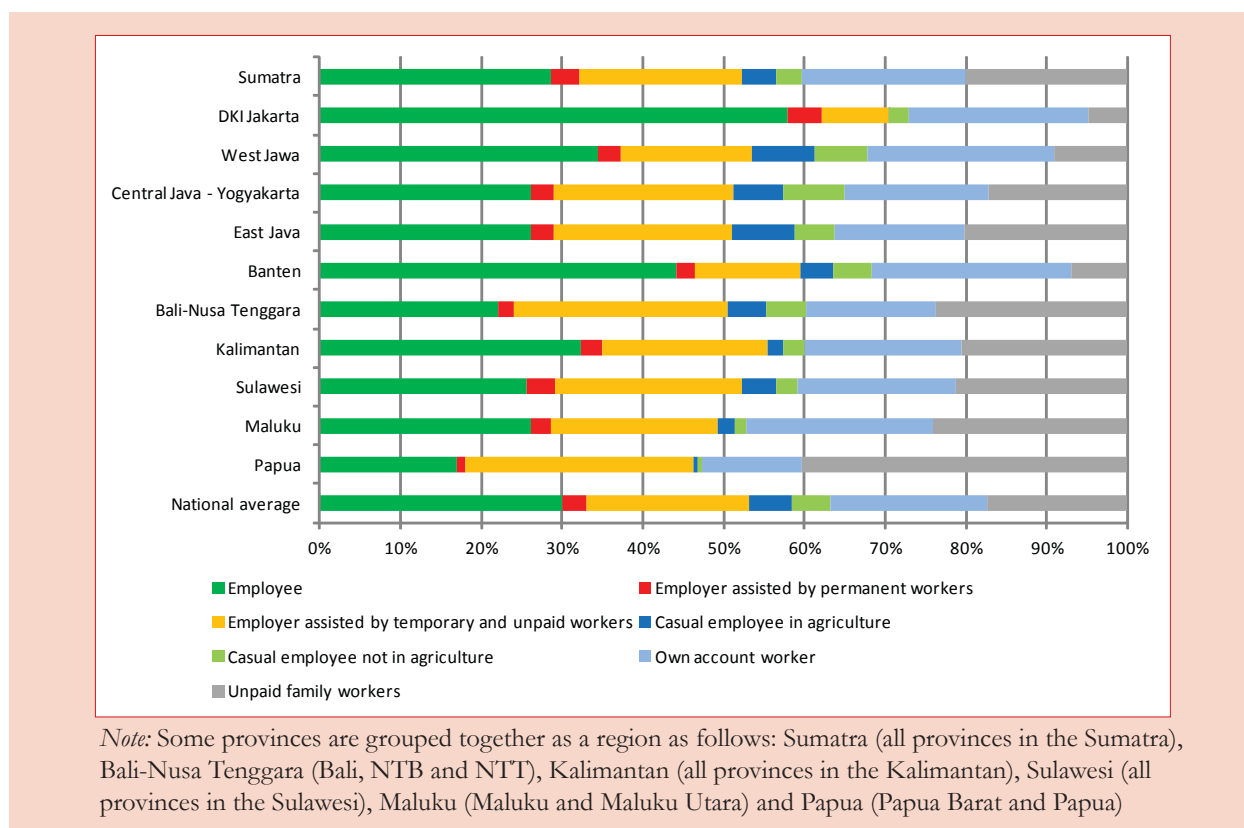
In addition to changes in sector composition of employment, public policies also alter skills demand in the labour market. One such policy areas is Indonesia's commitment to reduce carbon emission by 26 per cent<sup>2</sup> from the 2005 level by 2020. Promotion of low-carbon development such as greater use of renewable energy and increasing energy efficiency will generate new skills demand for green jobs. A recent ILO report<sup>3</sup> pointed out that the success of this transition to a greener economy hinges on nation's capacity to develop necessary human resources. Assuring coherence between environmental policies and skills development policies is conducive to greening the economy in Indonesia.

*Increasing skills demand for green jobs*

The distribution of workers by employment status also exhibits regional disparities. 58.0 per cent of workers in the capital were in wage employment, which is nearly a double of the national average. Workers in Papua (Papua Barat and Papua provinces), for example, are disadvantaged in accessing productive employment: only 17.0 per cent of them were in wage employment and 40.3 per cent were unpaid family workers. Generally speaking, incomes of employees are higher and more stable than casual workers. Thus the regional disparities in employment opportunities together with various other factors engender income gaps among workers in different provinces, leading to higher migratory pressure and urban unemployment.

*Geographical disparities in wage employment opportunities*

**Figure 11:**  
**Employment by status in employment (ages 15+, per cent)**



2 41 per cent with international assistance.

3 Source: ILO (2011) *Skills for Green Jobs: A Global View* (Geneva).



*Food inflation  
outpaced wage  
increase*

Inflation rates considerably fluctuated in the past five years due to external shocks, which made it rather difficult to maintain the purchasing power of wages. The world food crisis pushed up food prices worldwide in 2007 and 2008, which was followed by a fall in prices due to the global financial crisis that erupted in the United States. Bank Indonesia has been tasked with suppressing inflation within a prescribed target range, but controlling inflation caused by external shocks is rather challenging. Adjusting wages to inflation is another challenging task since wage negotiation often takes place once a year, apparently not frequent enough when inflation is high. In addition, employers who are integrated in a global supply chain or who face regional/global competition are increasingly cost-conscious.

**Table 7: Inflation rates (year-on-year, %)**

Year	2006	2007	2008	2009	2010
Food	12.9	11.3	16.4	3.9	15.6
Prepared Food, Beverage, Cigarette, and Tobacco	6.4	6.4	12.5	7.8	7.0
Housing, Water, Electricity, Gas and Fuel	4.8	4.9	10.9	1.8	4.1
Clothing	6.8	8.4	7.3	6.0	6.5
Medical Care	5.9	4.3	8.0	3.9	2.2
Education, Recreation and Sports	8.1	8.8	6.7	3.9	3.3
Transportation, Communication and Financial Services	1.0	1.3	7.5	-3.7	2.7
<b>Total</b>	<b>6.6</b>	<b>6.6</b>	<b>11.1</b>	<b>2.8</b>	<b>7.0</b>

Source: BPS website

**Table 8: Nominal wage of production workers in manufacturing below supervisory level**

Year	2006	2007	2008	2009	2010
Nominal wages (March, Rp. 000)	982.4	1,006.2	1,093.4	1,134.7	1,182.4
Wage increase (year-on-year, %)	10.8	2.4	8.0	3.6	4.0
Labour productivity growth rate (year-on-year, %)	3.8	1.6	3.3	2.2	2.9

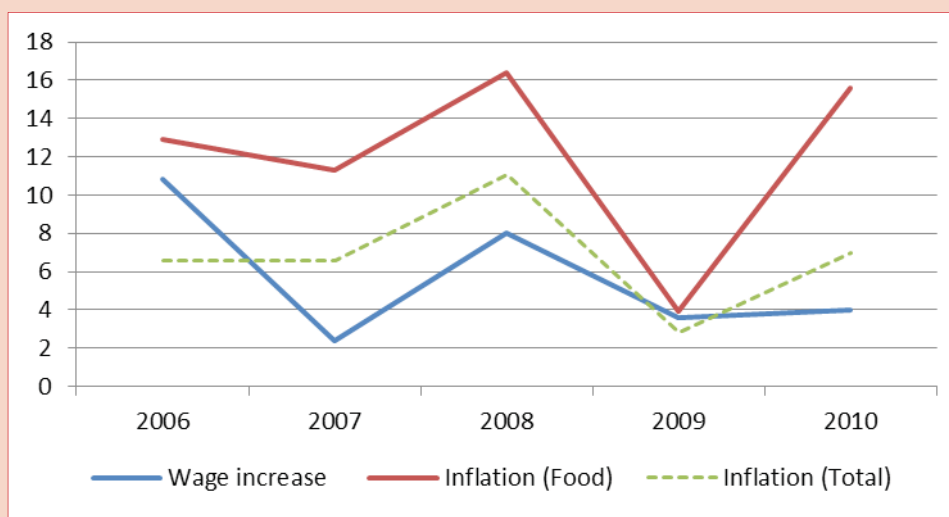
Note: Labour productivity is defined as output per employed worker

Source: BPS, author's calculation

In our discussion on wages, it is important to note high food inflation and its effect on the purchasing power of wages. Food prices charted two-digit inflation rates every year since 2006, with a single exception in 2009. If one compares food inflation rates and inflation rates excluding food, the former far surpasses the latter. Figure 12 juxtaposes food inflation rates and wage increase rates of production workers in manufacturing below supervisory level between 2006 and 2010. It is obvious that wages increases have lagged far behind food price hikes with an exception for 2009, which has effectively reduced the purchasing power of wages. For instance, the year-on-year food price inflation rate for 2010 was 15.6 per cent, whereas

the wage increase rate was as low as 4.0 per cent. High food inflation and lagging wage increases have had a significant negative impact on poor workers whose salary is around the minimum wages or below. One shall recall that poor workers spend a large proportion of their income on food consumption. It is ironic that high food inflation has had an impoverishing effect on low income earners during the period.

**Figure 12:**  
**Food prices and wages of production workers in manufacturing below supervisory level (%)**



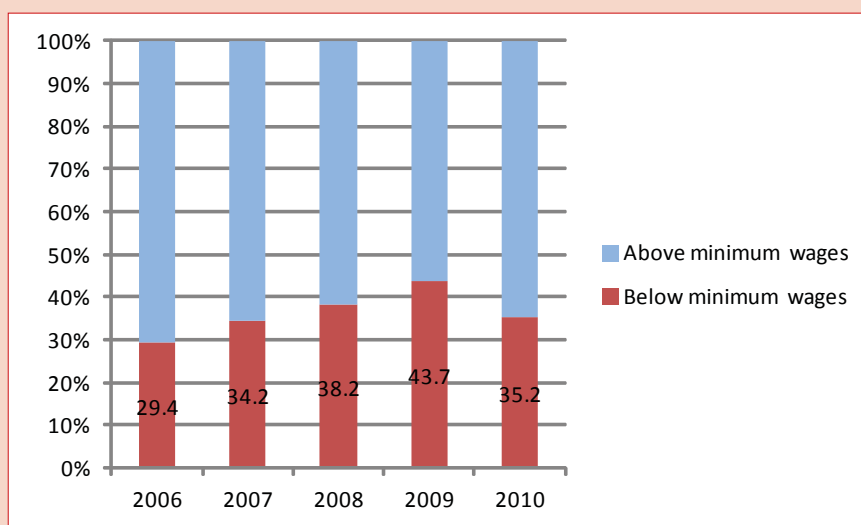
Source: Source: BPS, author's calculation

More than one out of three workers<sup>4</sup> receive wages below applicable minimum wage in Indonesia. The minimum wage is set locally based on the minimum consumption needs in the area. The share of workers earning below minimum wage increased between 2006 and 2009, reaching 43.7 per cent in 2009. The share declined to 35.2 per cent in 2010, which was still higher than the level in 2006. This can be explained by continuous increments in the minimum wage in the past few years, which has perhaps categorized more workers below the minimum wages. Poor compliance with wage regulations and insufficient labour inspection may also be factors affecting the high share of workers receiving wages below the applicable minimum wages. The period between 2006 and 2010 generally saw improved labour market performances and job growth; however, as the statistic implies the labour market situation at the bottom has not improved much.

*Wages of more than one out of three workers fall below the minimum wages*

<sup>4</sup> Workers include employees and casual employees in agriculture and in non-agriculture, excluding unpaid family workers.

**Figure 13:**  
**Monthly net wage/salary of employees and applicable minimum wages**



Source:Source: BPS

*Educational attainment has been improving*

Educational attainment of the Indonesian workforce lags behind regional rivals in term of proportion of workers with secondary and tertiary education<sup>5</sup>. In fact, the mean years of schooling of Indonesian adults was 5.8 years in 2010, which was shorter than the same indicators for Malaysia, Thailand and the Philippines. The Government of Indonesia has pledged to improve education and has increased public spending on education accordingly in recent years. The positive impact of the political commitment is visible in recent statistics. For instance, today's Indonesia children are expected to have 13.2 years of education, which is longer than in selected neighbouring countries (Table 9). In addition, net enrolment rates for secondary schools and university have been on the rise with some provincial discrepancies. These figures alone do not reveal the quality of education or educational outcomes; however, it is true that an increasing number of children benefit from education and some continue to higher education.

**Table 9: Time trends in net enrolment rate in Indonesia (1994–2010)**

Year	1994	1997	2000	2003	2006	2010
Primary school	92.1	92.3	92.3	92.6	93.5	94.7
Junior secondary school	50.0	57.8	60.3	63.5	66.5	67.6
Senior secondary school	33.2	36.6	39.3	40.6	43.8	45.5
University/diploma/academy	7.9	7.7	8.0	8.6	8.9	11.0

Note: 'Diploma' and 'academy' are non-degree programs after senior secondary school. Data does not include non-formal education participation for the purpose of time-series comparison.

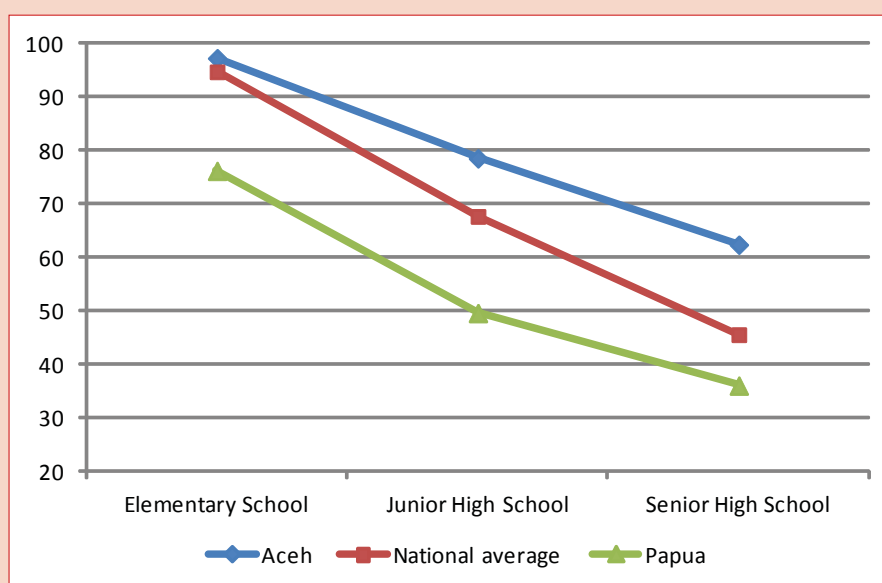
Source: BPS website

<sup>5</sup> See ILO (2011) *Labour and Social Trends in Indonesia 2010*

**Table 10: Public expenditure on education and years of schooling**

	Public expenditure on education (% of GDP)	Public expenditure on education (as % of total public spending)	Mean years of schooling (of adults age 25+)	Expected years of schooling (of children under age 7)
Year	2008	2008	2010	2010
Cambodia	1.6	12.4 (2007)	5.8	9.8
Indonesia	2.8	17.9	5.8	13.2
Lao PDR	2.3	12.2	4.6	9.2
Malaysia	4.1	17.2	9.5	12.6
Philippines	2.8	16.9	8.9	11.9
Thailand	3.8	20.5	6.6	12.3
Viet Nam	5.3	19.8	5.5	10.4

Source: UNESCO Institute for Statistics, Data Centre

**Figure 14:  
Net enrolment ratio (2010)**

Source: BPS, Susenas

Note: Data includes non formal education

The average years of schooling has been increasing in Indonesia, which is conducive to the competitiveness of Indonesia so long as education and skills demand of the labour market match well. In this light, a high unemployment rate among senior high school graduates is somewhat a worrying sign. Factors behind high unemployment among high school graduates include, first and foremost, job deficiency in Indonesia. High under-employment and unemployment are manifestations of lack of job opportunities. Secondly, a high unemployment rate among high school graduates may be due to skills mismatch. Skills proficiency levels of high



school graduates may fall short of skills demand in the labour market or their skills do not match well with market demand. Third, a smooth school-to-work transition requires assistance including career orientation, counselling, internship opportunities and up-to-date job information, provision of which is sub-optimal in Indonesia.

With an increase in outsourcing, young workers are increasingly on short-term contracts. A short tenure is a disincentive for employers to invest in human capital of their employees. There are indications that skills training courses are not necessarily aligned with national or provincial development goals and potential. Use of competency-based training and national skills certifications remain suboptimal. Since education and skills development are key factors for growth of productive employment, there appears to be ample room for reforms.

# Promoting job-rich growth in the provinces

The first half of this report highlighted diverse socio-economic conditions and labour market outcomes among Indonesian provinces. It is obvious that there would not be ‘one-size-fits-all’ policy solutions to the varying labour and social issues that confront different parts of the country. Given this recognition, the second half of this report argues for locally-focused policy interventions for job creation, hence the underlying theme of this report: promoting job-rich growth in the provinces. The following sections summarize the theoretical background for the choice of the theme and provide an overview of regional economic development policy of the Government, which sets the scene for thematic discussions thereafter. The chapter introduces an employment diagnostic analysis as the first step for employment policymaking at local levels and local-resource-based infrastructure development as a helpful policy intervention that simultaneously addresses both employment deficit and insufficient rural infrastructure development. It then discusses policy intervention in turning labour migration to a real opportunity to reduce rural poverty and a boost to local economic development. Then the report turns to two cross-cutting issues that affect employment creation across the nation: gender equality and labour rights.

## 2.1 Reducing unemployment by rural development

*Rural development  
for reducing  
unemployment:  
insight from a  
multi-sector labour  
market model*

The call for accelerated development and employment creation in provinces, especially in those lagging behind the national average, derives in part from a normative argument in favour of inclusive, equitable and sustainable growth. In fact, the Government development policy is in line with this argument. The Government of Indonesia announced a master plan for economic development that aims to grow along with six economic corridors running through the country.

There is another compelling reason for encouraging rural development and accelerating job creation in provinces where deficits of productive employment are acute. The second argument derives insight from the Harris-Todaro model, a well-known multi-sector labour market model. In a nutshell, the model predicts reducing urban unemployment requires rural development. This conclusion may sound counter-intuitive, but the following sub-section explains why this is the case.

Labour markets are often not monolithic and different segments of a labour market displays distinct features. For this reason researchers have developed multi-sector labour market models in order to analyze interrelations between different segments of a labour market. As early as the 1950s Nobel Economic Prize laureate Arthur Lewis distinguished the informal economy and the formal economy. Since the seminal work of Lewis, labour economists have developed various multi-sector labour market models. Among many of such models, the multi-sector labour market model developed by John Harris and Michael Todaro<sup>6</sup> made a major improvement in multi-sector labour market analysis by incorporating open unemployment in urban areas.

The Harris-Todaro model (see Box) assumes wage differentials between the formal/urban and the informal/rural economies, which trigger labour migration from rural areas to urban areas where more formal employment is offered and wages are generally higher. Employers in the formal economy hire workers up to the marginal product of labour equals to the prevailing wage in the formal economy and the rest of job-seekers become unemployed or work informally. In contrast, the model presumes low labour market entrance barriers to the informal economy. The gist of the model is that workers allocate themselves in a manner where expected wages from job search in the formal and in the informal economies are equal.

The model offers policy implication to Indonesia where the urban unemployment rate has been remarkably higher than the rural unemployment rate. Policy interventions to create urban jobs may be insufficient as it may

6 Harris, John and Michael Todaro (1970). "Migration, Unemployment, and Development: A Two Sector Analysis," *American Economic Review*, 40: 126-142.

induce more migration and hence higher urban unemployment. Therefore, policy efforts are required in both rural development and supporting the growth of urban formal jobs.

### Box 1: The Harris-Todaro model

Wage equalization and the equilibrium conditions in the Harris-Todaro model is expressed as follows:

$$W_F \frac{E_F}{L_F} = W_I$$

Where

W : wages

E : employment

L : labour force (the employed and the unemployed)

Subscripts F and I refer to the formal economy and the informal economy, respectively.

By transforming the equation one can express the labour force in the formal economy in terms of  $E_F$ ,  $W_F$  and  $W_I$ .

$$L_F = E_F \frac{W_F}{W_I}$$

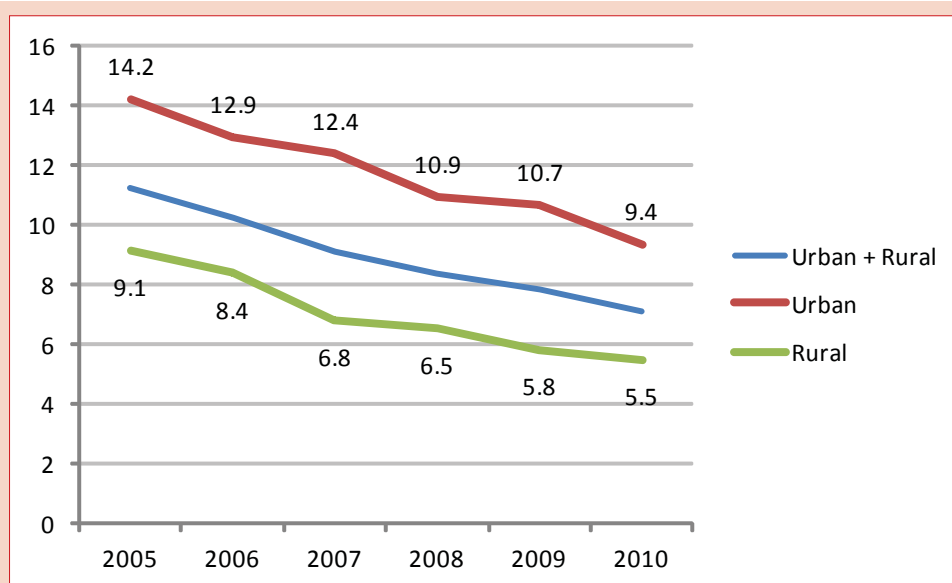
Unemployment in the formal economy ( $U_F$ ) is the labour force less employment. Therefore,

$$U_F = L_F - E_F = E_F \left( \frac{W_F}{W_I} - 1 \right)$$

It follows that policy interventions to create urban employment at the prevailing wage level would attract more workers from rural areas and increase urban unemployment (note:  $W_I < W_F$ ). Whereas, rural development and wage increase in the rural informal economy would actually reduce urban unemployment.

In addition to the insight from the model, regional disparities or concentration in economic activities has considerable impact on the quality and the inclusiveness of economic growth and workers' access to productive employment. Due to high socio-economic costs involved in domestic and international labour migration, labour is not perfectly mobile. Human capital in economically disadvantaged areas may be underutilized, unless workers incur the costs of labour migration.<sup>7</sup>

**Figure 15:**  
**Unemployment rates by geographical areas (2005-2010, %)**



Source: BPS

## 2.2 Initiatives to accelerate regional growth

The Government of Indonesia upholds a vision to develop the country into one of the top 10 economies in the world by 2025 in *Indonesia Vision 2025*. It revealed the building blocks and strategies to materialize this vision in the *Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI)*. The MP3EI consists of three main strategies: (1) economic potential development through economic corridors; (2) strengthening national connectivity; and (3) strengthening the national human resources capability and science and technology.

The integrated regional and sector development masterplan promotes large scale investment in 22 priority economic activities, revitalizes real sector performances and develops centres of excellence in six economic corridors. Each economic corridor focuses development efforts on selected economic activities in accordance with its respective (economic) advantages (Table 11). The Government has identified a total budget of Rp 4,012 trillion through 2014 to implement the masterplan, which will be funded by various sources including the Government's own budget, state-owned enterprises,

<sup>7</sup> ILO: *Conceptual and Methodological Guide to Employment Diagnostic Analysis* (forthcoming)



investment of the private sector and through public private partnerships (PPPs). The Government estimated that the employment creation effect of the masterplan to be 9.6 million new jobs<sup>8</sup> between 2012 and 2014.

**Table 11:**  
**Development theme and main activities by economic corridor**

Economic corridor	Sumatra	Java	Kalimantan	Sulawesi	Bali-Nusa Tenggara	Papua-Kep. Maluku
Main economic activity	Centre for production and processing of natural resources and nation's energy reserves	Driver for national industry and service provision	Centre for production and processing of national mining and energy reserves	Centre for production and processing of national agriculture, plantation, fishery, oil & gas, and mining	Gateway for tourism and national food support	Centre for development of food, fisheries, energy, and national mining
Food crops				*		*
Cocoa				*		
Animal husbandry					*	
Timber			*			
Fishery				*	*	*
Nickel				*		*
Copper						*
Bauxite			*			
Palm oil	*		*			
Rubber	*					
Coal	*		*			
Oil and gas			*	*		*
Food and beverages		*				
Textile		*				
Transportation equipment		*				
Defence equipment		*				
Steel	*		*			
Shipping	*	*				
Tourism					*	
ICT		*				
<b>Area development</b>						
Greater Jakarta area		*				
Sunda straits area	*					
<b>Investment realization (Rp. trillion, 2011)</b>						
Domestic direct investment	16.33	37.18	13.47	7.23	0.36	1.44
Foreign direct investment	18.72	110.88	17.28	6.48	8.55	13.41

*Source:* The Committee of the Acceleration and Expansion of Indonesia's Economic Development (KP3EI). Investment realization data is from BKPM.

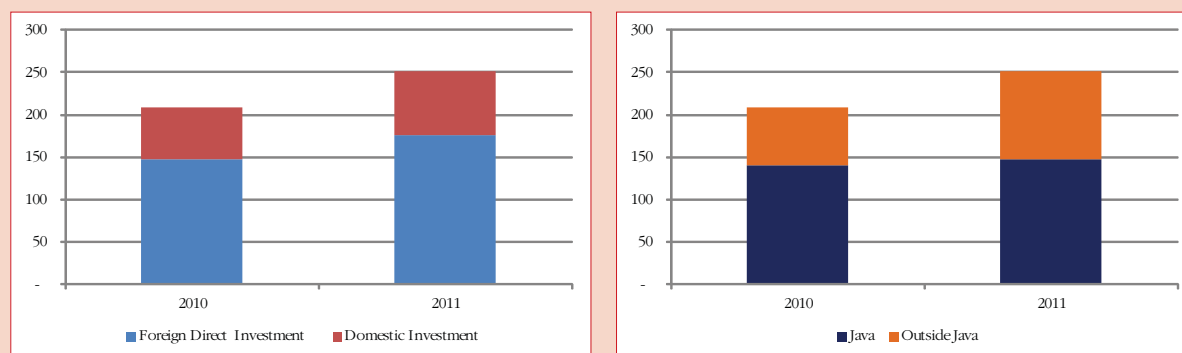
*Note:* BKPM records investment realization from companies that register for business licenses to BKPM. BKPM's investment realization data excludes the oil and gas as well as finance sectors. It does not reflect portfolio investments; capital markets investments; investments to which technical Ministries issued licences; and household Investments.

<sup>8</sup> Tifa Asrianti: "MP3EI economic programs 'should include' sustainability", *The Jakarta Post*, 23 November 2011.

### Growing investment

According to the Investment Coordinating Board (BKPM), investment realization increased by Rp. 42.8 trillion from 2010 to 2011, the majority of the increment stems from investments outside of Java. The increase in investments outside Java is a positive sign towards a more geographically balanced growth, yet Java's dominance is still significant (58.9 per cent of total investment realization was in Java in 2011). The Board reports that the investment realization in 2011 directly employed 404,039 workers. It estimates indirect employment creation to be four times as large as the direct effect, thus about 1.6 million jobs created indirectly. Given the impact of investments in employment creation, investment promotion outside Java appears necessary in order to realize the more geographically equitable growth of Indonesia.

**Figure 16:**  
**Investment realization (Rp. trillion)**



Source: BKPM

**Table 12: Investment realization by province (Rp. trillion)**

Domestic direct investment		Foreign direct investment	
West java	11.2	DKI Jakarta	43.2
East Java	9.7	West Java	34.2
DKI Jakarta	9.3	Banten	19.8
Riau	7.5	Papua	11.7
East Kalimantan	6.6	East Java	11.7
Others	31.7	Others	54.9

Source: BKPM

The large scale investment of the Masterplan and increasing volume of investments will bring about numerous economic opportunities nationwide. Seizing these economic opportunities and turning them into productive employment is not an automatic process. It requires work of enterprises, especially formal ones. In this regard, enterprise development by, for example, facilitating business start-ups and expansion or by improving business environment would enhance the employment effect of the Masterplan.

*Improvement in the business environment can accelerate job creation and poverty reduction*

Enterprise development, measured by the density of formal enterprises, is relatively weak in Indonesia. The scarcity of formal businesses stands out in India, Indonesia, and Viet Nam compared with other selected countries in the table below (Table 12). New business density is low as well (Table 13). It is notable that poverty incidences are considerably higher in countries with a low density of formal businesses. The data implies that where formal enterprises are not well developed, a large proportion of workers are forced to engage in low productivity economic activities in the informal economy, thus resulting in a high probability of workers and their families living in poverty. There is room to improve the business environment in Indonesia such as onerous business regulations, infrastructure and access to capital.

**Table 13:**  
**The number of registered businesses per 1,000 citizens and poverty incidences**

	2001	2002	2003	2004	2005	2006	Population below \$1.25 a day (%)	Population below \$2 a day (%)
Brazil	26.5	27.7	28.6	29.2	30.5	-	5.2 (2007)	12.7
Hong Kong, China	55.9	56.4	59.1	62.0	65.9	71.7	-	-
India	0.6	0.6	0.6	0.6	0.7	0.7	41.6 (2005)	75.6
Indonesia	1.0	1.1	1.1	1.1	1.2	1.2	21.4 (2005)	53.8
Russian Federation	12.5	14.1	16.0	17.9	20.3	20.8	0.2 (2005)	1.5
Singapore	20.6	21.0	22.3	23.5	24.1	26.3	-	-
Thailand	3.6	3.6	3.7	3.9	4.1	4.3	0.4 (2005)	11.5
Viet Nam	0.2	0.3	0.4	0.5	0.6	-	21.5 (2006)	48.4

Source: Source: World Bank, World Databank; ILO, KILM 6th ed., author's calculation

**Table 14:**  
**New business density (new registrations per 1,000 people ages 15-64)**

Year	2004	2005	2006	2007	2008	2009
Brazil	1.91	1.94	1.85	2.10	2.40	2.38
Hong Kong SAR, China	10.39	12.98	14.64	15.66	18.62	19.19
India	0.05	0.06	0.03	0.07	0.12	--
Indonesia	0.14	0.16	0.16	0.16	0.24	0.18
Malaysia	2.64	2.52	2.51	2.77	2.60	2.55
Russian Federation	--	4.95	4.24	4.10	4.22	2.61
Singapore	5.20	5.80	6.29	7.46	7.18	7.40
Thailand	0.70	0.72	0.67	0.55	0.60	0.59

Source: Source: World bank, World Databank

'--': data not available.

## 2.3 Mainstreaming employment creation in provincial development planning

### *Formulating employment policies suitable to socio-economic conditions at the local level*

The Government of Indonesia upholds “pro-growth, pro-poor, pro-jobs and pro-environment” strategies, which attests the Government’s firm conviction to promote inclusive and sustainable growth. Generating income opportunities, especially for the poor, in a sustainable manner is a key factor to the success of this policy orientation. Given the decentralized governance structure in Indonesia, it follows that policies and programmes at local levels require a strong focus on the creation of productive employment and decent work.

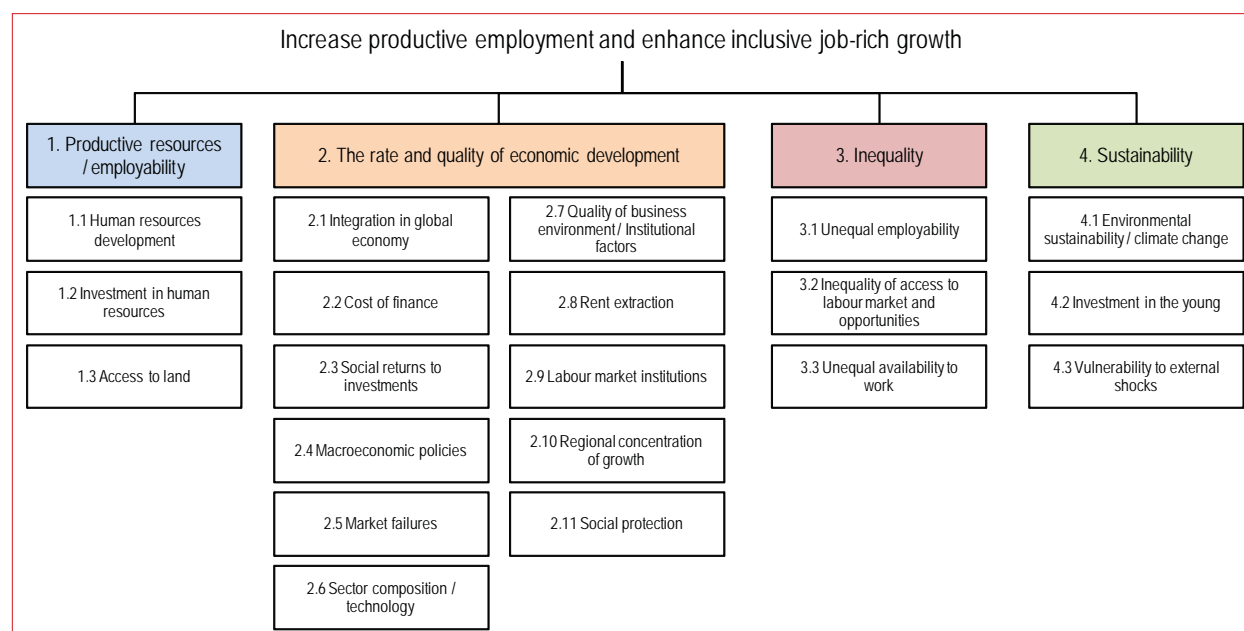
A particular challenge for policymakers and social partners in employment creation arises from the fact that Indonesian provinces are at various stages of development and endowments of skills, capital and natural resources are not evenly distributed among provinces/districts. Indeed, industrial composition, business activities, natural resource endowment, education levels of workers, infrastructure (roads, ports, electricity etc.), and geographical distance to large consumption markets considerably differ. Consequently, key labour market indicators show divergent labour market performance among provinces as the report highlighted in the first chapter. Therefore, a successful employment policy of a province may not work effectively in different parts of Indonesia. Given that each locality faces distinct opportunities for and challenges in employment creation, it is necessary for each province to formulate policies suitable to the local socio-economic conditions. This requires a thorough analysis of diverse factors affecting employment growth, both in quantity and quality, and formulation of policies that would maximize productive employment by addressing constraints to an inclusive job-rich growth in the province.

The ILO has developed an analytical tool, employment diagnostic analysis (EDA) to understand the nature of the deficiency in productive employment and to identify the constraints on and opportunities for enhancing inclusive job-rich growth. EDA supports local policymakers and social partners to identify critical constraints to employment growth, which strengthens the basis for policy formulation. The ILO has piloted EDA in three provinces in Indonesia (NTT, Jawa Timur and Maluku) in corporation with local government and social partners.

*Employment diagnostic analysis as the first step toward regional development policy formulation*

ILO's EDA blends an internationally developed framework of analysis, academic excellence of Indonesian universities, and local knowledge. EDA is also based on the principle that rather than having the analysis done by outside experts, those responsible for designing and implementing policies must be involved at all stages of the analysis. A typical EDA workshop involves gathering key stakeholders of employment creation (i.e. relevant policymakers, representatives of businesses and workers as well as academic experts) to come together for a three-day workshop that invites them to analyze the socio-economic conditions and the labour market performance of the province in a structured manner (Figure 16). Although constraints to inclusive job-rich growth stem from diverse factors, the EDA enables participants to narrow them down to critical ones by effectively combining structured data analysis and local knowledge brought by the stakeholders. This participatory approach helps form common understanding among stakeholders on areas where policy interventions are desired.

**Figure 17: Employment diagnostic tree**



Source: ILO, *Employment Diagnostic Analysis: A methodological guide*

NTT suffers from high incidences of poverty and malnutrition, which to a large extent results from a lack of productive jobs for a rapidly growing labour force and from adverse natural conditions for agriculture. By 2008 there were approximately 557 thousand working poor out of a total labour force of 2.2 million. Geographical factors (e.g. sparsely distributed population over islands and poorly developed transportation, remoteness to main consumption markets) and limited financial and natural resources add further challenges to inclusive and job-rich development of the province.

Poor access to high quality and relevant education was identified as a particularly important problem, especially in rural areas, but also more generally for girls. Poorly functioning markets, poor access to finance and shortcomings in the quality of the business environment were identified as binding constraints to improve economic development and increase productive job creation. Selecting adequate agriculture/aquaculture technologies that are suitable to the dry weather conditions and improving market functions (i.e. access to finance, commodity/farmers' markets and effective trade networks) are all important to increase income from employment in agriculture.

However, the natural limits to agricultural development imply that the non-agricultural sectors must over time assume a much stronger and dynamic role in the economic development of the province. Delivery of social services (e.g. education, skills training and healthcare) outside the capital city requires strategic interventions of the local government agencies to promote the quality, quantity and access to the basic social services.

In the case of the province of Maluku, the quality of the human resources, insufficient social returns to investments<sup>9</sup> and poorly functioning and underdeveloped markets were identified as critical constraints to job-rich inclusive growth of the province. The educational attainment of the provincial workforce is generally higher than the national average; however, the relevance and quality of education and skills development require improvement by enhancing linkages between human resources development and regional development potentials and goals. Tourism is a priority sector of the province, but skills development necessary to support the sector is rather weak. The low level of economic development together with the population and economic activities scattered over a large number of islands in a wide geographical area attenuates the effects of investments. While farmers suffer from a lack of access to functioning markets, existence of middlemen and high costs of inter-island transport result in a high-cost economy. Intensification of market-orientation and enhancement of value-added by processing agricultural and aquaculture products are necessary.

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9 Social returns to investments refer to “the ability of the economy as a whole to maximise the development impact of (individual) private investments and of the know-how and technology that are embedded in such investments”. For details of EDA outcomes, see Per Ronnas and Leyla Shamchiyeva (2011) *Employment diagnostic analysis: Maluku, Indonesia*, Employment working paper No. 98 (ILO, Geneva).



Given the geographical feature of the province, a cluster-based development approach is recommended in order to enhance investment effectiveness.

## 2.4 Rural infrastructure development for greater connectivity<sup>10</sup>

Development of infrastructure such as roads and irrigation plays an important role in promoting pro-poor growth in rural areas. In fact, for rural populations the quality of the road network is a key factor associated with accessing and being accessed by socio-economic services. For instance, investments in transport infrastructure can have a positive impact on the household income of all farmers and substantially reduce poverty of smallholder farmers because farmers depend on land transport for crop distribution. Investment in the transport network can increase access to markets and subsequently also decrease the cost of transportation of goods. Without adequate road connectivity, often accessing markets and social facilities can entail long and slow journeys that involve breaks in subsistence and other income generating activities, which may lead to loss of earnings. Research<sup>11</sup> on transport networks in rural areas of Indonesia indicates that when rural road quality improves income also improves, especially for households that have post-primary educational attainment. The study also finds that deterioration of the transport network - largely due to lack of maintenance or poor quality new infrastructure - has a negative impact household income.

*Road connectivity is a basis for rural development and poverty reduction*

In addition, better road connection also improves villagers' access to education and healthcare services. Access to education has a long-term impact on rural communities by increasing the capacity of communities to develop their local economies and to manage community health, which contributes to improvements in productivity and livelihoods. In regard to health care, a poor road network can have implications for timely access and the cost of accessing services, which affects mortality and maternal health in remote areas. Therefore, investment in transport infrastructure complements education and health investments. Improved road access may also increase the frequency of agricultural extension workers' visits to remote areas. It is thus no exaggeration that improvement in rural road networks can have a significant impact on the productivity of farmers, human capital development and well-being of rural residents. Better infrastructure is conducive to businesses and attractive to investors<sup>12</sup>. Improvements in road access can therefore have transformative effects on rural communities.

10 This section is contributed by Emma Allen and Bas Athmer.

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

12 World Food Programme (2011) *Food security and vulnerability atlas of Nusa Tenggara Timur 2010* (Jakarta)

*Local resource-based approach for infrastructure development and employment creation*

Adopting a local resource-based approach for construction of infrastructure can attain the twin goals of infrastructure development and employment creation, which optimizes outcomes for local economic development. A local resource-based approach combines the use of an optimum mix of labour and light equipment to ensure that the required quality standards for infrastructure can be maintained, while at the same time optimizing the potential for generating local employment. The approach can be used in works including road construction, water and soil conservation, irrigation and agricultural land restoration, among others.

Using a local resource-based approach provides a framework for participatory planning. Communities should be involved in the planning and the implementation of infrastructure investments to ensure that the investment is in line with local need and that the local communities benefit from the investment. Experience from ILO projects in Aceh and Nias have demonstrated that hosting community forums enhances the involvement of community members, especially women, in decision-making, and women's access to construction jobs. Adopting a targeting strategy can also help to ensure that investments reach the intended target group.

**Figure 18: Local resource-based approach**



*Implementation capacity can be enhanced through training and capacity building*

Experience from the Aceh and Nias reconstruction process reveals that including capacity building components improves the quality of the assets reconstructed, as well as the skills of government staff, contractors and laborers for maintaining the asset. It improves the employability of those trained and their access to opportunities in the future. To illustrate, small scale contractors involved in the implementation of road works that were supported by the ILO/UNDP project titled '*Capacity Building for Local Resource-based Road Works in Selected Districts in NAD and Nias*' reported benefits such as improved skills in bidding processes, improved skills in financial and logistics management, and enhanced technical skill in construction techniques and work methods. This has helped their businesses to become more profitable over time.

In addition to the socio-economic benefits described above, a local resource-based approach to rural infrastructure development is an effective policy option to counter the negative impact of economic slowdown. In the aftermath of a crisis, investing in infrastructure and creating employment are essential for stimulating the recovery of the local economy. To optimize outcomes, planners should invest in interventions that have high multiplier effects to accelerate recovery. Investing in infrastructure using employment intensive methods is a gainful choice as this approach will generate higher rates of economic growth and up to five times the number of direct job creation when compared to other types of construction. In general, effective planning provides an opportunity for public investments to play a countercyclical fiscal policy by making it possible to up-scale and down-scale public works programmes in accordance with the economic cycle and fiscal stimulus.

While a local resource-based approach to infrastructure development provides a framework for enhancing the multiplier effects of investments on the local economy, effective planning and effective execution of projects is required to optimize social outcomes. In this regard, it is recommended that local governments develop master plans for infrastructure development and maintenance - and allocate resources accordingly - to ensure that assets that are created are maintained and that investments address bottlenecks and facilitate local development potential.

Moreover, it is important to be reminded that infrastructure assets need to be maintained and budget allocation is necessary to ensure that communities can continue to benefit from improved access. Without proper maintenance, roads may be eroded by rain water, damaged by passage of vehicles and develop potholes. It is important to allocate funding for maintenance as maintenance not only preserves the asset value, but also extends the period over which the road can be utilized. An infrastructure development strategy that includes maintenance is much more cost-effective than one without.

## 2.5. Labour migration and productive use of remittances<sup>13</sup>

A relatively untapped potential in enhancing inclusive job-rich growth in so-called sending communities of migrant workers is productive use of remittances. Remittances brought by migrant workers can not only improve welfare of migrant workers' families but also stimulate local economies, if used productively. Realizing a productive migration cycle is of particular relevance to underprivileged provinces where many migrant workers originate.

*Good planning is a key for optimizing the effect on infrastructure investment on employment*

*Remittances fail to lift migrant workers' households out of poverty*

<sup>13</sup> This section is contributed by Combating Forced Labour and Trafficking of Indonesian Migrant Workers project

In 2010, over 575,000 Indonesian migrant workers left home to work overseas<sup>14</sup>. Many of them are from East Java, Central Java, West Java and West Nusa Tenggara provinces. Since an unknown number of Indonesian migrant workers go abroad clandestinely partly to avoid onerous and costly recruitment procedures, the actual total number of Indonesian migrant workers abroad is estimated to be significantly higher than the official figure. Financial hardship and poverty resulting from lack of employment opportunities, and the possibility of earning higher incomes abroad, constitute the driving factors for continued labour migration. While the number of migrants overseas has gradually decreased over the last five years, the characteristics of this group have remained consistent. Approximately 80 per cent of migrant workers are women, the vast majority work in the informal economy as domestic workers, and the main destination countries remain Malaysia and Saudi Arabia. Migrant workers are predominantly from deprived households. Most migrant workers have poor educational background, only with primary education. Some are without formal education or skills training.

While Indonesian migrant workers overseas continue to make significant contributions to the domestic economy in terms of remittances – totalling some 6.7 billion USD in 2010<sup>15</sup> - households that receive international remittances remain poor. In fact, 85 per cent of migrant workers' households are dependent on remittances for basic consumption needs and debt services<sup>16</sup>. Disproportionately high recruitment fees and extortion in the various stages of migration undermine a positive financial effect of labour migration on lifting the migrant workers' households from poverty. Such malpractices sometime generate debt bondage and trap households in destitution. Financial literacy education and adequate financial services for migrant workers and their families are desired in order to enable a more productive use of remittances, which turns income generated from labour migration into a real opportunity to escape from poverty.

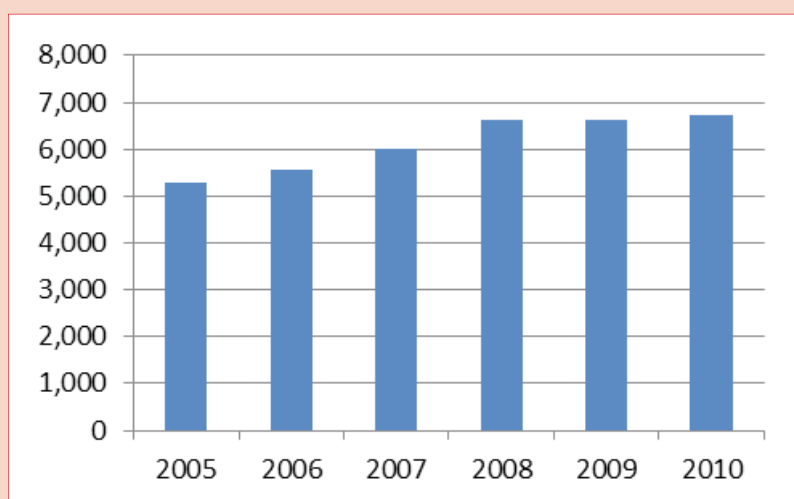
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14 Source: *BNP2TKI*

15 Source: Bank of Indonesia

16 Unpublished survey report on the use of remittances by ILO's Combating Forced Labour and Trafficking of Indonesian Migrant Workers project

**Figure 19:**  
**Remittances of Indonesian migrant workers (million USD, 2010)**



Source: Bank of Indonesia

**Table 15:**  
**Remittances of Indonesian migrant workers by host country (million USD, 2010)**

Malaysia	2,312.2
Saudi Arabia	2,283.9
Taiwan, Province of China	457.3
Hong Kong SAR	450.3
Singapore	226.5
UAE	196.5
Japan	152.4
Jordan	102.8
South Korea	91.3
Kuwait	74.8

Source: Bank Indonesia

In addition to enhancing the positive financial effect of work abroad on poverty reduction, reducing the risk of abuses associated with labour migration has become an urgent task of policymakers. Though ill fates of some Indonesian migrant workers abroad have become widely known, many cases probably went unreported, due partly to lack of awareness of the rights of migrant workers, a deficit in effective protection mechanisms as well as limited access of migrant workers to justice. Although the actual size of the migrant workers suffering from abusive labour conditions and treatment, including forced labour and human trafficking, remains unknown, reported cases and anecdotal evidence suffice to warrant further efforts by the authorities to address the gaps in institutional arrangements, policies and programmes that would effectively provide necessary protection to migrant workers.

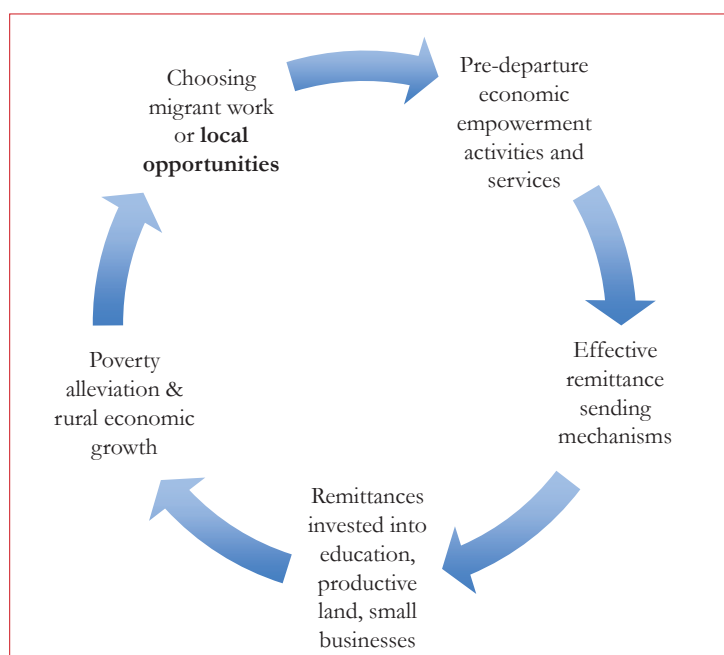
*Reducing migrant workers' vulnerability to abuse is an urgent task*

Current government policies with regard to migrant workers focus on strengthening legal protection of migrant workers and ending abusive and extortionate practices of recruitment agencies and middle-men. The scheduled amendment to Law 39 of 2004 Concerning Placement and Protection of Indonesian Workers in Foreign Countries and the tabled Draft Bill on Domestic Workers are to this effect. The International Convention on the protection of the Rights of All Migrant Workers and Members of Their Families, the ILO Convention 189 on Decent Work for Domestic Workers (C189) that was adopted in June 2011 and the accompanying Domestic Workers Recommendation (R201) provide internationally- agreed standards and practices that shall guide national and local policies and interventions in Indonesia. In addition to these pieces of legislation, bilateral and multilateral agreements with destination countries can enhance the protection of Indonesian migrant workers that fall outside of the national legal jurisdiction.

*Addressing gaps in  
migrant workers'  
protection and  
generating a  
productive migration  
cycle*

Reducing risks and vulnerability to labour exploitation of migrant workers and enhancing economic and employment effects of labour migration on migrant workers' households and communities require coherent policies, programmes and services. First of all, the access of children from poor households in sending communities to education needs enhancement by social programmes such as conditional cash transfers and scholarships. Education and skills improve employability and thus accord access to better remunerated jobs in Indonesia and overseas. It is known that skilled migrant workers face less abuse than unskilled migrant workers. Second, pre-departure training needs to equip migrant workers with skills, knowledge about risks overseas, their legal rights, and financial literacy. Third, suitable financial services to migrant workers and their families play important roles in the productive migration cycle. This is because migrant workers and their families conduct various financial transactions throughout migration stages starting from receiving loans to pay for recruitment fees and other expenses. Indeed, sending, receiving and saving remittances require reliable and reasonable financial services. Last but not the least, monitoring recruitment practices and law enforcement need to be complemented by reliable complaint handling mechanisms, paralegal services, and consular services that help migrant workers in accessing justice abroad if this becomes necessary.



**Figure 20: A productive migration cycle**

ILO efforts on economic empowerment have focused on providing technical assistance for training programmes. These efforts aim to empower returning migrants to make better financial decisions and encourage productive investment of remittance earnings. The most successful of these training programmes has been the Start and Improve Your Business (SIYB) training module. These training modules assist migrant workers' reintegration into their communities through encouraging remittance savings, productive investment, and entrepreneurship. Technical assistance from the ILO has enabled training of trainers and stakeholders for SIYB from both national and local Government, trade unions, and other civil society organizations including migrant workers organizations. These training programmes have shown significant success, with the majority of trainees having established or improved their businesses, found new or alternative sources of income, and/or employed additional workers within one year after the programme.

## 2.6 Removing gender barriers to enhance women's labour participation<sup>17</sup>

Another area that Indonesia can tap into in order to accelerate inclusive pro-poor economic growth is women's human capital. Significant gains have been made in increasing girls' access to and participation in education in Indonesia. In fact, since the introduction of Law No.20 of 2003 on Education emphasising equal education opportunities for both boys and girls, the rate of participation in education has almost reached parity in Indonesia. This remarkable improvement, however, has not yet adequately

*Gender equality in education yet to be reflected the world of work*

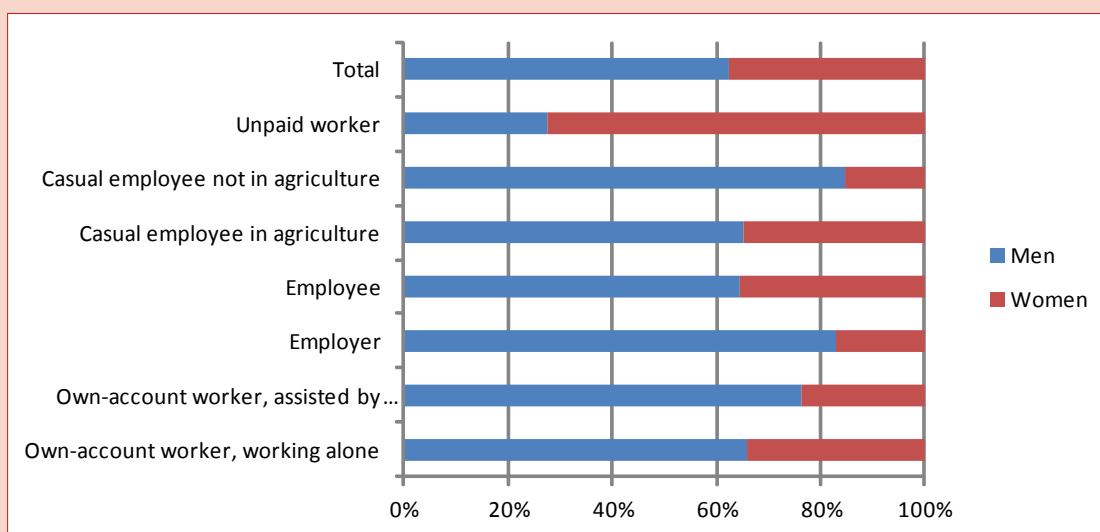
<sup>17</sup> This section is contributed by Miranda Fajarman

translated into the labour market and employment. Discriminatory labour market practices are largely shaped by ideas and perceptions of men and women's positions, status, capacities and responsibilities in the family, workplace and society more generally. Removing these obstacles in women's labour participation and effectively tapping into women's human capital is an important task for Indonesian policymakers and social partners.

### *Gender biases in the labour market*

Women are more likely than men to be engaged in vulnerable forms of employment with unpredictable working hours, low or no income and job insecurity. Indonesian women are considerably over-represented in the category of unpaid family workers. In fact, 13.6 million female workers, or one out of three working women, are unpaid. Women are also much less likely than men to be employers. A recent study in Indonesia has found that women are 24 per cent more likely to be working informally than men.<sup>18</sup> Available data indicates that gender wage gaps narrowed remarkably in the past decade. However, gender pay gaps persist. It is estimated that a woman with exactly the same education and experience as a man will earn, on average, about 81 per cent of what the man earns.<sup>19</sup>

**Figure 21:**  
**Women's share in employment by employment status**



Source: BPS

18 World Bank, *Indonesia Jobs Report – Towards better jobs and security for all*, (Jakarta) 2010, 63.

19 World Bank, *Gender Equality and Development - Progress in Indonesia*, 2006.

**Table 16:**  
**Breakdown of workforce by gender and employment status**

	Men	Women
Own-account worker, working alone	20.5	17.6
Own-account worker, assisted by temporary/ unpaid family workers	24.5	12.6
Employer	4.0	1.4
Employee	31.2	28.2
Casual employee in agriculture	5.6	5.0
Casual employee not in agriculture	6.4	1.9
Unpaid worker	7.7	33.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: BPS, author's calculation

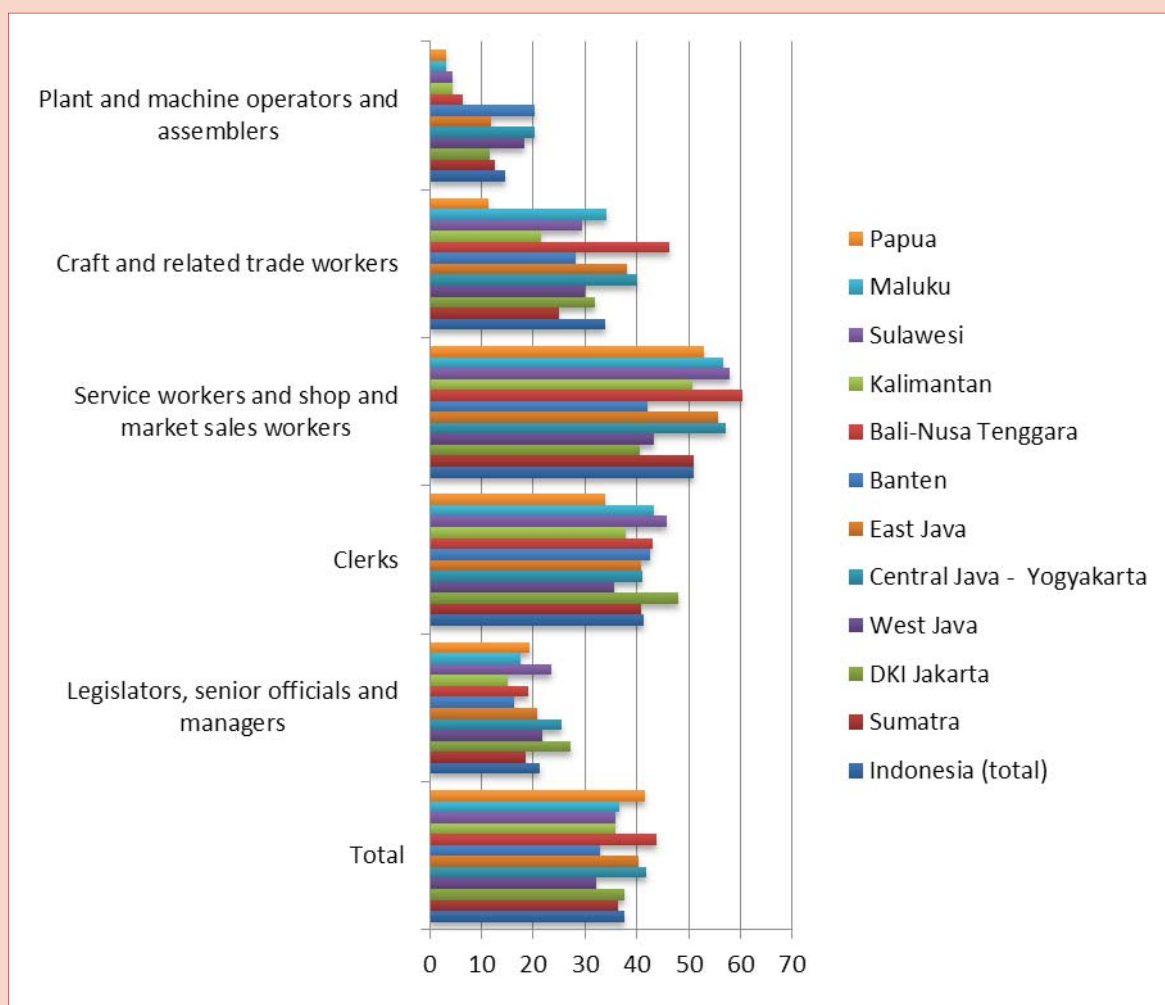
In Indonesia, women represent approximately 38 per cent of the civil service, but more than one third are in 'traditional female professions' such as teaching and nursing, which tend to earn less than male-dominated spheres. In the public domain, women are less likely to achieve senior positions: they only account for 14 per cent of civil servants in senior level positions.<sup>20</sup> Women hold only 18 per cent of the seats in the national parliament despite the Law on General Elections, which sets a 30 per cent quota for female candidates.

Gender stereotypes abound among many labour market actors in terms of the types of jobs considered suitable for men and women workers and direct preferences for either (young) women or men in specific occupations. The result of these dynamics is that women and men adapt themselves and act accordingly. For instance, some subject areas at vocational training schools exhibit gender segregation. Subject areas such as automotive and construction are still dominated by male students. Classrooms for traditional female areas such as cooking, fashion or domestic technology are mostly filled by female students. The same can be said about universities, where female students are concentrated in education, medicine and health and female students' share is low in engineering (20 per cent) and law (34 per cent).

*Factors and practices  
acting against  
gender equality in  
the labour market*

20 Combined fourth and fifth periodic report on the Convention on the Elimination of All Forms of Discrimination Against Women: Indonesia, (20<sup>th</sup> June 2005) UN Doc CEDAW/C/IDN/4-5.

**Figure 22:**  
Occupational segregation by sex (ages 15+, per cent, 2010)



Although the social and cultural context influencing women's equal labour participation varies from region to region in Indonesia, there are common obstacles faced by women throughout the country. These include the perceived domestic roles and responsibilities of women, women's subordinate status in gender relations, and patriarchal attitudes towards women's participation in economic, public and political life. These social and economic inequalities, along with insufficient support at home for childcare and household management, impact women's decision-making to enter the workforce and, particularly, to enter non-traditional sectors. In addition, the National Commission on Violence against Women (*Komnas Perempuan*) points out that 154 local bylaws intentionally or in practice discriminate against women<sup>21</sup>. Some of these bylaws impose dress codes, which might lead to discrimination at workplaces or to denial of the access for some groups of female workers to public employment in certain circumstances (see Box 2).

<sup>21</sup> The National Commission on Violence against Women (*Komnas Perempuan*) (2010) *In the name of regional autonomy: Institutionalization of discrimination in Indonesia*, A monitoring report by the National Commission on Violence against Women on the status of women's constitutional rights in 16 Districts/Municipalities in 7 Provinces (Jakarta).

## Box 2.

## Views of the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) on dress codes and discrimination

In the case of **France**, the CEACR was concerned that the prohibition on wearing any religious signs or apparel, including headscarves, in public schools imposed by Act No. 65 of 17 March 2004 and its implementing circular of 18 May 2004 might in practice result in some children, particularly girls, being kept away from public schools for reasons associated with their religious convictions. This would reduce their capacity to find employment which is contrary to the ILO Convention Concerning Discrimination in Respect of Employment and Occupation (C111).

In the case of **Turkey**, the CEACR expressed its concern that the requirement that public servants and students uncover their heads would in fact disproportionately affect Muslim women, possibly impairing or precluding altogether their right to equal access to education and employment due to their religious practice.

In the case of the **Islamic Republic of Iran**, the CEACR raised concerns with respect to the obligatory dress code for women, including wearing a head covering (hijab), and the imposition of sanctions in accordance with the Act on administrative infringements for violations of the Code. The CEACR was particularly concerned over “the negative impact that such a requirement could have on the employment of non-Islamic women in the public sector.”

*Sources:*

“Individual observation on Convention No. 111 with respect to France,” in Report of the Committee of Experts on the Application of Conventions and Recommendations, Report III (Part 1A), International Labour Conference, 93<sup>rd</sup> Session, Geneva, 2005; 95<sup>th</sup> Session, Geneva, 2006; and 97<sup>th</sup> Session, Geneva, 2008.

“Individual observation on Convention No. 111 with respect to Turkey,” in Report of the Committee of Experts on the Application of Conventions and Recommendations, Report III (Part 1A), International Labour Conference, 89<sup>th</sup> Session, Geneva, 2001; 91<sup>st</sup> Session, Geneva, 2003; 95<sup>th</sup> Session, Geneva, 2006.

“Individual observation on Convention No. 111 with respect to Islamic Republic of Iran,” in Report of the Committee of Experts on the Application of Conventions and Recommendations, Report III (Part 1A), International Labour Conference, 95<sup>th</sup> Session, Geneva, 2006 (Geneva).

In addition to the socio-cultural factors hampering women from full and equal participation in labour, widespread malpractices against women at work also discriminate against women due partly to their (potential) child bearing and rearing responsibilities. According to a study<sup>22</sup> conducted in formal, unionised enterprises, 18 per cent of workplaces considered the applicant’s marital status at the time of hiring. It was also found that 11 per cent of workplaces fired women upon pregnancy. The main reason

22 American Center for International Labour Solidarity (2010) *Core labor rights in Indonesia 2010: A survey of violations in the formal sector*, Jakarta.

that employers hired many women as casual labourers was found to be due to the fact that women are then excluded from the provisions requiring maternity pay and leave.<sup>23</sup>

*An effective anti-discrimination legal framework is necessary*

There has been a strong focus on gender mainstreaming at the national policy level to attempt to address challenges to equality. Eliminating discrimination is also one of the stated visions of the Indonesian Unity Cabinet.<sup>24</sup> National policies and initiatives to strengthen gender mainstreaming are valuable, but the development of policies for women's access to employment should be given greater prioritisation and pursued alongside national priorities and strategies to tackle gender-based violence and women's equal access to health and education.

It appears that an effective legal framework to protect against discrimination on the basis of gender and to promote substantive equality through affirmative action programs targeting women's participation in employment are necessary to address women's unequal access to and treatment in employment. Gaps in the national legislation, particularly in relation to the lack of regulations prohibiting sexual harassment at work and the lack of labour laws governing the employment relationship of domestic workers also have a significant impact on the quality of work for women in Indonesia.

## 2.7 Workers' rights and social dialogue

Establishing fair working conditions and allowing workers and their family members a decent life is a central policy goal of the Government as specified in the current mid-term development plan. This is particularly important for Indonesia's sustainability of its economic growth, because of a high dependence of the country's economy on private consumption. In fact, household consumption has contributed to the overall economic growth between 2000 and 2009 much more than investment has done so.<sup>25</sup> To further underscore the importance of household consumption, one may recall that vigorous domestic consumption helped Indonesia to weather the negative impact of the global financial crisis. Overall, it is evident that safeguarding good working conditions and thus enabling sustained or increasing domestic consumption, while reducing external vulnerability of the economy, contribute to a sustainable economic growth of Indonesia.

23 International Labour Organisation 'Individual observation concerning Equal Remuneration Convention, 1961 (No.100) with respect to Indonesia', in *Report of the Committee of Experts on the Application of Conventions and Recommendations*, Report III (Part 1A), International Labour Conference, 93rd Session, (Geneva) 2004.

24 *Combined sixth and seventh periodic report on the Convention on the Elimination of All Forms of Discrimination Against Women: Indonesia*, (14th October 2010) UN Doc CEDAW/C/IDN/6-7 para 7.

25 ILO (2011) *Labour and Social Trends in Indonesia 2010* (Jakarta).



The last decade saw major improvements in the recognition of labour rights in Indonesia. Following the fall of the Suharto regime, Indonesia has swiftly ratified all the ILO Core Conventions and established core labour rights. Indonesia was the first among the Asia and the Pacific region that ratified all core labour Conventions. As a result of the newly recognized freedom of association, the number of unions experienced a drastic increase in the past decade. The Government also promotes bipartite organizations at the company/factory level in order to strengthen social dialogue between management and workers because negotiated solutions provide better alternatives to conflicts. In addition, social dialogue is also known for its positive impact on productivity from past experiences of many industrialized countries.

**Table 17:**  
**Ratification of the ILO Core Conventions (ASEAN Member States)**

	C29 (forced labour)	C87 (freedom of associ- ation)	C98 (collective bar- gaining)	C100 (equal remune- ration)	C105 (abolition of forced labour)	C111 (employ- ment and occupa- tional discri- mination)	C138 (mini- mum wage)	C182 (worst forms of child labour)
Brunei Darussalam							Yes	Yes
Cambodia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Indonesia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lao PDR	Yes			Yes		Yes	Yes	Yes
Malaysia	Yes		Yes	Yes	Denounced		Yes	Yes
Myanmar	Yes	Yes						
Philippines	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Singapore	Yes		Yes	Yes	Denounced		Yes	Yes
Thailand	Yes			Yes	Yes		Yes	Yes
Vietnam	Yes			Yes		Yes	Yes	Yes

Source: ILO, *Database of International Labour Standards (ILOLEX)* (accessed on 19 December 2011)

Nevertheless, there is much room left for improvement in safeguarding recognized workers' rights and strengthening social dialogue in Indonesia. In fact, labour rights violation is not rare even in unionized workplaces in the formal economy.<sup>26</sup> Although core labour rights have been enshrined in the law, violations occur partly because the history of freedom of association in Indonesia is still short and good practices of industrial relations are currently being built, and Industrial Relations Courts require further capacity-building for effective conflict resolution between employers and workers. The effect of collective bargaining in improving working conditions, for instance, is still in a nascent stage: 91 per cent of workplaces surveyed had collective bargaining agreements, but 47 per cent of the agreements were merely a replication with some falling short of workers' rights stipulated in

26 American Center for International Labour Solidarity (2010) *Core labor rights in Indonesia 2010: A survey of violations in the formal sector*, Jakarta.

applicable labour regulations, according to the report. Indonesia is on the right track, but it will take years and rounds of negotiations before workers and employers will have built genuine mutual trust and developed skills in jointly finding solutions to controversial labour issues.

A report<sup>27</sup> documented cases of labour rights violations based on focus group discussions, interviews and a survey over 658 union leaders.<sup>28</sup> Nearly half of the recorded cases pertain to dismissal and about a third to freedom of association. According to the report, age-based discrimination (e.g. employers only recruit workers under a certain age) appears rampant since 63% of surveyed union leaders observed such practices at their workplaces. Abusive use of labour outsourcing is another common violation of the Manpower Act of 2003. 48 per cent of survey respondents observed outsourced workers performing core functions, which is prohibited by the Act. Some employers reportedly resorted to anti-union measures including intimidation and retaliation against union leaders and strikers<sup>29</sup> as a response to legitimate collective actions of workers. These figures on non-compliance with the law are concerning, particularly because the survey took place in formal enterprises where there is trade union representation. It can be presumed that un-unionised workplaces and enterprises in the informal economy would have even higher non-compliance rates.

**Table 18:**  
**Share of labour rights violation by type (%)**

Type of violation	Share (%)
Dismissal	49.5
Freedom of association of which:	31.8
- refusal to recognize a union	5.5
- firing of a union leader	20.4
- criminalization	3.6
- other cases	2.3
Contract/status disputes	11.7
Minimum wages	6.0
Collective bargaining	5.1
Outsourcing	3.6
Social security (Jamsostek) coverage	3.0
Women's rights	0.9

*Source:* The American Center for International Labour Solidarity

*Note:* Some cases have multiple violations

<sup>27</sup> *ibid.*

<sup>28</sup> The report is based on: a) focus group discussions and in-depth interviews with 250 key labour leaders and labour inspectors, and police at the national level and in 20 industrial hubs; and b) a survey covering 658 union leaders in the same 20 localities conducted by a professional pollster.

<sup>29</sup> The report noted the sporadic occurrence of criminalization of union leaders as well as threats of or actual firings of union leaders.

A rapid economic expansion often prompts considerable social transformations. Needless to point out, suitable social institutions for an agriculture-based subsistence economy and those for a capital-intensive or knowledge-based economy are significantly different. If a shift from the former to the latter takes place in a relatively short time, the economy faces the need of rapid social transformations. When social adjustments lag behind economic development, various social issues may arise. For instance, a combination of a high economic growth and unevenly distributed access to decent work is most likely to widen income gaps. Wide income inequality undermines social cohesion, leading to various social problems such as crimes. In addition, a high inflationary pressure is often a by-product of a rapid economic expansion since heated economic activities increase the demand for money. When wage increases lag behind inflation, the eroding purchasing power of wage income impoverishes workers, which may lead to industrial unrest. A rapid expansion of the services sector, for yet another example, alters skills demand in the labour market, which may trigger wage hikes for some occupations if education and vocational training systems fail to adjust themselves to such a shift in skills demand in the labour market.

Prompt policy responses that adapt existing social institutions to ever changing economic development are indispensable. Maladjustments of social institutions to economic development may sometimes manifest themselves in a form of social unrest including labour conflicts as experienced by industrialized economies in the past. Cases also abound in history where rising social injustice including inequality motivated political movements. Social dialogue is a social invention with which emerging labour issues are peacefully discussed and viable solutions are negotiated among parties concerned. Indonesia is forecasted to experience high economic development in the coming years. Whether the country will successfully transform its social institutions or not hinges partly on the maturity of social dialogue and the capacity of the Government and social partners in finding negotiated solutions for emerging issues.

## 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	Others
Own account worker, working alone	F	F	F	INF	INF	INF	INF	INF	INF
Own account worker, assisted by temporary worker/unpaid worker	F	F	F	F	F	INF	F	F	INF
Employer	F	F	F	F	F	F	F	F	F
Employee	F	F	F	F	F	F	F	F	F
Casual employee in agriculture	F	F	F	INF	INF	INF	INF	INF	INF
Casual employee not in agriculture	F	F	F	INF	INF	INF	INF	INF	INF
Unpaid worker	INF	INF	INF	INF	INF	INF	INF	INF	INF

Source: BPS

Note: F denotes formal and INF denotes informal

## Annex II. Statistical Annex

Table II.1. Labour market indicators 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Labour force participation rate (ages 15-64, per cent)							
Total	69.1	68.6	68.1	68.9	69.3	69.2	69.8
Men	87.7	86.8	86.2	85.6	85.5	85.6	85.8
Women	50.6	50.0	49.8	52.1	53.1	52.9	53.7
Employment-to-population ratio (ages 15-64, per cent)							
Total	62.3	60.8	60.9	62.4	63.2	63.6	64.7
Men	80.5	78.6	78.7	78.4	78.7	78.9	80.3
Women	44.1	42.6	43.0	46.3	47.7	48.2	49.0
Unemployment rate (ages 15+, per cent)							
Total	9.9	11.2	10.3	9.1	8.4	7.9	7.1
Men	8.1	9.3	8.5	8.1	7.6	7.5	6.1
Women	12.9	14.7	13.4	10.8	9.7	8.5	8.7
Informal employment (ages 15+, per cent)							
Total	63.2	63.2	62.8	62.1	61.3	61.6	59.0
Men	60.5	61.4	61.4	59.9	59.3	60.1	57.2
Women	68.2	66.6	65.4	65.9	64.5	64.0	61.8
Time-related underemployment rate (per cent)							
Total	14.3	14.8	14.4	14.9	14.5	14.7	14.1
Men	12.8	13.5	13.4	13.4	13.4	13.4	12.8
Women	17.1	17.2	16.4	17.5	16.4	16.8	16.2

Note: Time-related underemployment refers to workers working less than 35 hours per week and is looking for a job or is available for more work as a share of total employed persons.  
Source: BPS Sukernas.

Table II.2. Youth labour market indicators (ages 15-24) 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Labour force participation rate (per cent)							
Total	54.1	52.8	52.9	52.3	50.9	50.3	49.1
Men	64.2	62.2	61.7	62.8	60.1	60.0	58.2
Women	44.0	43.4	43.6	41.3	41.4	40.4	39.9
Employment-to-population ratio (per cent)							
Total	38.1	35.1	36.7	39.1	39.0	39.2	38.6
Men	46.9	43.5	44.5	47.9	47.0	47.0	45.9
Women	29.3	26.8	28.5	30.0	30.8	31.1	31.1
Unemployment rate (per cent)							
Total	29.6	33.4	30.6	25.1	23.3	22.2	21.4
Men	26.9	30.1	27.8	23.8	21.8	21.6	21.1
Women	33.5	38.2	34.7	27.3	25.5	23.0	22.0
Share of youth not in education and not in employment (per cent)							
Total	15.7	17.3	15.8	12.9	11.5	10.8	10.2
Men	17.0	18.4	16.8	14.6	12.7	12.7	12.1
Women	14.4	16.2	14.8	11.1	10.2	8.9	8.4

Source: BPS Sakernas.



Table II.3. Employment by status in employment (ages 15+, % distribution) 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Own account worker	19.5	18.4	20.4	20.3	20.4	20.1	19.4
Employer assisted by temporary and unpaid workers	23.0	22.3	20.9	21.0	21.2	20.9	20.0
Employer assisted by permanent workers	3.2	3.0	3.0	2.9	2.9	2.9	3.0
Employee	27.2	27.7	28.1	28.1	27.5	27.8	30.1
Casual employee in agriculture	4.7	5.9	5.8	5.9	5.8	5.6	5.4
Casual employee not in agriculture	4.0	4.6	4.8	4.5	5.2	5.4	4.7
Unpaid family workers	18.5	18.0	16.9	17.3	16.9	17.3	17.3
Men	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Own account worker	21.2	20.1	21.9	21.5	21.2	21.1	20.5
Employer assisted by temporary and unpaid workers	27.9	27.5	25.3	25.2	25.4	25.2	24.5
Employer assisted by permanent workers	4.3	4.0	4.0	3.8	3.9	3.9	4.0
Employee	29.1	28.8	28.9	29.9	28.9	28.6	31.2
Casual employee in agriculture	4.7	5.9	6.0	6.0	6.0	5.7	5.6
Casual employee not in agriculture	5.3	5.9	6.2	5.9	6.8	7.3	6.4
Unpaid family workers	7.5	7.7	7.7	7.8	7.8	8.1	7.7
Women	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Own account worker	16.5	15.2	17.8	18.4	19.1	18.3	17.6
Employer assisted by temporary and unpaid workers	13.9	12.6	12.8	14.0	14.3	13.8	12.6
Employer assisted by permanent workers	1.1	1.2	1.1	1.4	1.4	1.3	1.4
Employee	23.6	25.6	26.5	24.8	25.1	26.4	28.2
Casual employee in agriculture	4.9	5.8	5.4	5.8	5.6	5.4	5.0
Casual employee not in agriculture	1.5	2.1	2.2	2.0	2.4	2.4	1.9
Unpaid family workers	38.5	37.5	34.1	33.6	32.1	32.4	33.3

Source: BPS Sakernas.

Table II. 4 Employment by sector (% distribution) 2004–2010

	2004	2005	2006	2007	2008	2009	2010
<b>Total</b>							
Agriculture, Forestry, Hunting and Fishery	43.3	44.0	42.0	41.2	40.3	39.7	38.3
Mining and Quarrying	1.1	1.0	1.0	1.0	1.0	1.1	1.2
Manufacturing industry	11.8	12.7	12.5	12.4	12.2	12.2	12.8
Electricity, Gas and Water	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	4.8	4.9	4.9	5.3	5.3	5.2	5.2
Wholesale trade, Retail trade, Restaurant and Hotel	20.4	19.1	20.1	20.6	20.7	20.9	20.8
Transportation, Storage and Communication	5.8	6.0	5.9	6.0	6.0	5.8	5.2
Financing, Insurance, Real estate and Business Service	1.2	1.2	1.4	1.4	1.4	1.4	1.6
Community, Social and Personal services	11.2	11.0	11.9	12.0	12.8	13.4	14.7
<b>Men</b>							
Agriculture, Forestry, Hunting and Fishery	42.6	43.8	42.5	41.1	40.6	40.2	38.8
Mining and Quarrying	1.4	1.2	1.3	1.4	1.5	1.6	1.6
Manufacturing industry	11.0	11.4	11.3	11.3	11.2	11.1	11.6
Electricity, Gas and Water	0.3	0.3	0.3	0.2	0.3	0.3	0.3
Construction	7.3	7.3	7.4	8.1	8.3	8.2	8.1
Wholesale trade, Retail trade, Restaurant and Hotel	16.9	15.8	16.7	16.4	16.5	16.5	16.9
Transportation, Storage and Communication	8.7	8.9	8.7	8.8	8.6	8.5	7.6
Financing, Insurance, Real estate and Business Service	1.4	1.4	1.5	1.6	1.6	1.6	1.8
Community, Social and Personal services	10.3	9.9	10.2	11.0	11.6	12.0	13.2
<b>Women</b>							
Agriculture, Forestry, Hunting and Fishery	44.6	44.3	41.1	41.4	39.9	38.8	37.6
Mining and Quarrying	0.5	0.4	0.3	0.3	0.3	0.3	0.4
Manufacturing industry	13.3	15.1	14.6	14.3	14.0	14.1	14.7
Electricity, Gas and Water	0.1	0.0	0.1	0.1	0.0	0.1	0.1

	2004	2005	2006	2007	2008	2009	2010
Construction	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Wholesale trade, Retail trade, Restaurant and Hotel	26.8	25.2	26.5	27.7	27.7	28.2	27.2
Transportation, Storage and Communication	0.6	0.5	0.9	1.0	1.8	1.5	1.2
Financing, Insurance, Real estate and Business Service	0.8	0.9	1.2	1.1	1.1	1.1	1.3
Community, Social and Personal services	12.9	13.1	15.0	13.8	14.7	15.6	17.3

Source: BPS Sakernas.

Table II.5 Background indicators 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Gross domestic product (GDP, annual growth rate, %) <i>Source: World Bank, World DataBank</i>	5.0	5.7	5.5	6.3	6.0	4.6	6.1
GDP per capita (constant 2000 US\$) <i>Source: World Bank, World DataBank</i>	875.7	914.6	953.9	1,003.40	1,052.40	1,089.20	1,143.80
GDP per capita, purchasing power parity (PPP) (constant 2005 international \$) <i>Source: World Bank, World DataBank</i>	2,970	3,102	3,236	3,403	3,570	3,694	3,880
Number of poor (millions, national definition)	36.1	35.1	39.3	37.2	35.0	32.5	31.0
Percent of Poor	16.7	16.0	17.8	16.6	15.4	14.2	13.3